State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

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STATE ACCOUNTING DIVISION

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December 12, 2008

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

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2008. 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 continued to grow through the end of calendar 2007. This growth rate slowed during the first two quarters in 2008 with job losses in the natural resources and mining, construction, financial activities, and professional and business services industries. As of August, these losses had been offset by increases in the manufacturing, trade/transportation/utilities, information, education and health services, leisure and hospitality services, and other services industries. Overall, Montana's economy is still growing, but the signals are mixed with the current estimated growth rate for Montana's economy in calendar year 2008, as of the end of August, estimated at 3.8%. Through October 2008, employment has grown 1.5%. Montana's income tax revenues increased for fiscal year 2008 primarily as a result of this continued internal income growth. Montana corporate income tax revenues declined in fiscal year 2008 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 growth 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 2008, with production projected to reach 164.7 million bushels, compared to the 2007 production level of 149.8 million bushels. Winter wheat yields rose to 94.4 million bushels, 13% higher than the 2007 level. Spring wheat yields reached 59.5 million bushels, up 8% from 2007. Durum production is estimated at 10.8 million bushels, down 5 percent from 2007. The increase in winter wheat production was primarily due to the seeding of more acres. Actual yield per acre of winter wheat seeded was up slightly, by 1 bushel an acre, in 2008. The increase in spring wheat was due to a combination of seeding more acres and the slightly increased yields. Durum producers seeded more acreage and obtained 5 bushels less per acre than in 2007. Wheat prices have been lower in 2008, falling in the $6.55 to $7.15 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 decreased to an estimated 1.5 million bushels in 2008, representing a 16% decrease from 2007 levels. Barley production is estimated at 37.7 million bushels, which is 19% 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.

As of the end of calendar year 2007, Montana's manufacturing sector improved for a fourth consecutive year. Employment in this industry remained strong, with 24,400 workers employed at the end of 2007. Employee earnings in the manufacturing industry increased to over $1.1 billion in 2007. The manufacturing sector sales remained at $8 billion and still accounts for 20% of Montana's economic base. Production, sales, and earnings were up in 2007, as a result of the strong global economy and strong economies within Montana and the surrounding states. For comparison purposes, the above information does not include the logging industry, as it did previously. The logging industry provides an additional 2,500 jobs and $109 million in labor income. To date in 2008, the number of manufacturing jobs remains basically unchanged, with a very slight increase of 100 jobs, through August.

As a result of the decline in the housing market, prices for lumber and other wood products were lower in 2007. The price decreases, coupled with the unavailability of raw materials, has led to a continuing decline in production. With production around 516 million board feet for the year, the timber harvest was the lowest since 1952. Estimated total sales value of the State's primary wood and paper products in 2007 was $980 million, down about $90 million from 2006. The total wood products industry estimated employment of 9,700 workers for 2007 was lower than the estimated 2006 level of 10,300. Montana's estimated lumber production dropped from about 940 million board feet in 2006 to 805 million board feet in 2007. The first three quarters of 2008 lumber production level is 553 million board feet, and represents a 51 million board feet decrease over the same period in 2007.

Nonresident travel to Montana in 2007 increased an estimated 2.9% to approximately 10.7 million visitors. The visitor numbers for Yellowstone and Glacier national parks were up. Yellowstone Park, with 2.1 million visitors, posted an 8.2% increase, and Glacier Park saw 2.1 million visitors, which represents a 6.1% increase. Montana's state park system received 1.9 million visits, 3% more than those in 2006. Motel occupancy posted an increase of 4.3% over the 2006 levels. 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 travel expenditures in Montana totaled $3.1 billion in 2007. The direct economic impact of nonresident travel is estimated at $3 billion. When combined with the indirect and induced economic benefits, the economic benefit of nonresident travel on Montana should remain at approximately $4.3 billion. Current estimates indicate that the travel industry will continue to increase by approximately 2% in 2008.

An estimated 410 million barrels of proven oil reserves exist under Montana's land. In 2007, due to the maintenance of high crude oil and natural gas prices, the State saw a continuation of production and exploration activity, with estimated crude oil production for the state at 34.9 million barrels. This translated into a positive economic impact for the State as a whole and a much needed economic benefit for eastern areas of the State. While the price of crude oil has dropped significantly in 2008, as of August, the lower crude oil price had not caused a corresponding drop in oil production within the State.

Historically, metals 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 seven active metals mines producing primarily palladium, platinum, copper, molybdenum, gold, silver, lead, and zinc. These active mines employ approximately 2,700 employees. Lower mineral prices, 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's total coal reserves were estimated at 119,123 million short tons with recoverable reserves of 74,856 million short tons in 2007. This represents 24% of the total, and 28% of the recoverable, reserves in the U.S. Of these reserves 1,251 million short tons of coal are at producing mine sites. During 2007, Montana's coal production increased to 43,390 thousand short tons, an increase of 3.7%. The development of a coal-to-liquids plant in Montana is still under consideration. If successfully developed, this will represent a move toward the development of value-added processing of coal within the State. Additionally, the permitting process is complete for construction of the first new major power transmission line in Montana since the 1970s. 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

In fiscal year 2008, the General Fund unreserved, undesignated fund balance increased over projections. The increase was primarily due to higher than expected revenues. Individual income, property, and oil and natural gas production taxes exceeded revenue forecasts.

The 60th Legislature approved budgetary increases including: a property tax refund program; a 3.06% salary increase for state employees, increases in the K-12 educational contributions, increases in higher education transfers; higher children's health insurance payments, an income tax credit, and significant capital improvement programs.

Both the increased revenue and budgeted expenditures are discussed in more detail in the managements 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 $549.2 million at June 30, 2007, to $433.6 million at June 30, 2008. This represents a decrease of $115.6 million (21.0%).

Cash Management
The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments has sole authority to invest state funds. The board operates under the "prudent person principle", which requires the board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and higher education funds 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 $409 million, a decrease of 25% from the $545 million earned last year. The book value of board-managed investments increased by approximately $278 million, or 2.2%, to $12.5 billion at fiscal year-end 2008. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

Other Post Employment Benefits - Implied Rate Subsidy Liability
The State of Montana reported the “implied rate subsidy” liability, required under the Governmental Accounting Standards Board (GASB) Statement No. 45, in this financial report and the related financial statements. Although the State reported this liability, and related expenses and expenditures, the State does not agree that this represents a legal liability and further believes that the presentation of this activity in the financial statements will eventually be misleading to the users of the statements. In this, the first year of implementation, the unfunded liability is $40.5 million for the state system, and $17.3 million for the Montana University System, plans. Because this is spread across all of the funds within the State and MUS reporting entities, this did not yet have a material impact.

The State plans to continue funding the employee health insurance plan on a “pay as you go” basis, and does not plan to fund this liability. Because the State will not be funding this liability, it will increase exponentially, and within a few years, the financial statements will reflect the impact of a very large “implied rate subsidy” liability that does not have legal substance. The State submitted a request to have GASB reconsider the requirement to report the implied rate subsidy. To date, GASB has refused to revisit this issue. A copy of the letter to GASB providing the State concerns with the implied rate subsidy reporting, required under GASB Statement No. 45, is available upon request.

INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State’s Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2008.

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, 2007. 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. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professionally responsible and progressive manner.

Respectfully submitted,

Paul A. Christofferson

Paul A. Christofferson, CPA, Administrator

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, 2007

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

STATE OF MONTANA ORGANIZATION CHART

CITIZENS OF MONTANA

LEGISLATIVE

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

EXECUTIVE

- Governor
- Lieutenant Governor

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

JUDICIAL

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

STATE AGENCIES

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

State of Montana

SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Karla Gray

Chief Justice

LEGISLATIVE

Mike Cooney

President of the Senate

Scott Sales

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, 2008, which collectively comprise the state's basic financial statements, as follows:

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

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery and the Montana University System Self-Funded Workers' Compensation Program, which represent 0.2, 0.0, and 3.0 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units, which represent, 11.0, 31.4, and 4.3 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and university component units, are based on the reports of the other auditors.

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

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

Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Postemployment Benefits Plan Information 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 performed 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.

In accordance with *Government Auditing Standards*, we have issued our report dated December 11, 2008, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (08-01A) 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 11, 2008

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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, 2008. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights
The assets of the State exceeded its liabilities at the end of fiscal year 2008 by $6.8 billion (reported as net assets) compared with $6.5 billion at the end of fiscal year 2007. Of this amount, $606.3 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $1,185.1 million compared with $1,127.3 million at fiscal year end 2007.

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Fund Financial Statements (Reporting the State's Major Funds)
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $6.8 billion at the end of fiscal year 2008. Net assets of the governmental activities increased $337 million (5.5%), and business-type activities had a $21.8 million (6.5%) increase.

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

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

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

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

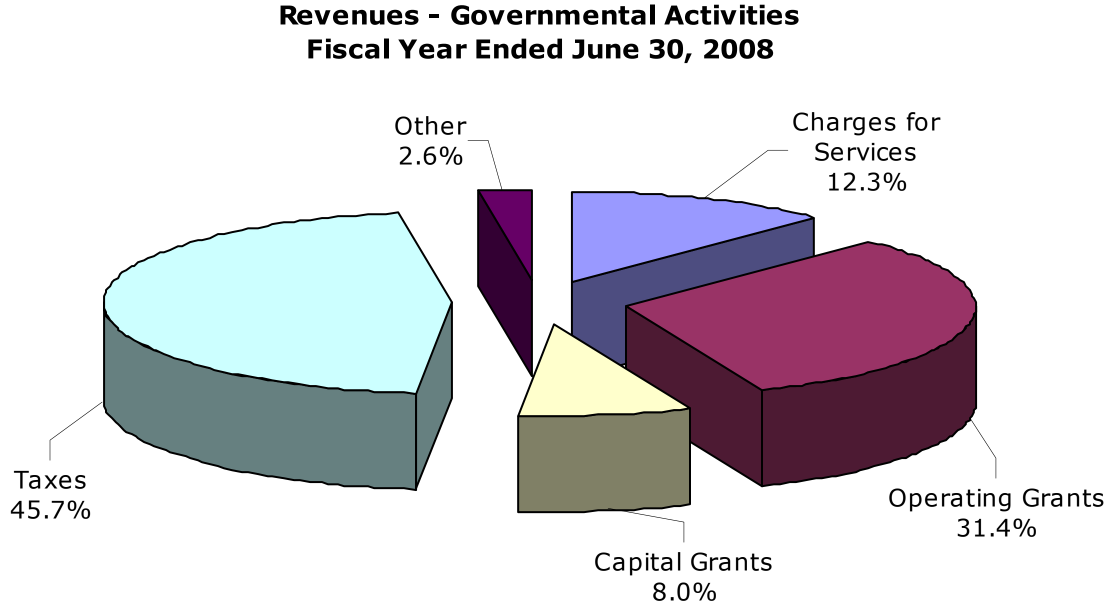
	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**
Current and other assets	$3,830,490	$4,320,143	$466,063	$495,962	$4,296,563	$4,816,105
Capital assets	3,402,036	3,553,591	8,698	8,733	3,410,734	3,562,324
Total assets	7,232,526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

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

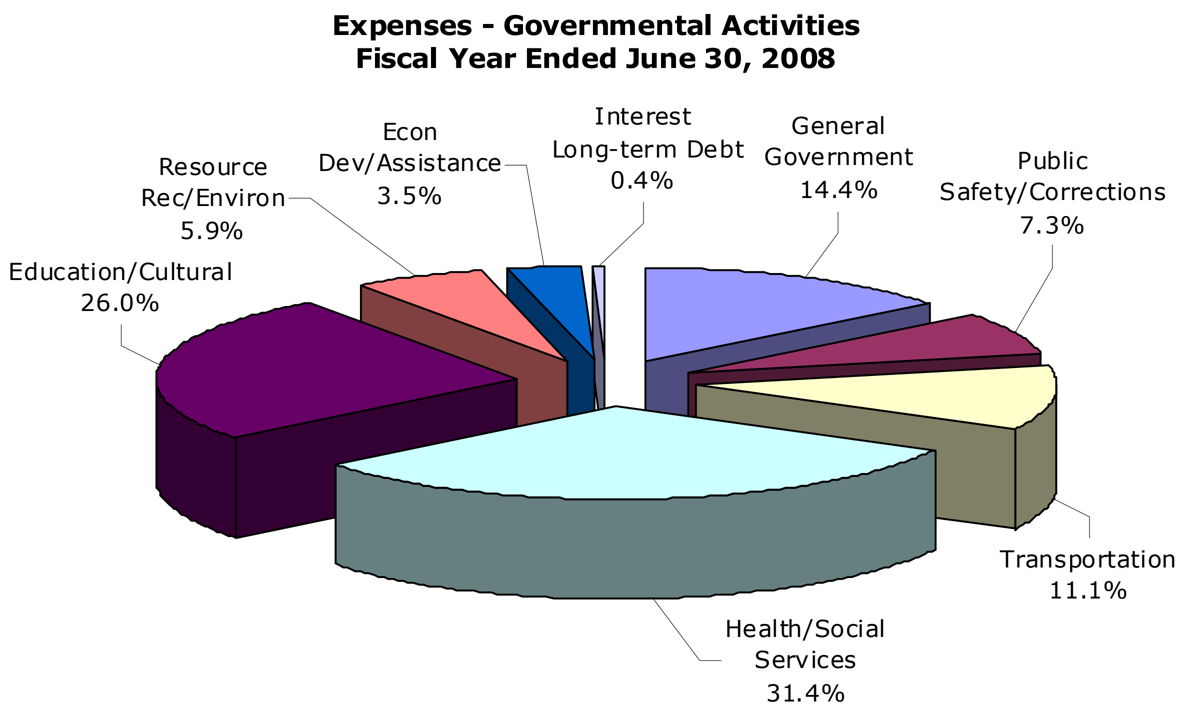
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

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

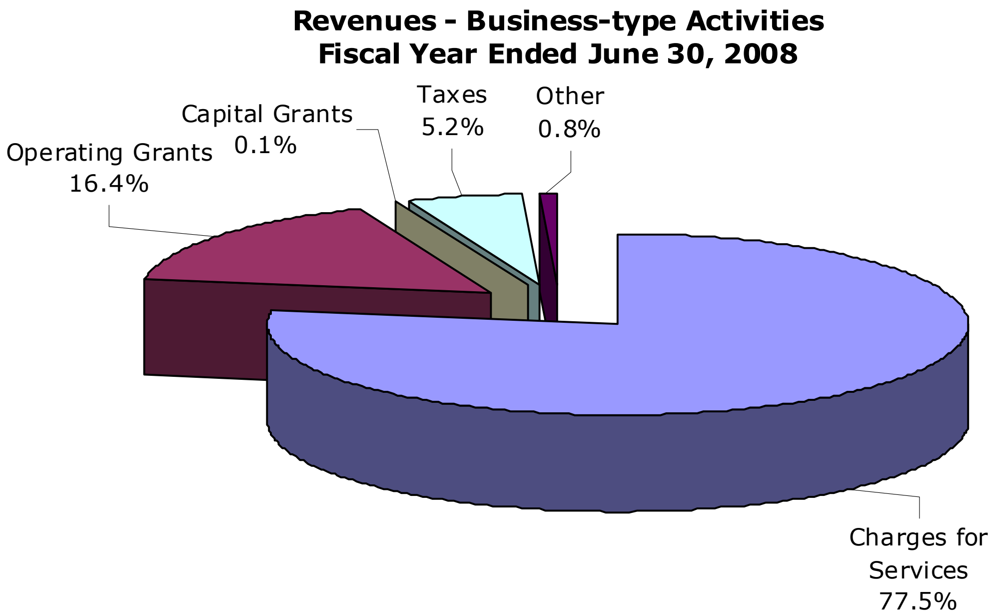
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:



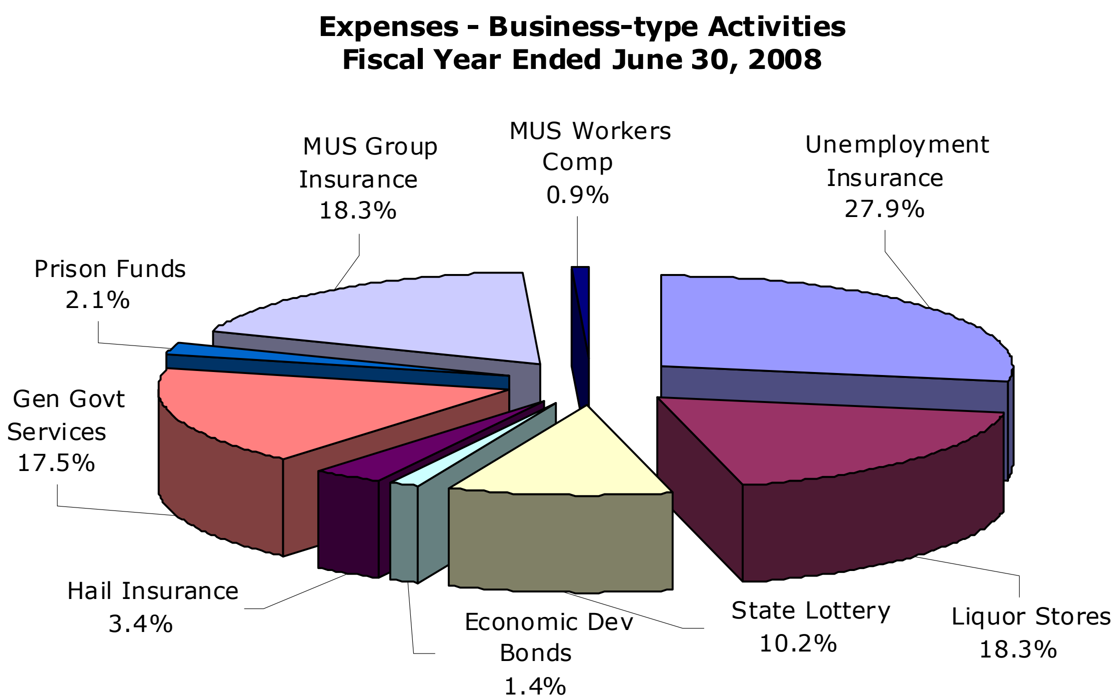
The following chart depicts expenses of the governmental activities for the fiscal year:



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

General Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic Development Bonds Enterprise Fund
Net assets decreased by $49,000 in fiscal year 2008. The fund did not experience significant changes in operations during fiscal year 2008.

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

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to $5.3 billion, net of accumulated depreciation of $1.7 billion, leaving a net book value of $3.6 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 5.9 % in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

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

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

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

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

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

(1) Personal income is for calendar year 2007.
(2) Based on estimated 2008 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

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

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

One of the state retirement systems, the Teachers Retirement System (TRS), is not actuarially sound, and has an unfunded actuarially accrued liability as of June 30, 2008. The actuarial condition of this plan is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability is long-term in nature, and does not translate into an inability of this plan to meet their current obligations in the near future.

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
JUNE 30, 2008
(amounts expressed in thousands)

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

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

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

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

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

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

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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 144.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

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

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

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008
(amounts expressed in thousands)

Total fund balances for governmental funds		$ 3,269,412
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Land	433,876	
Land improvements	24,720	
Buildings/improvements	426,078	
Equipment	90,969	
Infrastructure	3,686,615	
Other capital assets	162,455	
Construction in progress	201,390	
Intangible assets	33,877	
Less accumulated depreciation	(1,598,483)	
Total capital assets		3,461,497
Certain revenues are earned, but not available and therefore deferred in the funds.		159,554
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		135,533
Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in govermental activities in the statement of net assets.		3,947
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest	(5,610)	
Lease/installment purchase payable	(1,262)	
Bonds/notes payable (net)	(422,703)	
Compensated absences payable	(85,223)	
OPEB implict rate subsidy	(37,841)	
Early retirement benefits payable	(44)	
Arbitrage rebate tax payable	(320)	
Other liabilities	(1,554)	
Total long-term liabilities		(554,557)
Net assets of governmental activities		$ 6,475,386

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

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

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

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

Net change in fund balances - total governmental funds		$ 179,099
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)		
Capital outlay	366,161	
Depreciation expense	(158,587)	
Excess of capital outlay over depreciation expense		207,574
In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(4,270)
Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources.		3,632
Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.		(2,312)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		77,755
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds.The net revenue (expense) of the internal service funds is reported with governmental activities.		4,698
The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:		
Bond proceeds	(59,490)	
Bond premium	(828)	
Capital lease financing	(874)	
Principal retirement	33,767	
Issuance costs deferral	704	
Bond issuance costs amortization	(409)	
Bond discount amortization	(14)	
Bond premium amortization	1,284	
Total long-term debt proceeds/repayment		(25,860)

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

Accrued interest	(245)	
Compensated absences	(6,430)	
OPEB implicit rate subsidy	(37,841)	
Early retirement benefits	3	
Arbitrage rebate tax	43	
Other liabilities	309	
Total additional expenditures		(44,161)
Change in net assets of governmental activities		$ 396,155

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 156.

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 178.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 275,086	$ 9,230	$ 76,309	$ 360,625	$ 64,124
Receivables (net) (Note 4)	3,397	10,658	23,480	37,535	5,069
Interfund loans receivable (Note 12)	-	-	159	159	808
Due from other governments	51	-	729	780	-
Due from other funds (Note 12)	-	4,133	465	4,598	7,326
Due from component units	127	1,857	2,487	4,471	363
Inventories	-	-	7,388	7,388	2,414
Short-term investments (Note 3)	-	9,908	-	9,908	-
Securities lending collateral (Note 3)	-	1	3,502	3,503	13,776
Other current assets	-	-	394	394	685
Total current assets	278,661	35,787	114,913	429,361	94,565
Noncurrent assets:					
Advances to other funds (Note 12)	-	21,578	75	21,653	-
Advances to component units	-	8,261	-	8,261	-
Long-term investments (Note 3)	-	3,923	7,437	11,360	25,024
Long-term notes/loans receivable	-	34,841	420	35,261	-
Deferred charges	-	1,420	-	1,420	-
Other long-term assets	-	-	1,918	1,918	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,331	7,331	3,645
Equipment	-	6	5,823	5,829	207,391
Infrastructure	-	-	884	884	-
Construction in progress	-	-	567	567	6,436
Intangible assets	-	-	186	186	1,004
Less accumulated depreciation	-	(3)	(9,204)	(9,207)	(126,713)
Total capital assets	-	3	8,730	8,733	92,094
Total noncurrent assets	-	70,026	18,580	88,606	117,118
Total assets	278,661	105,813	133,493	517,967	211,683

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	$ 1,564	$ 1,162	$ 9,666	$ 12,392	$ 15,133
Lottery prizes payable	-	-	2,031	2,031	-
Interfund loans payable (Note 12)	-	-	295	295	1,312
Due to other governments	-	-	41	41	-
Due to other funds (Note 12)	-	3	12,974	12,977	3,089
Due to component units	-	-	23	23	49
Deferred revenue	-	-	6,439	6,439	1,074
Lease/installment purchase payable (Note 10)	-	-	-	-	43
Short-term debt (Note 11)	-	98,045	-	98,045	-
Bonds/notes payable - net (Note 11)	-	417	-	417	-
Amounts held in custody for others	-	-	86	86	-
Securities lending liability (Note 3)	-	1	3,502	3,503	13,776
Estimated insurance claims (Note 8)	-	-	11,481	11,481	13,442
Compensated absences payable (Note 11)	-	12	532	544	2,195
Arbitrage rebate tax payable (Note 11)	-	25	-	25	-
Total current liabilities	1,564	99,665	47,070	148,299	50,113
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,095	1,095	-
Advances from other funds (Note 12)	-	-	-	-	6,872
Lease/installment purchase payable (Note 10)	-	-	-	-	116
Bonds/notes payable - net (Note 11)	-	1,436	-	1,436	-
Estimated insurance claims (Note 8)	-	-	8,411	8,411	13,156
Compensated absences payable (Note 11)	-	41	955	996	3,705
Arbitrage rebate tax payable (Note 11)	-	14	-	14	-
OPEB implicit rate subsidy (Note 11)	-	15	698	713	2,188
Total noncurrent liabilities	-	1,506	11,159	12,665	26,037
Total liabilities	1,564	101,171	58,229	160,964	76,150
NET ASSETS					
Invested in capital assets, net of related debt	-	3	8,730	8,733	92,095
Restricted for:					
Unemployment Compensation	277,097	-	-	277,097	-
Other Purposes	-	3,133	56,805	59,938	-
Unrestricted	-	1,506	9,729	11,235	43,438
Total net assets	$ 277,097	$ 4,642	$ 75,264	$ 357,003	$ 135,533

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ -	$ 33	$ 128,118	$ 128,151	$ 125,633
Investment earnings	13,284	1,044	2,881	17,209	2,950
Securities lending income	-	-	109	109	167
Financing income	-	3,426	-	3,426	-
Contributions/premiums	85,801	-	86,738	172,539	126,208
Grants/contracts/donations	6,592	-	36,581	43,173	1,563
Other operating revenues	1,007	-	1,922	2,929	2,818
Total operating revenues	106,684	4,503	256,349	367,536	259,339
Operating expenses:					
Personal services	-	297	12,701	12,998	44,232
Contractual services	-	32	12,611	12,643	22,899
Supplies/materials	-	5	60,805	60,810	26,714
Benefits/claims	90,333	15	111,904	202,252	117,114
Depreciation	-	-	625	625	12,121
Amortization	-	-	152	152	379
Utilities/rent	-	43	969	1,012	14,693
Communications	-	7	1,132	1,139	10,760
Travel	-	2	360	362	552
Repair/maintenance	-	-	748	748	9,594
Grants	-	-	1,309	1,309	-
Lottery prize payments	-	-	22,838	22,838	-
Interest expense	-	4,082	19	4,101	285
Securities lending expense	-	-	88	88	135
Arbitrage rebate tax	-	24	1	25	-
Dividend expense	-	-	793	793	-
Other operating expenses	(64)	45	1,960	1,941	3,326
Total operating expenses	90,269	4,552	229,015	323,836	262,804
Operating income (loss)	16,415	(49)	27,334	43,700	(3,465)
Nonoperating revenues (expenses):					
Tax revenues	-	-	20,340	20,340	-
Insurance proceeds	-	-	-	-	858
Gain (loss) on sale of capital assets	-	-	(10)	(10)	(101)
Federal indirect cost recoveries	-	-	8	8	4,889
Increase (decrease) value of livestock	-	-	(62)	(62)	-
Total nonoperating revenues (expenses)	-	-	20,276	20,276	5,646
Income (loss) before contributions and transfers	16,415	(49)	47,610	63,976	2,181
Capital contributions	-	-	540	540	2,726
Transfers in (Note 12)	-	-	109	109	3,453
Transfers out (Note 12)	(1,299)	-	(41,818)	(43,117)	(3,662)
Change in net assets	15,116	(49)	6,441	21,508	4,698
Total net assets - July 1 - as previously reported	261,618	4,691	68,872	335,181	129,356
Prior period adjustments (Note 2)	363	-	(49)	314	1,479
Total net assets - July 1 - as restated	261,981	4,691	68,823	335,495	130,835
Total net assets - June 30	$ 277,097	$ 4,642	$ 75,264	$ 357,003	$ 135,533

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 86,890	$ 33	$ 216,040	$ 302,963	$ 250,734
Payments to suppliers for goods and services	-	(142)	(121,026)	(121,168)	(81,722)
Payments to employees	-	(297)	(12,622)	(12,919)	(44,074)
Grant receipts	6,563	-	35,837	42,400	6,303
Grant payments	-	-	(1,305)	(1,305)	-
Cash payments for claims	(88,958)	-	(74,338)	(163,296)	(115,580)
Cash payments for prizes	-	-	(23,197)	(23,197)	-
Other operating revenues	(796)	-	1,778	982	2,542
Other operating payments	-	-	(830)	(830)	-
Net cash provided by (used for) operating activities	3,699	(406)	20,337	23,630	18,203
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	20,335	20,335	-
Transfers to other funds	(1,299)	-	(32,184)	(33,483)	(3,694)
Transfers from other funds	-	-	108	108	3,583
Proceeds from interfund loans/advances	-	-	(18)	(18)	1,752
Payments of interfund loans/advances	-	-	(18)	(18)	(3,635)
Payment of principal and interest on bonds and notes	-	(5,840)	(442)	(6,282)	(388)
Proceeds from issuance of bonds and notes	-	429	-	429	-
Payment of bond issuance costs	-	-	-	-	-
Contributed capital transfers to other funds	-	-	-	-	-
Contributed capital transfers from other funds	-	-	-	-	2,861
Net cash provided by (used for) noncapital financing activities	(1,299)	(5,411)	(12,219)	(18,929)	479
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	98
Acquisition of capital assets	-	(3)	(526)	(529)	(13,358)
Proceeds from sale of capital assets	-	-	1	1	651
Net cash used for capital and related financing activities	-	(3)	(525)	(528)	(12,609)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(10,044)	(7,323)	(17,367)	(20,275)
Proceeds from sales or maturities of investments	-	1,076	1,655	2,731	-
Proceeds from securities lending transactions	-	-	94	94	159
Interest and dividends on investments	13,284	894	2,739	16,917	2,995
Payment of securities lending costs	-	-	(75)	(75)	(136)
Collections of principal and interest on loans	-	23,480	-	23,480	-
Cash payment for loans	-	(30,026)	-	(30,026)	-
Arbitrage rebate tax	-	(43)	-	(43)	-
Net cash provided by (used for) investing activities	13,284	(14,663)	(2,910)	(4,289)	(17,257)
Net increase (decrease) in cash and cash equivalents	15,684	(20,483)	4,683	(116)	(11,184)
Cash and cash equivalents, July 1	259,402	29,713	71,626	360,741	75,307
Cash and cash equivalents, June 30	$ 275,086	$ 9,230	$ 76,309	$ 360,625	$ 64,123

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

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 16,415	$ (49)	$ 27,336	$ 43,702	$ (3,465)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	625	625	12,121
Amortization	-	-	161	161	379
Interest expense	-	4,082	13	4,095	277
Securities lending expense	-	-	84	84	135
Investment Earnings	(13,284)	(1,044)	(2,817)	(17,145)	(2,950)
Securities lending income	-	-	(103)	(103)	(167)
Financing income	-	(3,426)	-	(3,426)	-
Federal indirect cost recoveries	-	-	(8)	(8)	4,731
Arbitrage rebate tax	-	24	-	24	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(662)	-	237	(425)	(108)
Decr (incr) in due from other funds	(127)	-	(57)	(184)	(1,582)
Decr (incr) in due from component units	(29)	-	(135)	(164)	62
Decr (incr) in due from other governments	-	-	88	88	7
Decr (incr) in inventories	-	-	299	299	96
Decr (incr) in other assets	-	(5)	(308)	(313)	(144)
Incr (decr) in accounts payable	1,132	(8)	415	1,539	6,929
Incr (decr) in lottery prizes payable	-	-	419	419	-
Incr (decr) in due to other funds	254	(3)	(10,959)	(10,708)	143
Incr (decr) in due to component units	-	-	19	19	(27)
Incr (decr) in due to other governments	-	-	60	60	-
Incr (decr) in deferred revenue	-	-	121	121	85
Incr (decr) in amounts held in custody for others	-	-	(504)	(504)	-
Incr (decr) in compensated absences payable	-	8	240	248	560
Incr (decr) in OPEB implicit rate subsidy	-	15	697	712	2,152
Incr (decr) in estimated claims	-	-	4,414	4,414	(1,031)
Net cash provided by (used for) operating activities	$ 3,699	$ (406)	$ 20,337	$ 23,630	$ 18,203
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	$ -	$ -	$ 214	$ 214	$ -
Capital contributions from other funds	$ -	$ -	$ -	$ -	$ 632
Amortization of bond issuance costs	$ -	$ -	$ 9	$ 9	$ -
Incr (decr) in fair value of investments	$ -	$ (147)	$ 21	$ (126)	$ -
Total noncash transactions	$ -	$ (147)	$ 244	$ 97	$ 632

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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 196.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 90,202	$ 128,553	$ 454,080	$ 5,369
Receivables (net):				
Accounts receivable	20,616	-	1,050	315
Interest	18,735	11	-	1
Due from primary government	22,289	-	-	-
Due from other PERB plans	483	-	-	-
Long-term loans/notes receivable	69	-	-	-
Total receivables	62,192	11	1,050	316
Investments at fair value:				
Equity in pooled investments (Note 3)	7,453,737	-	-	-
Other investments (Note 3)	425,619	119,286	46,671	24
Total investments	7,879,356	119,286	46,671	24
Securities lending collateral (Note 3)	466,002	107	21,941	12
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	69	-	-	-
Accumulated depreciation	(198)	-	-	-
Intangible assets	572	-	-	-
Total capital assets	636	-	-	-
Other assets	854	13,678	-	13,332
Total assets	8,499,242	261,635	523,742	19,053
LIABILITIES				
Accounts payable	976	10	1,834	653
Due to primary government	53	-	-	-
Due to other PERB plans	483	-	-	-
Deferred revenue	162	-	-	-
Amounts held in custody for others	-	-	-	18,388
Securities lending liability (Note 3)	466,002	107	21,941	12
Compensated absences payable	439	-	-	-
OPEB implicit rate subsidy	139	-	-	-
Total liabilities	468,254	117	23,775	19,053
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 8,030,988	$ 261,518	$ 499,967	$ -

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 166,939	$ -	$ -
Employee	172,417	-	-
Participant contributions	-	57,625	-
Other contributions	35,023	-	963,868
Net investment earnings:			
Investment earnings	(356,594)	5,415	27,778
Administrative investment expense	(40,010)	-	-
Securities lending income	24,502	-	901
Securities lending expense	(20,028)	-	(705)
Charges for services	632	-	-
Other additions	354	3,453	-
Total additions	(16,765)	66,493	991,842
DEDUCTIONS			
Benefits	439,769	-	-
Refunds	24,367	-	-
Distributions	-	22,085	1,416,434
Administrative expenses:			
Personal services	2,748	-	-
Contractual services	1,343	959	-
Supplies/materials	83	-	-
Depreciation	20	-	-
Amortization	194	-	-
Utilities/rent	282	-	-
Communications	157	-	-
Travel	66	-	-
Repair/maintenance	51	-	-
Grants	-	12	-
Other operating expenses	1,425	-	-
Local assistance	14	-	-
Transfers to ORP	250	-	-
Transfers to PERS-DCRP	1,077	-	-
Total deductions	471,846	23,056	1,416,434
Change in net assets	(488,611)	43,437	(424,592)
Net assets - July 1 - as previously reported	8,519,594	218,081	924,559
Prior period adjustments (Note 2)	5	-	-
Net assets - July 1 - as restated	8,519,599	218,081	924,559
Net assets - June 30	$ 8,030,988	$ 261,518	$ 499,967

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

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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)

These funds provide workers compensation insurance. These funds consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990.

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, 2008
(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	$ 4,878	$ 2,290	$ 23,286	$ 12,383
Receivables (net)	25,710	342	29,421	269
Due from primary government	-	-	8	-
Due from other governments	10	-	-	-
Due from component units	-	-	615	112
Inventories	-	-	-	-
Long-term loans/notes receivable	902,715	520	-	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	163,701	232	952,604	19,925
Securities lending collateral (Note 3)	41	109	143,711	4,179
Deferred charges	8,774	-	-	-
Capital assets (net) (Note 5)	37	-	10,049	-
Other assets	255	-	38,168	-
Total assets	1,106,121	3,493	1,197,862	36,868
LIABILITIES				
Accounts payable	4,977	24	17,869	151
Due to primary government	9	6	1,387	-
Due to component units	-	-	112	615
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	9,842	-
Amounts held in custody for others	-	-	44,889	-
Securities lending liability (Note 3)	41	109	143,711	4,179
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	14,832	9	141,277	7,202
Due in more than one year	933,124	24	613,365	61,233
OPEB implicit rate subsidy	43	3	858	-
Total liabilities	953,026	175	973,310	73,380
NET ASSETS				
Invested in capital assets, net of related debt	37	-	10,049	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	153,058	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	3,318	214,503	(36,512)
Total net assets	$ 153,095	$ 3,318	$ 224,552	$ (36,512)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 643	$ 124,034	$ 67,665	$ 235,179
152	19,953	27,670	103,517
-	1,534	3,031	4,573
-	13,951	9,960	23,921
-	20	296	1,043
-	2,940	1,740	4,680
-	20,538	12,648	936,421
-	14,491	14,785	29,276
126	154,364	195,513	1,486,465
-	3,286	1,776	153,102
-	-	-	8,774
-	328,350	293,538	631,974
-	5,193	5,447	49,063
921	688,654	634,069	3,667,988
518	27,374	21,235	72,148
-	4,380	859	6,641
-	296	20	1,043
-	-	159	159
-	12,123	4,778	16,901
13	9,678	11,628	31,161
-	5,008	7,254	57,151
-	3,286	1,776	153,102
-	5,956	2,877	8,833
-	18,279	15,202	196,801
-	153,883	160,079	1,921,708
-	8,970	7,352	17,226
531	249,233	233,219	2,482,874
-	196,177	153,832	360,095
-	12,095	-	12,095
-	99,104	125,999	225,103
-	-	-	153,058
247	53,466	83,852	137,565
143	78,579	37,167	297,198
$ 390	$ 439,421	$ 400,850	$ 1,185,114

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	$ 54,194	$ 376	$ 247,793	$ 6,372
PROGRAM REVENUES:				
Charges for services	283	444	231,034	-
Operating grants and contributions	60,767	137	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	61,050	581	231,034	-
Net (expenses) program revenues	6,856	205	(16,759)	(6,372)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	39,702	2,494
Payment from State of Montana	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-
Miscellaneous	1	-	4	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	39,706	2,494
Change in net assets	6,857	205	22,947	(3,878)
Total net assets - July 1 - as previously reported	146,238	3,113	201,605	(32,634)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	146,238	3,113	201,605	(32,634)
Total net assets - June 30	$ 153,095	$ 3,318	$ 224,552	$ (36,512)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 792	$ 438,557	$ 352,249	$ 1,100,333
723	175,418	157,310	565,212
-	140,999	125,951	327,854
-	20,721	10,817	31,538
723	337,138	294,078	924,604
(69)	(101,419)	(58,171)	(175,729)
-	661	-	661
11	5,711	(5,303)	42,615
-	102,954	75,146	178,100
-	90	(92)	(2)
-	-	-	5
-	6,659	6,876	13,535
11	116,075	76,627	234,914
(58)	14,656	18,456	59,185
448	425,315	383,245	1,127,330
-	(550)	(851)	(1,401)
448	424,765	382,394	1,125,929
$ 390	$ 439,421	$ 400,850	$ 1,185,114

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

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

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

<u>Montana State Fund (New and Old Fund)</u> – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

<u>Montana Surplus Lines</u> – Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within Montana State Auditor's Office. The Association operates the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. The association is audited annually by Galusha, Higgins & Galusha, PC. The report is issued under separate cover, and is available at 840 Helena Avenue, Helena, MT 59601.

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

Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203201, Helena, MT 59620-3201.

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

Fiduciary Fund Component Units

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

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

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

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

B. Government-wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities.

Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

enterprise funds is users outside of the primary government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2008, certain investments in STIP were reclassified as long-term investments. (See Note 3).

F. Receivables

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

Pledged receivables are disclosed in Note 2C.

G. Inventories

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

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

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

H. Restricted Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2007, was 2,561 hours. For fiscal year 2008, 1,349 sick leave hours, 63 annual leave hours, and 2,410 excess annual leave hours were contributed to the sick leave pool, and 2,608 hours were withdrawn, leaving a balance of 3,775 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

Q. Advances to Other Funds

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

R. Fund Balance/Net Assets

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

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of $2,954,471, of which $1,073,360 is restricted by enabling legislation.

S. Property Taxes

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

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

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

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	$ 12,876	$17,744	$ -	$ 30,620
Agriculture sales	-	4,150	-	4,150
Cigarette/tobacco	40,671	50,942	2,075	93,688
Fire protection	-	3,155	-	3,155
Insurance premium	63,823	11	-	63,834
Livestock	-	3,689	-	3,689
Other taxes	24,563	7,156	-	31,719
Public Service Commission	-	3,541	-	3,541
Telephone license	22,408	-	-	22,408
Video gaming	63,133	14	-	63,147
Total other taxes	$227,474	$90,402	$2,075	$319,951

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2008, the State of Montana and its component units implemented the provisions of the Governmental Accounting Standards Board (GASB) Statements No. 43 and 45 – "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", respectively. GASB No. 43 applies to a trustee or administrator of an other postemployment benefit (OPEB) plan. The State of Montana and the Office of the Commissioner of Higher Education both administer OPEB plans. Therefore, GASB No. 43 specifies how these plans are to be disclosed in the footnotes. GASB No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial statements of state governmental employers. GASB No. 45 applies to the State of Montana, its component units, and the university system. The effects of applying these standards are disclosed in Note 7.

For the year ended June 30, 2008, the State of Montana implemented the provisions of the GASB Statement No. 48 – "Sales and Pledges of Receivables and Future Revenues, and Intra-Entity Transfers of Assets and Future Revenues". GASB 48 establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. Future revenues do not include potential revenues from a source not in existence at the time of the transaction. GASB 48 also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. This statement does not apply to a government's pledge of its "full faith and credit" as security for its own debt or the debt of a component unit. (See Note 2C.)

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. No significant corrections were made for fiscal year 2008.

C. Pledged Receivables

During the year ended June 30, 2002, the common school mineral royalties' income stream, which included oil, coal, gas, gravel, and metalliferous royalties over 30 years totaling approximately $138.9 million, were sold to the Department of Natural Resources and Conservation (DNRC). The present value of the future revenues, at the date of sale, was estimated to be $46.4 million. The Secretary of State reviewed the provisions of the transactions as specified in Senate Bill (SB) 495, and determined that a discount rate of 9.8% would represent the fair market value, since the amount of the royalties dedicated is fixed, and the risk is limited to variation in the timing of receipts.

As of June 30, 2008, $37 million of the $138.9 million is yet to be collected.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$2,645,734
Equity in pooled investments	$8,980,996
Investments	$2,439,593

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

A. General

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

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

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2008.

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

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

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

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

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

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

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

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

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

B. Cash/Cash Equivalents

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

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$154,231
Uninsured and uncollateralized cash	2,052
Undeposited cash	658
Cash in U.S. Treasury	276,374
Cash in MSU component units	7,602
Cash in UM component units	13,214
Less: outstanding warrants	(55,389)
Total cash deposits	$398,742

As of June 30, 2008, the carrying amount of deposits for component units was $126,045,990, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Months
Commercial paper	$1,278,678	A1	0.94
Corporate fixed	179,972	A1+	1.60
Corporate variable-rate	79,998	A1+	3.27
Municipal variable-rate	149,353	NR	0.03
Money market	55,000	A1+	0.03
U.S. government indirect-backed	439,008	A1+	3.57
Repurchase agreement (1)	12,123	NR	NA
Government direct-indirect (2)	111,212	AAA	NA
Money market	61,891	NR	NA
Less: STIP included in pooled investment balance	(120,243)		
Total cash equivalents	$2,246,992		1.52
Securities lending collateral investment pool	$ 101,755		

(1) As of June 30, 2008, a repurchase agreement, per contract, was collateralized at 102% for $12,368,170 by a Federal National Mortgage FNCI maturing September 1, 2018. This security carries a AAA credit quality rating.

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

As of June 30, 2008, local governments invested $453,295,572 in STIP.

As of June 30, 2008, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $319,504,169.

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

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

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

STIP investments are categorized above to disclose credit risk as of June 30, 2008. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a

single issuer. The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 6.86%, Federal National Mortgage Association (Fannie Mae) of 7.55 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 5.71% as of June 30, 2008.

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

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

Legal and Credit Risk
In January 2007, BOI purchased a $25 million par issue of Orion Finance USA. In April 2007, BOI purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $139,991,131, representing 5.02% of the total portfolio. At the time of purchase, and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poors and Aaa by Moody's. As of June 30, 2008, these issues carried a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Finance USA. Orion Financial Funding declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million. BOI has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These SIV securities are currently undergoing restructuring while the underlying securities in the vehicle generate cash.. At this time, there is no certain date for completion of the restructuring, which will likely include the creation of new securities to replace the original securities.

Of the $5,687,990 interest receivable total as of June 30, 2008, $2,729,889 is attributable to the above securities for interest accrued to their respective maturity dates. While payment of the Orion Finance USA interest receivable of $903,922 remains unknown as of November 21, 2008, BOI received payment of $1,825,967 on the Axon Financial Funding interest receivable on November 14,2008.

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

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Domestic equity pool	$2,949,751	$2,965,611
TFBP:		
Corporate bonds (rated)	755,582	747,119
Corporate bonds (unrated)	8,032	5,391
Municipal government bonds (rated)	1,120	1,126
Municipal government bonds (unrated)	1,508	1,508
U.S. government direct-backed	109,800	113,103
U.S. government indirect-backed	622,625	632,681
STIP	40,865	40,865
STIP Structured Investment Vehicle	4,153	4,153
RFBP:		
Corporate bonds (rated)	1,011,467	996,726
Corporate bonds (unrated)	17,127	13,016
U.S. government direct-backed	123,947	127,133
U.S. government indirect-backed	770,923	783,061
STIP	65,030	65,030
STIP Structured Investment Vehicle	6,735	6,735
MTIP:		
International stock pool	132,310	1,437,641
MPEP:		
Private equity pool	640,012	744,099
MTRP:		
Real estate pool	315,976	325,725
STIP	3,124	3,124
STIP Structured Investment Vehicle	337	337
Total pooled investments	7,580,424	9,014,184
Pool adjustments (net)	(33,188)	(33,188)
Total equity in pooled investments	$7,547,236	$8,980,996

At June 30, 2008, the carrying and fair value of the underlying securities on loan was $545,100,993 and $1,699,688,269, respectively. The collateral provided for the securities on loan totaled $1,196,806,513.

As of June 30, 2008, component units of the State of Montana had equity in pooled investments with a book value of $5,039,349,945 and a fair value of $7,483,013,574, as included in Table 3.

Investment Risk Disclosures

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

Credit Risk

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

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

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

Although the RFBP investment policy does not address concentration of credit risk, the TFBP investment policy states: "with the exception of U.S. government/agency securities, additional purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 9.62% as of June 30, 2008, while the TFBP had concentration of credit risk exposure to the same issuer of 12.96% as of June 30, 2008. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (Freddie Mac) of 23.01% as of June 30, 2008, while the TFBP had concentration of credit risk exposure to the same issuer of 22.79% as of June 30, 2008. As of June 30, 2008, MDEP had no single issue investments that exceeded 5% of its portfolio.

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

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

As reported in the U.S. government agency category, the RFBP portfolio held REMIC securities totaling $249,844 at amortized cost as of June 30, 2008, while the TFBP portfolio held REMIC securities totaling $46,806 at amortized cost. REMICs (Real Estate Mortgage Investment Conduits) are pass-through vehicles for multiclass mortgage-backed securities. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The Bond Pools and AOF portfolio fixed income securities pay a fixed rate of interest until maturity while the variable rate (floating rate) securities pay a variable rate of interest until maturity. As of June 30, 2008, these portfolios held six variable rate issues. These securities float with LIBOR (London Interbank Offered Rate).

As of June 30, 2008, the Bond Pools and AOF portfolio held five Collateralized Debt Obligations (CDO). A CDO is security backed by a pool of bonds, loans, and other assets. CDOs do not specialize in one type of debt, but are often non-mortgage loans or bonds. These CDO positions, totaling $135 million par, are categorized as rated corporate debt in the three portfolios.

Legal Risk
As of June 30, 2008, BOI was not aware of any legal risks regarding investments.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2008, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2008
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 747,119	A+	4.39
Corporate bonds (unrated)	5,391	NR	5.58
Municipal government bonds (rated)	1,126	AA	7.92
Municipal government bonds (unrated)	1,508	NR	4.94
U.S. government direct-backed	113,103	AAA	6.72
U.S. government indirect-backed	632,681	AAA	4.60
STIP	45,018	NR	NA
Total fixed-income investments	$1,545,946	AA	4.66
Securities lending collateral investment pool	$ 86,356	NR	NA

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2008
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 996,726	A	4.77
Corporate bonds (unrated)	13,016	NR	6.43
U.S. government direct-backed	127,133	AAA	5.23
U.S. government indirect-backed	783,062	AAA	4.33
STIP	71,764	NR	NA
Total fixed-income investments	$1,991,701	AA	4.63
Securities lending collateral investment pool	$ 100,299	NR	NA

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

MPEP and MTRP Investments by Foreign Currency
(in thousands)

		2008	
Currency	Fund Manager Name	Carrying Value	Fair Value
EURO	Terra Firma Fund III	$12,173	$13,311
EURO	Carlyle Europe Real Estate Partners III	6,344	6,093
Total MPEP and MTRP		$18,517	$19,404

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)

	2008	
Cash	**Carrying Amount**	**Fair Value**
Australian Dollar	$ 389	$ 393
Brazilian Real	18	19
Canadian Dollar	730	732
Danish Krone	64	67
Hong Kong Dollar	1,279	1,280
Indonesian Rupiah	1	1
Euro	2,530	2,566
Israeli Shekel	18	18
Japanese Yen	1,815	1,830
South Korean Won	9	9
Malaysian Ringgit	13	13
Mexican Peso	70	70
New Zealand Dollar	7	7
Norwegian Krone	496	503
Philippine Peso	1	1
Singapore Dollar	471	475
Swedish Krona	863	883
Swiss Franc	47	49
New Taiwan Dollar	74	74
Thailand Baht	6	6
UK British Pound	464	469
US Dollar	4	4
Total cash	$9,369	$9,469

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

MTIP
Equities by Currency
(in thousands)

	2008	
Cash	**Carrying Amount**	**Fair Value**
Australian Dollar	$ 35,668	$ 47,035
Brazilian Real	6,284	6,966
Canadian Dollar	41,841	49,716
Czech Koruna	419	770
Danish Krone	8,648	12,176
Euro	304,810	300,349
Hong Kong Dollar	44,312	44,072
Indonesian Rupiah	1,463	1,404
Israeli Shekel	1,323	1,973
Japanese Yen	175,133	168,175
South Korean Won	17,699	18,270
Malaysian Ringgit	1,922	1,857
Mexican Peso	5,723	5,915
New Zealand Dollar	344	245
Norwegian Krone	10,467	13,131
Philippine Peso	1,108	1,100
Polish Zloty	925	997
Singapore Dollar	11,685	13,422
South African Rand	4,467	4,658
Swedish Krona	9,727	8,781
Swiss Franc	40,894	42,438
New Taiwan Dollar	8,326	8,560
Thailand Baht	2,096	2,083
Turkish Lira	1,404	1,745
UK British Pound	135,919	129,715
Total equity	$872,607	$885,553

D. Investments

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

Long-term Investments

Department	**Percent Administered**
Board of Investments	69.13%
PERA (Public Employee Retirement Administration)	15.25
Board of Housing	7.88
College Savings Plan	5.66
Montana State University/University of Montana	1.08
Other (1)	1.00
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, the Montana State Auditor's Office, and the Department of Revenue.

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

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate (rated) (1)	$ 24,802	$ 24,449
U.S. govt direct/indirect (rated) (1)	50,656	52,536
U.S. govt mortgage-backed (rated) (1)	1,481	1,517
Govt securities	24,706	25,060
STIP/SIV investments	118,542	118,542
MUS Workers Compensation	100	103
Other equities	194,385	194,464
Total	$ 414,672	$ 416,671
Component units/fiduciary funds		
Corporate (rated) (1)	$ 490,300	$ 475,348
U.S. govt direct/indirect (rated) (1)	360,750	369,310
U.S. govt mortgage-backed (rated) (1)	776	794
Govt securities	188,470	187,005
Other equities	68,525	87,569
Deferred compensation	279,892	296,903
Defined contribution	39,746	42,751
College Savings Plan	119,057	119,057
VEBA	976	896
Investments of MSU component units	142,031	142,031
Investments of UM component units	162,394	162,394
Real estate	16,965	17,282
Mortgages	112,759	111,348
STIP/SIV investments	10,234	10,234
Total	$1,992,875	$2,022,922
Total investments	$2,407,547	$2,439,593
Securities lending collateral investment pool	$ 189,348	$ 189,348

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

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2008
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	$ 499,797	A	3.68
U.S. government direct-backed (1)	63,655	AAA	5.56
U.S. government indirect-backed (1)	524,207	AAA	3.03
Total	$1,087,659	AA	3.06

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

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

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

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

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 20 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 % in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2008, Montana had concentration of credit risk exposure to Federal National Mortgage Association of 6.03%.

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

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

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

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

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2008, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
Receivables	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	$ 1,322	$ 7,226	$ -	$ -	$ -	$ -
Taxes	219,688	84,004	-	5,190	-	1,430
Charges for services/ fines/forfeitures	1,969	30,372	1,317	-	40,956	-
Investment income	1,309	5,843	41	3,784	4,796	4,101
Contributions/premiums	10	122	-	-	-	-
Other	6,710	52,938	11,476	-	-	576
Total receivables	231,008	180,505	12,834	8,974	45,752	6,107
Less: allowance for doubtful accounts	(4,875)	(9,104)	(1,113)	-	-	-
Receivables, net	$226,133	$171,491	$11,721	$8,974	$45,752	$6,107

	Proprietary Funds			
Receivables	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$17,660	$ 471
Investment income	-	10,658	8	262
Contributions/premiums	8,131	-	5,683	4,217
Other	-	-	129	119
Total receivables	8,131	10,658	23,480	5,069
Less: allowance for doubtful accounts	(4,734)	-	-	-
Receivables, net	$ 3,397	$10,658	$23,480	$5,069

B. Payables

	Governmental Funds					
Payables	**General Fund**	**State Special Revenue**	**Federal Special Revenue**	**Coal Severance Tax Permanent**	**Land Grant Permanent**	**Nonmajor Governmental**
Tax refunds	$120,060	$ -	$ -	$-	$ -	$ -
Vendors/individuals	64,534	62,078	133,385	-	-	4,789
Payroll	18,711	17,933	6,476	-	-	52
Accrued interest	-	475	-	-	4,679	544
Other	272	1,098	958	-	-	54
Total	$203,577	$81,584	$140,819	$-	$4,679	$5,439

	Proprietary Funds			
Payables	**Unemployment Insurance**	**Economic Development Bonds**	**Nonmajor Enterprise**	**Internal Service**
Vendors/individuals	$1,564	$ -	$8,855	$12,346
Payroll	-	15	811	2,786
Accrued interest	-	1,147	-	1
Total	$1,564	$1,162	$9,666	$15,133

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2008, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 416,428	$ 18,533	$ (850)	$ 434,111
Construction work in progress	353,738	27,906	(173,817)	207,827
Other	151,928	4,183	(5)	156,106
Total capital assets, not being depreciated	922,094	50,622	(174,672)	798,044
Capital assets, being depreciated				
Infrastructure	3,509,995	544,897	(368,277)	3,686,615
Land improvements	21,642	3,767	(594)	24,815
Buildings/improvements	394,557	36,770	(1,603)	429,724
Equipment	281,198	25,747	(8,586)	298,359
Other	7,864	2,430	(3,944)	6,350
Total capital assets, being depreciated	4,215,256	613,611	(383,004)	4,445,863
Less: accumulated depreciation for:				
Infrastructure	(1,399,514)	(138,588)	221,799	(1,316,303)
Land improvements	(4,161)	(1,119)	95	(5,185)
Buildings/improvements	(181,597)	(30,949)	1,229	(211,317)
Equipment	(175,907)	(19,835)	7,087	(188,655)
Other	(3,604)	(225)	93	(3,736)
Total accumulated depreciation	(1,764,783)	(190,716)	230,303	(1,725,196)
Total capital assets, being depreciated, net	2,450,473	422,895	(152,701)	2,720,667
Intangible assets	29,467	20,864	(15,451)	34,880
Governmental activity capital assets, net	$ 3,402,034	$ 494,381	$(342,824)	$ 3,553,591

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

Primary Government *(continued)*

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	459	108	-	567
Total capital assets, not being depreciated	1,259	108	-	1,367
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	7,316	15	-	7,331
Equipment	5,286	639	(94)	5,831
Total capital assets, being depreciated	15,829	654	(94)	16,389
Less: accumulated depreciation for:				
Infrastructure	(539)	(17)	-	(556)
Land improvements	(345)	(107)	-	(452)
Buildings/improvements	(4,158)	(199)	-	(4,357)
Equipment	(3,623)	(305)	84	(3,844)
Total accumulated depreciation	(8,665)	(628)	84	(9,209)
Total capital assets, being depreciated, net	7,164	26	(10)	7,180
Intangible assets	275	62	(151)	186
Business-type activity capital assets, net	$ 8,698	$ 196	$(161)	$ 8,733

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

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

	Amount
General government	$ 4,779
Public safety/corrections	6,429
Transportation (including depreciation of the highway system maintained by the State)	107,593
Health/social services	1,967
Education/cultural	19,985
Resource/recreation/environment (including depreciation of the State's dams).	17,210
Economic development/assistance	624
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	12,123
Total depreciation expense – governmental activities	$170,710

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

	Amount
Liquor Stores	$ 95
State Lottery	43
General Government Services	164
Prison Funds	323
Total depreciation expense – business-type activities	$625

B. Discretely Presented Component Units

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

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	$ 6,934	$ 7,533	$ 1,139	$ 15,606
Construction work in progress	12,409	47,187	4,377	63,973
Capitalized collections	7,924	16,531	-	24,455
Livestock for educational purposes	3,042	-	-	3,042
Total capital assets, not being depreciated	30,309	71,251	5,516	107,076
Capital assets, being depreciated				
Infrastructure	33,321	-	-	33,321
Land improvements	15,097	12,753	-	27,850
Buildings/improvements	397,317	372,364	-	769,681
Equipment	109,090	53,249	4,878	167,217
Other	60,783	52,233	-	113,016
Total capital assets, being depreciated	615,608	490,599	4,878	1,111,085
Less: accumulated depreciation	(329,736)	(272,963)	(3,478)	(606,177)
Total capital assets, being depreciated, net	285,872	217,636	1,400	504,908
Intangible assets	1,322	299	3,170	4,791
Capital assets (net) of MSU component units	10,847	-	-	10,847
Capital assets (net) of UM component units	-	4,352	-	4,352
Discretely presented component units Total capital assets, net	$ 328,350	$ 293,538	$10,086	$ 631,974

NOTE 6. RETIREMENT PLANS

A. General

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

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

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

B. Plan Descriptions

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

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

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

C. Public Employee Defined Benefit Retirement Plans

(1) State as the Single Employer

A summary of government employees participating in HPORS and JRS by employer type at June 30, 2008, follows:

Employers	HPORS	JRS
State agencies	1	1
Total	1	1

HPORS – Highway Patrol Officers Retirement System – HPORS is a single-employer defined benefit pension plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by the General Fund at the request of the PERB. The average payment in September 2008 was $2,596. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

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

For the funded status, and funding progress of the HPORS and JRS, plans refer to the Required Supplementary information on page 133.

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

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, GWPORS, and TRS by employer type at June 30, 2008, follows:

Employers	PERS-DBRP	MPORS	FURS	SRS	GWPORS	TRS
State agencies	34		1	1	4	8
Counties	55			56		
Cities/towns	96	27	18			
Colleges/universities	5				3	5
School districts	239					355
Other	99					
Total	528	27	19	57	7	368

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 24.8 years. This amortization period does not reflect the sunset provision for the additional contributions under Title 19, Chapter 3, Part 316, MCA. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the unfunded actuarial liability would be 29 years.

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

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

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

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 16.3 years. This amortization period does not reflect the sunset provision for the additional contributions under Title 19, Chapter 3, Part 316, MCA, or the guaranteed annual benefit adjustment. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the unfunded actuarial liability would be 26.6 years.

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

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

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 31.3 years. The 2007 Legislature appropriated an additional $50 million; and increased the State's General Fund contribution rate from 0.11 to 2.11%, and the university system's supplemental contribution rate from 4.04 to 4.72%, effective July 1, 2007. The plan's actuary has determined that as of July 1, 2008, the current employer contribution rate of 7.47% plus the General Fund contribution of 2.11% of members' salaries is sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of $794.6 million is included in the retirement plan's financial statements in the schedule of funding progress.

D. Public Employee Defined Contribution Retirement Plans

A summary of government employers participating in the PERS-DCRP and 457 plans by employer type at June 30, 2008 follows:

Employers	PERS-DCRP	457
State agencies	28	1
Counties	42	2
Cities/towns	42	3
Colleges/universities	4	6
School districts	86	2
Other	31	3
Total	233	17

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program. The employer and employee plan contributions as of June 30, 2008, were $3,254,857 and $5,117,841, respectively.

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

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2008, were $70,485 and $19,107,055, respectively.

E. Optional Retirement Program

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

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

Required employee contributions were 7.03% of salary; required employer contributions were 5.64% of salary, for a total of 12.67% of salary contributed to the ORP (refer to the following table).

	TIAA-CREF *(in thousands)*
Covered payroll	$177,416
Total payroll	337,443
Employer contributions	$ 10,003
Percent of covered payroll	5.64%
Employee contributions	$ 12,469
Percent of covered payroll	7.03%

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2008, 183 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2008 were $2,729. June 30, 2008, outstanding balances were $29,151.

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

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

Pension Plan Information
Single Employer Systems

	HPORS	JRS
Contributions (in thousands)		
Employer	$3,949	$1,315
Employee	1,082	385
License and registration fees	290	
Actuarial valuation date	6/30/2008	6/30/2008
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	17.4 years	Currently, the surplus is not expected to be exhausted (1)
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	4.25%	4.25%
(includes inflation factor)	3.25%	3.25%
Merit	0%-7.3%	None
Benefit adjustments		
GABA	3% after 1 year	3% after 1 year
Non-GABA	2% per year of service, not to exceed 5%, for probationary officer's base pay	Biennial increase to salary of active member in like position

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

Schedule of Contribution Rates
Fiscal Year 2008

Plan	Member	Employer	State
PERS-DBRP	**6.9%** [19-3-315, MCA]	**7.035%** State & University **6.935%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** Local Government payroll - paid from the General Fund [19-3-319, MCA] **0.235%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
MPORS	**5.8%** - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] **7.0%** - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA] & 19-9-710(2), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries - paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries - paid from the General Fund [19-13-604, MCA]
SRS	**9.245%** [19-7-403, MCA]	**9.825%** [19-7-404, MCA]	
HPORS	**9.0%** - hired prior to 7/1/1997 & not electing GABA **9.05%** - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries - paid from the General Fund [19-6-404(2), MCA]	
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
VFCA			**5.0%** of fire insurance premiums - paid from the General Fund [19-17-301, MCA]
PERS-DCRP	**6.9%** [19-3-315, MCA]	**7.035%** State & University **6.935%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** Local Government payroll - paid from the General Fund **0.235%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
TRS	**7.15%** [19-20-602, MCA]	[**9.47%** State & University [19-20-605, MCA]	**0.11%** of members' salaries [19-20-604, MCA] **2%** contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

Pension Plan Information
Schedules of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
			Single Employer Systems			
HPORS (1)						
6/30/2008	101,505	134,683	33,183	75.36%	10,866	305.38%
JRS (1)						
6/30/2008	62,040	39,435	(22,605)	157.32%	5,096	(443.58%)
			Multiple Employer Systems			
PERS-DBRP						
6/30/2008	4,065,307	4,504,743	439,436	90.25%	955,113	46.01%
MPORS						
6/30/2008	212,312	327,556	115,244	64.82%	32,181	358.11%
FURS						
6/30/2008	206,127	287,218	81,091	71.77%	29,158	278.11%
SRS						
6/30/2008	199,453	204,549	5,096	97.51%	47,196	10.80%
GWPORS						
6/30/2008	77,511	83,449	5,938	92.88%	32,365	18.35%
TRS						
7/1/2008	3,159,100	4,110,800	794,600	79.90%	689,500	115.20%
			Nonemployer Contributor			
VFCA						
6/30/2008	27,544	32,735	5,191	84.14%	N/A	N/A

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

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

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
		Single Employer Systems			
HPORS					
	2006	2,862	101.50%	277	100.00%
	2007	3,581	101.48%	285	100.00%
	2008	3,948	100.03%	290	100.00%
JRS					
	2006	113	1,089.03%		
	2007	(230)	(542.23%)		
	2008	(274)	(479.47%)		
		Multiple Employer Systems			
PERS-DBRP					
	2006	69,312	91.54%	443	100.00%
	2007	60,253	110.41%	446	100.00%
	2008	65,425	110.42%	378	100.00%
MPORS					
	2006	3,983	101.30%	8,119	100.77%
	2007	4,258	100.58%	8,679	100.00%
	2008	4,637	111.19%	9,452	100.00%
FURS					
	2006	3,291	101.14%	7,473	100.80%
	2007	3,482	101.09%	7,908	100.63%
	2008	4,187	106.68%	9,568	100.63%
SRS					
	2006	3,897	90.42%		
	2007	4,176	105.04%		
	2008	4,444	108.78%		
GWPORS					
	2006	2,337	102.34%		
	2007	2,218	118.94%		
	2008	2,541	117.23%		
TRS					
	2006	158,962 (1)	223.00%		
	2007	112,664 (2)	130.00%		
	2008	81,423	100.00%		
		Nonemployer Contributor			
VFCA					
	2006			1,610	100.00%
	2007			1,661	100.00%
	2008			1,562	100.00%

(1) Annual required contribution amount includes a $100 million one-time contribution made by the State in fiscal year 2006.

(2) Annual required contribution amount includes a $50 million one-time contribution made by the State in fiscal year 2007.

Summary of Eligibility and Benefits

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – final average compensation (FAC) for last consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired after 6/30/1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	20 years membership service, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 5 years of membership service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA prior to 1/1/1988 or 12/1/2005 – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA prior to 1/1/1988 or 12/1/2005 – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of membership service; any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Age 50, 20 years of membership service; age 55, 5 years of membership service	5 years membership service
VFCA		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for participant's contributions and attributable income; 5 years for employer's contributions to individual accounts and attributable income
TRS	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of membership service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before 7/1/2007, 1.5% for members hired on or after 7/1/2007, inclusive of all other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	Hired after 6/1/1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of HAC per year of service credit; or (1) if less than 20 years of service, 2% of HMC for each year of service; or (2) if more than 20 years of service, 50% of the member's HMC plus 2% of the member's HMC for each year of service credit over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	Hired after 6/1/1997, or those electing GABA -after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3.333% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	Hired prior to 7/1/1997 – current salary of an active member is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
VFCA	$7.50 per year of credited service, maximum $225; if greater than 20 years of service (but not more than 30 years), maximum $225		
PERS-DCRP	Dependent upon individual account balance. Various payout options available, including taxable lump sums, periodic payments per participant direction, and IRS permitted rollovers.		
TRS	1.6667% of average final compensation (AFC) per year of service	A guaranteed annual benefit adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.	

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

B. Plan Description

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

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

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

C. Basis of Accounting

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

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2008.

The number of state participants as of December 31, 2007, the effective date of the annual OPEB valuation, follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund (New Fund)	TRS	Total
Active employees	11,852	1	14	31	278	15	12,191
Retired employees, spouses, and surviving spouses (1)	3,271						3,271
Total	15,123	1	14	31	278	15	15,462

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, all retires are listed as State; however, an allocation method was used based on the accrued liability and ARC for active employees by component unit for the determination of the inactive liability by component unit.

The number of MUS participants as of June 30, 2008, the effective date of the annual OPEB valuation, follows.

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	MSU-GFCOT	MSU-Northern	OCHE	UM-HCOT	UM-Missoula	UM-MT Tech	UM-Western	Other	Total
Active employees	507	2,815	124	200	105	72	2,222	384	176	298	6,903
Retired employees, spouses, and surviving spouses	200	1,025	28	108	21	30	753	142	92	70	2,469
Total	707	3,840	152	308	126	102	2,975	526	268	368	9,372

D. Funding Policy

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

The State plan's administratively established retiree medical premiums vary between $160 and $776 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $31.00 and $53.20, and vision premiums vary between $7.64 and $22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between $210 and $673 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $1,250 in medical claims and 100% thereafter. After a $400 deductible for Medicare-eligible retirees, the plan reimburses 75% for the first $1,250 in medical claims and 100% thereafter. There is an optional $1,500 deductible plan available to retirees with a reduced premium. After the $1,500 annual deductible, the plan pays 75% of the first $2,500 and $100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2008, 1,516 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of $41.551 million is 7.99% of annual covered payroll. The State's annual covered payroll is $519.969 million. The current MUS' ARC of $17.332 million is 4.96% of annual covered payroll. The MUS' annual covered payroll is $349.259 million.

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

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2008 (dollar amounts in thousands):

Annual OPEB Cost

	State	MUS
Annual required contribution/OPEB cost	$41,551	$17,332
Contributions made	-	-
Increase in net OPEB obligation	41,551	17,332
Net OPEB obligation – beginning of year	-	-
Net OPEB obligation – end of year	$41,551	$17,332

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

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OBEB Cost Contributed	Net OPEB Obligation
State	6/30/2008	$41,551	0%	$41,551
MUS	6/30/2008	$17,332	0%	$17,332

F. Actuarial Methods and Assumptions

As of December 31, 2007, the State's actuarially accrued liability (AAL) for benefits was $449.321 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $449.321 million, and the ratio of the UAAL to the covered payroll was 86.41%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

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

As of June 30, 2008, the MUS actuarially accrued liability (AAL) for benefits was $182.597 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $182.597 million, and the ratio of the UAAL to the covered payroll was 52.28%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2008, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 3.00% payroll growth rate. The projected annual healthcare cost trend rate is 7.00% for medical and 13.30% for prescription drugs, initially. Prescription drugs are reduced by decrements to a rate of 5.00% after eight years. Medical costs increase to 8.00% for the next three years. Then, these costs are reduced by decrements to a rate of 5.00% after five additional years.

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

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

Other Postemployment Benefits
State Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$5,579	$1,994
After Medicare eligibility	2,211	1,815
Actuarial valuation date	1/1/2007	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	3.00%	
Participation		
Future retirees	47%	
Future eligible spouses	60%	
Marital status at retirement	71.80%	

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

Other Postemployment Benefits
MUS Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$5,671	$1,515
After Medicare eligibility	2,961	1,186
Actuarial valuation date	7/1/2007	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	3.00%	
Participation		
Future retirees	45%	
Future eligible spouses	59%	
Marital status at retirement	59.00%	

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,269 policies during the 2008 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

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

The fund recorded a liability of $3,474,608 based on estimated claims through June 30, 2008. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, accidental death and dismemberment, long-term care, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross/Blue Shield of Montana, and Peak administer claims for the three other managed care plans. Star Point has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Mercer Consultants and estimated to be $6,500,000 as of June 30, 2008, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence. Losses in excess of $500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During fiscal year 2008, the program ceded $220,378 in premiums to reinsurers.

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

The fund recorded a liability of $6,357,000 for estimated claims at June 30, 2008. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

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

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2008, the amount of this liability was estimated to be $3,560,310. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2008, approximately 27,947 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2008, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2008, $752,253,300 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2008, was $5,091,054. For the fiscal year ended June 30, 2008, $3,874,087 of acquisition costs was amortized.

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

For the fiscal year ended June 30, 2008, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contracts provide coverage of $95 million for fiscal year 2008. During fiscal year 2008, the New Fund retained the first $5 million for the first layer of reinsurance coverage. Individual, per person coverage was provided up to $5 million per any one individual loss for fiscal year 2008.

The term of the current aggregate stop loss contract was July 1, 2005 through June 30, 2008. The contract provides coverage based on the New Fund's premium levels at a maximum of $33.8 million per year and a minimum of $28.5 million, but in aggregate not to exceed 80.0% of the sum of the annual limits for all contract years. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $14.7 million in fiscal year 2008.

Estimated claim reserves were reduced by $14 million for fiscal year 2008 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2008, estimated claim reserves were reduced by an additional $10.8 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

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

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2008, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2008, $86,732,627 of unpaid claims and claim adjustment expenses was reported at a net present value of $68,434,910, discounted at a 4.5% rate.

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

	Primary Government					
	Hail Insurance		MUS Group Benefits		MUS Workers Compensation Program	
	2008	2007	2008	2007	2008	2007
Unpaid claims and claim adjustment expenses at beginning of year	$ 519	$ 94	$ 6,250	$ 6,250	$ 5,503	$ 4,538
Incurred claims and claim adjustment expenses: provision for insured events of the current year	5,435	1,206	54,564	54,158	2,693	2,600
Increase (decrease) in provision for Insured events of prior years	4,259	381	-	-	(181)	(499)
Total incurred claims and claim adjustment expenses	9,694	1,587	54,564	54,158	2,512	2,101
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(1,960)	(687)	(54,314)	(54,158)	(433)	(368)
Claims and claim adjustment expenses attributable to insured events of prior years	(4,778)	(475)	-	-	(1,225)	(768)
Total payments	(6,738)	(1,162)	(54,314)	(54,158)	(1,658)	(1,136)
Total unpaid claims and claim adjustment expenses at end of year	$ 3,475	$ 519	$ 6,500	$ 6,250	$ 6,357	$ 5,503

	Component Units			
	Montana State Fund (New Fund)		Montana State Fund (Old Fund)	
	2008	2007	2008	2007
Unpaid claims and claim adjustments expenses at beginning of year	$ 679,209	$ 590,688	$ 98,233	$ 97,769
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	195,325	189,203	-	-
Increase (decrease) in provision for insured events of prior years	17,612	34,046	(212)	11,209
Total incurred claims and claim adjustment expenses	212,937	223,249	(212)	11,209
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(35,773)	(38,677)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(104,120)	(96,051)	(11,288)	(10,745)
Total payments	(139,893)	(134,728)	(11,288)	(10,745)
Total unpaid claims and claim adjustment expenses at end of year	$ 752,253	$ 679,209	$ 86,733	$ 98,233

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

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

MUS Workers Compensation Program

	2004	2005	2006	2007	2008
1. **Premiums and investment revenue**					
Earned	$2,425	$3,048	$3,709	$4,392	$4,997
Ceded	(151)	(197)	(199)	(238)	(220)
Net earned	$2,274	$2,851	$3,510	$4,154	$4,777
2. **Unallocated expenses including overhead**	$ 228	$ 280	$ 264	$ 259	$ 387
3. **Estimated losses and expenses end of accident year**					
Incurred	$2,174	$2,366	$2,453	$2,600	$2,693
Ceded	-	-	-	-	-
Net incurred	$2,174	$2,366	$2,453	$2,600	$2,693
4. **Net paid (cumulative) as of:**					
End of policy year	$ 552	$ 382	$ 391	$ 367	$ -
One year later	1,020	1,002	910	933	
Two years later	1,124	1,228	1,254		
Three years later	1,148	1,526			
Four years later	1,165				
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**					
End of policy year	$2,174	$2,366	$2,453	$2,600	$2,693
One year later	2,174	2,565	2,267	2,600	
Two years later	2,037	2,459	2,267		
Three years later	1,830	2,459			
Four years later	1,830				
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ (344)	$ 93	$ (186)	$ -	$ -

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

					State Fund (New Fund)					
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. **Premiums and investment revenue**										
Earned	$91,931	$94,199	$111,632	$118,964	$156,240	$163,906	$221,679	$240,860	$276,876	$256,096
Ceded	260	855	2,952	(465)	5,654	6,563	6,788	13,618	14,856	14,676
Net earned	$91,671	$93,344	$108,680	$119,429	$150,586	$157,343	$214,891	$227,242	$262,020	$241,420
2. **Unallocated expenses including overhead**	$18,729	$21,759	$ 26,389	$ 28,988	$ 31,817	$ 38,013	$ 39,627	$ 41,332	$ 43,488	$ 50,697
3. **Estimated losses and expenses end of accident year**										
Incurred	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057	$170,652	$177,100
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057	$170,652	$177,100
4. **Net paid (cumulative) as of:**										
End of policy year	$13,723	$13,177	$ 14,140	$ 16,693	$ 22,982	$ 26,123	$ 25,721	$ 30,977	$ 32,708	$ 31,002
One year later	29,976	29,218	32,888	38,185	48,861	50,888	57,239	66,063	67,928	
Two years later	39,298	37,555	45,218	52,359	63,773	66,140	72,229	84,014		
Three years later	45,748	43,649	55,248	60,029	72,957	74,697	82,647			
Four years later	49,984	48,322	61,846	64,922	79,060	80,233				
Five years later	54,212	52,027	66,031	68,343	84,340					
Six years later	56,974	54,473	69,553	71,566						
Seven years later	59,935	57,077	72,367							
Eight years later	62,158	59,228								
Nine years later	64,339									
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ 8,600	$ 2,183	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057	$170,652	$177,100
One year later	64,348	66,421	71,094	86,799	110,532	112,609	136,235	157,711	171,783	
Two years later	66,660	66,662	81,053	91,241	112,443	124,413	138,447	163,433		
Three years later	69,345	70,302	88,157	94,615	117,245	127,827	144,484			
Four years later	72,435	72,492	92,329	99,755	115,414	129,051				
Five years later	73,710	73,423	95,727	100,925	119,976					
Six years later	75,537	76,048	98,124	105,651						
Seven years later	78,046	77,930	102,847							
Eight years later	80,116	80,680								
Nine years later	84,880									
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$20,235	$14,723	$ 34,580	$ 24,091	$ 9,823	$ 8,346	$ 10,194	$ 8,376	$ 1,131	$ -

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and CVS Caremark for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2008, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $10,100,000 based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $8,787,000 is estimated to be paid in fiscal year 2009.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $250,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $3.9 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $250,000 for earthquake and $250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1998 through June 30, 2008, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2008, estimated claims liability was $16,498,123.

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

	Group Employees Benefits		Administration Insurance	
	2008	2007	2008	2007
Amount of claims liabilities at the beginning of each fiscal year	$ 12,508	$ 12,517	$15,121	$16,216
Incurred claims:				
Provision for insured events of the current year	101,540	90,932	6,271	5,539
Increases (decreases) in provision for insured events of prior years	(2,408)	(9)	5,869	(635)
Total incurred claims	99,132	90,923	12,140	4,904
Payments:				
Claims attributable to insured events of the current year	(88,340)	(77,292)	(1,462)	(653)
Claims attributable to insured events of prior years	(13,200)	(13,640)	(9,301)	(5,346)
Total payments	(101,540)	(90,932)	(10,763)	(5,999)
Total claims liability at end of each fiscal year	$ 10,100	$ 12,508	$16,498	$15,121

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2008, the Department of Transportation had contractual commitments of approximately $189.9 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2008, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $42.6 million for capital projects construction. The primary government will fund $23.3 million of these projects, with the remaining $19.3 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2008, the BOI had committed,. but not yet purchased, $26,138,839 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $7,474,356 for loans as of June 30, 2008.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2008, the BOI had mortgage reservations/commitments totaling $394,947.

D. Proprietary Fund Commitments

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

	Amount
Enterprise funds	
Secretary of State Business Services	$ 54
Liquor Warehouse	41
HUD Section 8 Housing	2
State Lottery	1
Subtotal-Enterprise funds	$ 98
Internal service funds	
Highway Equipment	$ 809
Information Technology Services	227
Buildings & Grounds	127
FWP Equipment	97
Motor Pool	89
Administration Insurance	52
Administration Supply	30
Administration Central Services	26
Labor Central Services	23
DEQ Indirect Cost Pool	6
SABHRS Finance & Budget Bureau	5
Commerce Central Services	4
Print & Mail Services	1
Subtotal-Internal service funds	$1,496
Total	$1,594

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2008, were as follows (in thousands):

	Primary Government	Discretely Presented Component Units		
Fiscal Year Ending June 30	Governmental Activities	Montana State University	University of Montana	Total
2009	$ 546	$25	$293	$318
2010	455	9	232	241
2011	262	-	118	118
2012	288	-	73	73
Thereafter	10	-	17	17
Total minimum pmts	1,561	34	733	767
Less: interest	(140)	(3)	(96)	(99)
Present value of minimum payments	$1,421	$31	$637	$668

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2008 totaled $17,083,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2009	$16,092	$ 2,619
2010	12,852	2,647
2011	11,562	2,022
2012	9,041	1,867
2013	7,440	1,810
2014-2018	25,632	9,103
2019-2023	8,892	1,013
Thereafter	1,259	-
Total future rental payments	$92,770	$21,081

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

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

The State issued two bond anticipation notes and two revenue anticipation notes during fiscal year 2008 pertaining to drinking water and water pollution control. The bond and revenue anticipation notes were issued to match Environmental Protection Agency capitalization grants. The proceeds were used to loan funds to local governments, to construct and rehabilitate drinking water and wastewater systems. The following schedule summarizes the activity for the year ended June 30, 2008 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANs				
Drinking Water	$-	$500	$500	$ -
Water Pollution Control	-	500	500	-
RANs				
Drinking Water	-	800	150	650
Water Pollution Control	-	400	400	-

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2008, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2008
1994	7,500	$ 6,685
1995	7,500	6,875
1997	10,000	9,520
1998	12,500	12,110
2000	15,000	14,750
2003	15,000	14,735
2004	18,500	18,370
2007	15,000	15,000
Total		$98,045

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2008 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$98,460	$-	$415	$98,045

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2008, were as follows (in thousands):

				Principal Payments		
Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Fiscal Year 2009	In Year of Maturity (2)	Balance June 30, 2008
General obligation bonds						
Wastewater Treatment Works Revolving Fund (3)	1998A	$ 3,510	3.75-5.15	$ 915	225 (2016)	$ 2,295
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,690	1,765 (2010)	3,455
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,290	1,720 (2015)	10,450
Long-Range Bldg Program	1999C	16,990	4.0-5.0	785	785 (2009)	785
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	150	230 (2019)	2,050
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	125	240 (2021)	2,270
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	135	270 (2021)	2,530
Long-Range Bldg Program	2000C	17,195	5.0-5.55	720	800 (2011)	2,280
Long-Range Bldg Program	2001B	11,430	4.1-5.75	470	830 (2021)	8,175
Information Technology	2001C	1,600	3.85-4.2	170	185 (2011)	530
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	130	145 (2011)	415
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	440	80 (2013)	730
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	135	235 (2022)	2,500
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	115	200 (2022)	2,100
Long-Range Bldg Program	2002B	10,475	3.35-4.7	460	730 (2023)	8,420
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	95	200 (2023)	2,095
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,410	1,685 (2014)	9,230
Long-Range Bldg Program	2003A	9,730	2.37-4.0	425	655 (2024)	8,195
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	120	145 (2014)	795
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	60	90 (2019)	805
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	165	190 (2014)	1,065
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	100	115 (2014)	645
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,075	2,310 (2017)	18,500
Information Technology Refunding	2003H	8,725	2.0-4.0	2,150	2,225 (2010)	4,375
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	155	185 (2015)	1,185
Long-Range Bldg Program	2004B	3,125	3.0-4.75	165	170 (2025)	2,670
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	420	1,205 (2019)	14,875
Long-Range Bldg Program	2005B	1,670	3.25-4.3	65	120 (2026)	1,565
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	235	290 (2016)	2,075
CERCLA Program (6)	2005D	2,000	3.25-4.3	75	140 (2026)	1,870
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	210	350 (2021)	3,515
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	115	190 (2021)	1,910
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,845
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,315	1,930 (2027)	30,360
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	190	330 (2022)	3,600
CERCLA Program (6)	2006C	1,000	4.0	90	120 (2017)	925
Renewable Resource Program (4)	2006D	950	5.6-6.0	45	90 (2022)	915
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	-	2,465 (2018)	16,740
Long-Range Bldg Program	2007D	11,720	4.375-4.75	380	3,865 (2028)	11,720
Long-Range Bldg Program	2008D	3,100	3.375-4.35	205	220 (2028)	3,100
Total general obligation bonds		$365,980		$18,040		$201,560
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 965	1,820 (2022)	$ 18,910
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	115	115 (2009)	115
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	130	210 (2018)	1,670

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2009	Principal Payments In Year of Maturity (2)	Balance June 30, 2008
Renewable Resource Program (8)	2001A	420	3.65-5.59	20	30 (2021)	315
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	70	150 (2021)	1,370
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	655	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,240	1,795 (2018)	14,885
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	685
Renewable Resource Program (8)	2001F	900	3.3-6.2	35	75 (2022)	725
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	635	970 (2019)	8,665
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	120	215 (2024)	2,550
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	500	500 (2009)	500
Renewable Resource Program (8)	2004B	430	4.45-5.45	25	40 (2020)	370
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,685	11,315 (2020)	105,330
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,385	3,925 (2023)	44,670
Total special revenue bonds		$254,815		$13,615		$204,365
Notes payable						
Water Conservation (Little Dry Project) (10)		$ 50	5.0	$ 2	1 (2012)	$ 9
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	19
Middle Creek Dam Project (11)		3,272	8.125	53	208 (2034)	2,691
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	8,692
Total notes payable		$ 14,672		$ 347		$ 11,411
Subtotal governmental activities, before deferred balances						417,336
Deferred amount on refunding						(4,149)
Unamortized discount						(119)
Unamortized premium						9,635
Total governmental activities		$635,467		$32,002		$422,703
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	$ 4,976	6.60-7.75	$ 45	70 (2014)	$ 345
Conservation Reserve Enhancement Program (CRP Bonds) (15)		1,508	6.0-7.50	372	98 (2014)	1,508
Total bonds/notes payable		6,484		417		1,853
Total business-type activities		$ 6,484		$ 417		$ 1,853

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

(2) Year of maturity refers to fiscal year.

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

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

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

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

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

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

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

(10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.

(11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $215,850 of interest owed.

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

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

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

(15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2008, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 18,040	$ 8,151	$ 13,615	$ 9,353	$ 347	$ 44
2010	17,415	7,745	13,400	8,903	349	43
2011	15,355	7,071	14,030	8,324	351	42
2012	15,650	6,451	14,645	7,701	352	41
2013	16,275	5,807	15,310	7,051	353	40
2014-2018	72,130	18,615	83,385	24,345	1,841	181
2019-2023	32,860	6,384	49,765	5,456	1,931	145
2024-2028	13,835	1,638	215	4	2,043	102
2029-2033	-	-	-	-	2,188	49
2034-2038	-	-	-	-	1,656	2
Total	$201,560	$61,862	$204,365	$71,137	$11,411	$689

Business-type Activities

Year Ended June 30	Economic Development Bonds	
	Principal	Interest
2009	$ 417	$125
2010	347	96
2011	307	73
2012	329	52
2013	285	29
2014-2018	168	9
Total	$1,853	$384

Debt service requirements of discretely presented component units at June 30, 2008, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 14,230	$ 46,649	$ 3,518	$ 6,425	$ 5,675	$ 6,896
2010	15,255	46,044	3,759	6,492	5,813	6,678
2011	15,885	45,384	3,711	6,466	5,642	6,440
2012	16,585	44,677	3,849	6,427	5,876	6,223
2013	17,980	43,924	5,777	4,570	6,135	5,958
2014-2018	107,739	205,802	32,100	18,998	34,690	25,302
2019-2023	141,355	176,080	32,920	11,090	44,060	15,546
2024-2028	191,540	134,532	12,815	6,098	26,620	4,483
2029-2033	219,075	81,142	12,330	3,311	8,190	927
2034-2038	176,165	27,320	7,310	467	-	-
2039-2043	20,450	2,444	-	-	-	-
2044-2048	970	35	-	-	-	-
Total	$937,229	$854,033	$118,089	$70,344	$142,701	$78,453

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2008, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$208,015	$ 14,820	$ 21,275	$201,560	$18,040	$183,520
Special revenue bonds	171,080	44,670	11,385	204,365	13,615	190,750
Notes payable	11,755	-	344	11,411	347	11,064
	390,850	59,490	33,004	417,336	32,002	385,334
Deferred amount on refunding	(4,840)	691	-	(4,149)	-	(4,149)
Unamortized discount	(133)	14	-	(119)	-	(119)
Unamortized premium	10,090	829	1,284	9,635	-	9,635
Total bonds/notes payable	395,967	61,024	34,288	422,703	32,002	390,701
Other liabilities						
Lease/installment purchase payable	1,057	1,068	704	1,421	475	946
Compensated absences payable (1)	84,131	41,417	34,424	91,124	34,428	56,696
Early retirement benefits payable (1)	48	247	251	44	5	39
Arbitrage rebate tax payable (1)	363	254	297	320	1	319
Estimated insurance claims (1)	27,629	111,272	112,303	26,598	13,442	13,156
OPEB implicit rate subsidy (2)	-	40,029	-	40,029	-	40,029
Total other liabilities	113,228	194,287	147,979	159,536	48,351	111,185
Total governmental activities Long-term liabilities	$509,195	$255,311	$182,267	$582,239	$80,353	$501,886
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 2,677	$ -	$ 824	$ 1,853	$ 417	$ 1,436
MUS Workers Compensation	430	-	430	-	-	-
Total bonds/notes payable	3,107	-	1,254	1,853	417	1,436
Other liabilities						
Compensated absences payable	1,299	789	548	1,540	544	996
Arbitrage rebate tax payable	59	84	104	39	25	14
Estimated insurance claims	15,478	67,125	62,711	19,892	11,481	8,411
OPEB implicit rate subsidy (2)	-	713	-	713	-	713
Total other liabilities	16,836	68,711	63,363	22,184	12,050	10,134
Total business-type activities Long-term liabilities	$ 19,943	$ 68,711	$ 64,617	$ 24,037	$12,467	$ 11,570

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

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

Long-term liability activity of discretely presented component units for the year ended June 30, 2008, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	$ 914,854	$108,577	$ 76,520	$ 946,911	$ 14,230	$ 932,681
Montana State University (MSU)	127,486	17,958	21,784	123,660	4,983	118,677
University of Montana (UM)	146,052	500	6,076	140,476	5,675	134,801
Total bonds/notes payable (1)	1,188,392	127,035	104,380	1,211,047	24,888	1,186,159
Other liabilities						
Lease/installment purch pay	490	425	247	668	265	403
Compensated absences pay	48,826	23,782	22,399	50,209	23,338	26,871
Arbitrage rebate tax payable	1,197	-	320	877	544	333
Estimated insurance claims	754,272	212,937	146,521	820,688	147,247	673,441
Due to federal government	31,392	394	-	31,786	-	31,786
Other	2,095	-	-	2,095	-	2,095
OPEB implicit rate subsidy (2)	-	17,226	-	17,226	-	17,226
Total other liabilities	838,272	254,764	169,487	923,549	171,394	752,155
	$2,026,664	$381,799	$273,867	$2,134,596	$196,282	$1,938,314
Long-term liabilities of MSU component units					92	519
Long-term liabilities of UM component units					427	101
Total discretely presented component units Long-term liabilities					$196,801	$1,938,934

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

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

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2008, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on outstanding bonds: $200,000 of special revenue Series 2004A and $1,055,000 of general obligation Series 2004A.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2008, $66,440,000 of bonds outstanding was considered defeased.

Universities

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2008, $1,535,000 and $49,029,871 of bonds outstanding were considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

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

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2008, industrial revenue bonds outstanding aggregated $189.2 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2008, QZAB debt outstanding aggregated $7.2 million.

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

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2008, was as follows: Hershberger Project – issued $129,412, outstanding $109,601; Young Project – issued $223,300, outstanding $198,125.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2008, revenue bonds outstanding aggregated $880.6 million, and notes payable outstanding aggregated $10.5 million.

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

Housing Authority (HA)

The HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2008, bonds outstanding aggregated $8,985,264.

H. Derivative Transactions Related to Long-term Debt

Interest Rate Exchange Agreements

In March 2005, Montana State University (MSU) entered into a forward-starting interest rate swap agreement (“swaption”) with Deutsche Bank AG (“DBAG”). The notional amount of the swap as of June 30, 2008, was $25,250,000, and equaled MSU’s Revenue Bonds Series J 2005 bond principal outstanding. The instrument was intended to synthetically fix the Series J 2005 bonds issued July 21, 2005, from a variable rate to an intended rate of 3.953%.

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

At June 30, 2008, the negative fair value of the swap was ($1,608,366). Such value was provided to MSU by an independent valuation firm, and is calculated using mid-market levels as of the close of business on June 30.

In August 2005, the University of Montana (UM) entered into a forward SWAP agreement (“swaption”) with Wachovia Bank, NA (“counterparty”) to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. The swaption gives the counterparty the right to require that UM execute a floating-to-fixed swap in May 2010, based on a notional amount of $47,000,000. Should the counterparty exercise its option, UM would expect to issue Series K 2010 taxable, variable-rate bonds at the $47,000,000 notional amount of the swap. The intention of UM in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

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

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

At June 30, 2008, the swaption has a negative fair value of ($2,309,206). If the option is exercised and variable-rate Series K 2010 Parity Bonds are not issued by the UM, the Series F 1999 Revenue Bonds would not be refunded, and UM would make net swap payments as required by the terms of the swap.

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

At June 30, 2008, the negative fair value of the constant maturity swap was ($65,445). Such value was provided to the university by an independent valuation firm, and was calculated using mid-market levels as of the close of business on June 30.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

Balances due from/to other funds at June 30, 2008, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds
Due From Other Funds						
Economic Development Bonds	$ -	$ -	$ -	$ -	$2,327	$ -
Federal Special Revenue	-	-	-	109	14	10
General Fund	5,443	1	318	-	142	12,664
Internal Service Funds	34	2	1,426	3,144	521	188
Nonmajor Enterprise Funds	-	-	6	346	65	-
Nonmajor Governmental Funds	-	-	198	1,091	-	-
State Special Revenue	41	-	2,595	5,184	20	112
Total	$5,518	$3	$4,543	$9,874	$3,089	$12,974

	Nonmajor Governmental Funds	State Special Revenue	Total
Due From Other Funds *(continued)*			
Economic Development Bonds	$ 6	$ 1,800	$ 4,133
Federal Special Revenue	-	1,308	1,441
General Fund	37	49,919	68,524
Internal Service Funds	15	1,996	7,326
Nonmajor Enterprise Funds	-	48	465
Nonmajor Governmental Funds	-	144	1,433
State Special Revenue	3,351	-	11,303
Total	$3,409	$55,215	$94,625

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2008, consisted of the following (in thousands):

	Interfund Loans Payable				
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	State Special Revenue	Total
Interfund Loans Receivable					
General Fund	$19,664	$ 801	$ 70	$2,586	$23,121
Internal Service Funds	570	-	225	13	808
Nonmajor Enterprise Funds	141	18	-	-	159
State Special Revenue	44,077	493	-	-	44,570
Total	$64,452	$1,312	$295	$2,599	$68,658

C. Advances To/From Other Funds

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

Advances to/from other funds at June 30, 2008, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax Permanent	$ -	$ -	$ -	$ 3,112	$ 3,112
Economic Development Bonds	-	4,228	650	16,700	21,578
General Fund	-	2,644	-	-	2,644
Nonmajor Enterprise Funds	75	-	-	-	75
Nonmajor Governmental Funds	-	-	-	2,816	2,816
State Special Revenue	1,491	-	15,170	-	16,661
Total	$1,566	$6,872	$15,820	$22,628	$46,886

Additional detail for certain advance balances at June 30, 2008, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program

Department	Balance
Natural Resources and Conservation	$ 650
Environmental Quality	1,299
Justice	15,401
Transportation	4,228
Total	$21,578

Advances from the Coal Severance Tax Permanent Fund

Department	Balance
Justice	$3,112
Total	$3,112

D. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2008, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent	Nonmajor Enterprise Funds
Transfers Out						
Coal Severance Tax Permanent	$ -	$ -	$28,855	$ -	$ -	$ -
Federal Special Revenue	-	-	1,865	17	-	-
General Fund	-	7	-	634	146	51
Internal Service Funds (1)	-	-	4	-	-	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	1	36,545	-	-	-
Nonmajor Governmental Funds	365	-	1,567	-	-	-
State Special Revenue	283	384	6,631	2,802	1	58
Unemployment Insurance	-	1,299	-	-	-	-
Total	$648	$1,691	$75,467	$3,453	$147	$109

	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out *(continued)*			
Coal Severance Tax Permanent	$ 237	$ 8,704	$ 37,796
Federal Special Revenue	16,822	12,384	31,088
General Fund	109,290	82,936	193,064
Internal Service Funds (1)	-	-	4
Land Grant Permanent	982	63,000	63,982
Nonmajor Enterprise Funds	-	5,272	41,818
Nonmajor Governmental Funds	2,758	22,963	27,653
State Special Revenue	9,986	-	20,145
Unemployment Insurance	-	-	1,299
Total	$140,075	$195,259	$416,849

(1) Total transfers-out for internal service funds on the financial statements is reported as $3,661,480. The difference of $3,657,739 between the amount reported above of $3,541 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a capital contribution, and the receiving fund type recorded the net book value of the capital asset as a transfer-out.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2008, (in thousands):

Fund Type/Fund	Deficit
Enterprise funds	
Subsequent Injury	$(2,692)
Surplus Property	$ (41)
Internal service funds	
Justice Legal Services	$ (92)
Personnel Training	$ (10)

NOTE 14. RESERVED FUND BALANCES

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

Fund Type/Purpose	Amount
State Special Revenue funds	
General Government	$ 39,841
Public Safety/Corrections	197,095
Transportation	115,706
Health/Social Services	67,127
Education/Cultural	23,784
Resource/Recreation/Environment	410,210
Economic Development/Assistance	50,192
Total state special revenue funds	$903,955
Federal Special Revenue funds	
General Government	$ 3,375
Public Safety/Corrections	790
Health/Social Services	3,022
Education/Cultural	18,797
Resource/Recreation/Environment	323
Economic Development/Assistance	332
Total federal special revenue funds	$26,639

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

Purpose	Amount
Big Sky Economic Development Fund	$ 36,824
Coal Severance Tax Bond Fund	9,348
Treasure State Endowment Fund	169,805
Treasure State Endowment Regional Water System Fund	43,249
Coal Severance Tax Permanent Fund	520,534
Coal Severance Tax Income Fund	1,238
Total	$780,998

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Regents and MHESAC have three common board members. Approximately 76.88% of the Regents' outstanding loan volume, $1,479,231,629, is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2008 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2008 amounted to $425,267. Additionally, the Montana Guaranteed Student Loan Program (MGSLP) paid $124,926 to SAF for leased space in the building MSGLP occupies with SAF at 2500 Broadway, Helena, MT 59601.

A staff member in the Department of Administration, Health Care and Benefits Division, serves as a Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association $1 per member per year to maintain its membership as well as a monthly fee of $3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

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

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

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

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

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

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1st Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution. The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs cross-appealed certain aspects of the judgment as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court issued an order that the school funding system violates the Montana Constitution, and upheld the District order that the State had until October 2005 to address this issue. In February 2008, the plaintiffs filed a motion seeking further relief under the 2004 judgment. The Court held a five-day hearing on the motion in October 2008. The motion remains pending in the district court. On December 9, 2008, a preliminary decision was issued in Helena District Court in favor of the State. The decision said public schools aren't entitled to any "supplementary relief" from the State. Significant additional expenditures on K-12 education may be required in future years, and further litigation in this case or future new lawsuits are possible regarding school funding.

Beginning in February 2001, the Montana Department of Fish, Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. In Buhlmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Both the Kafka and Buhlman decisions are on appeal before the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice, and the Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, case has been dismissed without prejudice for failure to prosecute. Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain possible. The amount of loss cannot be estimated at this time.

In Montana Association for Disability Services, Inc., et al., v. Schweitzer, et al., filed in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 2002 558, a class-action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., (MAIDS) a consortium of community-based private facilities serving the developmentally disabled population. The plaintiffs allege that the named defendants, Brian Schweitzer, Joan Miles, and Joe Mathews, in their official capacities, "configure" the wage and benefit structure of employees at community-based facilities serving developmentally disabled persons at a level that is lower than the level established at Eastmont and MDC. It is alleged this causes employees to leave the community-based facilities at a higher rate, thereby jeopardizing the quality and quantity of the services provided in the community-based facilities. This allegedly has the effect of precluding individuals with developmental disabilities from living in the community in the least restrictive, most independent circumstances possible. The wage configuration by the defendants allegedly constitutes a violation of statutes concerning the objective of placing developmentally disabled individuals in independent living situations, the establishment of uniform reimbursement rates equivalent to Medicaid covered services, the right to enjoy life, liberty, safety, health, and happiness (Article II, Section 3, Montana Constitution), to dignity and equal protection (Article II, Section 4, Montana Constitution), and of the requirement of Article XII, Section 3 that the State and Legislature provide assistance to those in need. The plaintiffs seek declaratory and injunctive relief concerning the proper establishment of reimbursement rates, attorney's fees, and costs. The court entered an order on March 30, 2004, granting the Motion for Class Certification. The parties have entered into a Class Action Settlement Agreement. Signatures of the named plaintiffs are being obtained, after which the settlement agreement will be presented to the court for its approval. It is anticipated that a court hearing will be necessary to allow input into the decision whether the settlement agreement is fair and acceptable to the class plaintiffs. Under the terms of the settlement, there will be no monetary damages and no attorney fees will be awarded.

In Terry Blanton v. DPHHS, filed in Montana Twentieth Judicial District Court, Lake County, Cause No. DV-06-37, a class-action lawsuit was filed on the part of plaintiffs who seek to "force DPHHS to obey federal Medicaid and anti-lien laws and the state 'made whole' doctrine." The lawsuit seeks payment from DPHHS of money allegedly wrongfully collected from third-party settlements or recoveries of Medicaid recipients. The lawsuit also seeks interest, costs, attorney fees, and declaratory and injunctive relief. On September 5, 2007, the court issued an order granting class certification. There is currently no trial date and no pretrial schedule. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of success on the merits. In addition, the fiscal impact on the State, should the plaintiffs prevail, and the amount of any potential award of attorney fees and costs, is also not determinable at this time.

Lori Brenneman v. Gallatin County, Ron Carlstrom, Todd Kessner, Cynde Hertzog, and Does 1-10, Eighteenth Judicial District, Gallatin County, Cause No. DV 05-358, involves the plaintiff's claims of disability discrimination, gender discrimination, wrongful discharge, and retaliation. The State is providing a defense for Carlstrom and Kessner. The plaintiff seeks compensatory and exemplary damages, costs, and attorney fees. The case is set for trial in February, 2009. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of success on the merits. In addition, the fiscal impact on the State, should the plaintiff prevail, and the amount of any potential award of attorney fees and costs, is also not determinable at this time.

In Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-840, was filed before the Workers Compensation Court on July 18, 2003. The *Satterlee, Zenahlik & Foster vs. Lumberman's Mutual Casulty Company and Montana State Fund* case challenges the constitutionality of state statute, (Section 39-71-710. MCA) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found unconstitutional as applied to permanent total benefits, *Satterlee, et al.* request payment of permanent total disability lifetime benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Worker's Compensation Court provided an opportunity for any workers' compensation insurer to intervene until June 6, 2005. The Worker's Compensation Court rendered its decision on December 12, 2005, holding that MCA, Section 39-71-710, is constitutional as applied to PTD benefits. *Satterlee, et al.* appealed to the Montana Supreme Court on December 11, 2007. Montana's Supreme Court issued an order dismissing *Satterlee, et al.* without prejudice as two constitutional issues remained for ruling by the lower court (Rule 54(b)). MSF prevailed on the additional issues (section 39-71-710, MCA does not violate *Satterlee, et al.'s* due process rights or discriminate based on age) before the Worker's Compensation Court. On July 1, 2008 *Satterlee, et al.* again appealed to the Montana Supreme Court. Should Section 39-71-710, MCA ultimately be held unconstitutional as applied to permanent total disability payments by the Montana Supreme Court, and also be found to apply retroactively, the cost has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at $135 to $186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990 is $93 million to $116 million. Actual cost impact is unknown. The potential for liability for MSF and the state of Montana is reasonably possible, but following the second Worker's Compensation Court decision in MSF's favor, the probability or liability for MSF and the state of Montana is reduced.

Working Rx, Inc., v. Montana State Fund, Ed Heinrich, (Chairman of the Board of Directors of the Montana State Fund), Laurence Hubbard (President of the Montana State Fund), National Medical Health Card Systems, Inc, and John Does 1-20. This complaint was served in September 2006, but has since been dismissed to provide for the presentation of the claim to the Department of Administration as required in Title 2, Chapter 9, Section 301, MCA. Whether Montana State Fund has any responsibility to Working Rx for payment of pharmacy claims is the basis of the claim. Montana State Fund does not have sufficient information to determine potential liability or cost impact.

Martin Heth, Jr. vs. Montana State Fund, WCC No. 2006-1758, was decided by the Worker's Compensation Court on April 25, 2008. The Worker's Compensation Court decision included the following summary: "Petitioner was in a single vehicle accident involving the septic pumper truck he drove for his employer. Petitioner's blood alcohol content (BAC) tested at .0874 shortly after the accident and beer cans were found in and around the truck. Respondent argued that is not liable for Petitioner's workers' compensation claim because alcohol was the major contributing cause of the accident. Petitioner argued that alcohol was not the major contributing cause of the accident, and in any event, his employer knew that he drank alcohol while performing his job and therefore he is not barred from recovery under Section 39-71-407(4), MCA." The Worker's Compensation Court then held: "Although the respondent proved that alcohol was the major contributing cause of the accident, Petitioner proved that his employer knew he used alcohol while performing his job duties. Therefore, petitioner is eligible for workers' compensation benefits." Montana State Fund appealed the Worker's Compensation Court decision to the Montana Supreme Court on June 13, 2008, and among other grounds asserts an improper interpretation of "employer knowledge" exception by the Worker's Compensation Court. MSF believes there is a basis for the reversal of the Worker's Compensation Court decision in the favor of MSF. The potential for the Supreme Court to affirm the lower court decision against MSF is probable. The estimated cost of the case, should the Supreme Court affirm the lower court decision, is over $1,000,000 with estimates to $2,800,000. However, actual cost would depend on an evaluation of all available information at that time.

Quick vs. Montana State Fund, WCC No. 2006-1788, was decided by the Worker's Compensation Court on June 4, 2008. Quick was injured on June 15, 1984, and is a case in the "Old Fund". Quick requested retroactive and future domiciliary care benefits, a higher rate of pay for domiciliary care provided by Quick's wife, a 20% penalty, attorney's fees, and costs. Quick argued Montana State Fund (MSF) was on notice of domiciliary care since the 1984 accident. MSF argued that it did not have notice that domiciliary care was needed until receipt of a medical opinion on February 1, 2007, stating that domiciliary care was needed. Prior to the trial MSF conceded that Quick required 24 hour domiciliary care and began paying the rate of $7.50 per hour, effective February 1, 2007. The Worker's Compensation Court held Quick is not entitled to retroactive domiciliary care prior to February 1, 2007. The court also held the rate of $7.50 per hour was unreasonable as the evidence establishes that Quick's care needs to be by a person with RN skills. The court found $20.00 per hour to be a reasonable rate of pay. The court awarded a 20% penalty on the difference of $7.50 per hour and the $20 per hour ordered by the court on June 4, 2008. Quick appealed to the Montana Supreme Court on July 1, 2008, and MSF filed a cross-appeal on the penalty on July 15, 2008. It is remote that the Supreme Court will find additional liability for the state of Montana (this is an "Old Fund" claim) by reversing the lower court decision denying the retroactive domiciliary care. It is reasonably possible that liability will be affirmed for the penalty awarded by the lower court. The cost of this case, should the Montana Supreme Court reverse the lower court decision and award retroactive domiciliary care prior to February 1, 2007 is estimated at $1.9 million. Attorney fees would be an additional 40% of the retroactive award.

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

B. Federal Contingencies

USDA Commodities – In fiscal year 2008, the State distributed $8,170,792 in commodities. The value of the commodities stored in the State's warehouses was $2,173,511 at June 30, 2008, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2008, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Trust Fund to the Economic Development Bonds Enterprise Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $182,393,408. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was $98,390,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $84,003,408.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2008, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	$3,557	$1,110	$6,891	$126	$1,593
Corporation tax	30,601	-	-	-	-
Total	$34,158	$1,110	$6,891	$126	$1,593

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

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2008. The corporations have appealed the decision. As of June 30, 2008, these include $3,468,231 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2008. As of June 30, 2008, these include $6,899,098 of protested property taxes recorded in the General Fund and $7,849,129 recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

In August 2008, the State of Montana received $16 million from a litigation settlement for which the State filed a lawsuit against Atlantic Richfield Company (ARCO) and ASARCO for damage to natural resources at the Upper Blackfoot River site.

On September 11, 2008, the State of Montana Board of Housing issued $31 million Single Family Program Bonds, Series 2008A. The bonds will mature on June 1, 2010 through December 1, 2039, with interest rates from 2.55% to 5.50%. Bond proceeds will be used to purchase single family mortgage loans for the Board's Homeownership Program. The 2008A bond series is not a debt of the State, and the State is not liable for the bonds. Neither the State's faith or credit or taxing power is pledged to the payment of bond principal or interest.

On September 19, 2008, the State of Montana issued a $700,000 General Obligation Bond Revenue Anticipation Note, Series 2008F. This obligation is authorized pursuant to the Montana Waste Water Treatment Revolving Act, Montana Code Annotated, Title 75, Chapter 5, Part 1122.

On October 17, 2008, the State of Montana issued $2,150,000 General Obligation Renewable Resource Program Bonds, Series 2008E. This obligation is authorized pursuant to the Montana Code Annotated, Title 85, Chapter 1, Part 6.

On October 28, 2008, the State of Montana received $168 million from a litigation settlement for which the State filed a lawsuit against ARCO for damage to natural resources at the Clark Fork River Site.

Investment Related Issues

On July 1, 2008, the Board of Investments enhanced an additional $30 million in Montana Facility Finance Authority bonds.

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. were put into conservatorship on September 7, 2008.

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and All Other Funds (AOF), as included in Note 3D, portfolios held a $15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio includes a $5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par.

On September 16, 2008, the U.S. Government acquired 80% of AIG stock and extended $85 billion in financing to the company. The loan will be repaid by the sale of AIG assets. The loan is collateralized by all the company's assets, valued at $1.05 trillion as of June, 30, 2008. The two STIP AIG securities matured on July 21, 2008 and July 30, 2008, respectively.

On September 26, 2008, Washington Mutual filed for Chapter 11 bankruptcy. The bonds are now in default following the seizure of the bank by the Office of Thrift

Supervision on September 25, 2008. The Bond Pool and AOF portfolios held a $20 million position in Washington Mutual, Inc. 4.2%, 01/15/2010. On September 26, 2008, the Board sold $10 million par, at a price of $38, with an October 1, 2008 settlement date. This sale generated a loss of $6.2 million. As of September 30, 2008, the book value of the remaining $10 million bond position was written down to 85% of par. On October 20, 2008, the remaining $10 million position was sold for a realized loss of $1,684,700.

On October 30, 2008, the book value of the Galena CDO bonds was written down to 70% of par. The Bond Pool and AOF portfolios hold a $25 million position in this security.

While payment of the Orion Finance USA interest receivable of $903,922 remains unknown as of November 21, 2008, the State of Montana Board of Investments received payment of $1,825,967 on the Axon Financial Funding interest receivable on November 14, 2008. In addition to the above interest receivable payment, the State of Montana Board of Investments received payment of $10,000,933 in principal and $1,390,471 in interest compensation in excess of the accrued interest receivable from Axon Financial Funding. The November 14, 2008, Axon Financial Funding payment totaled $13,217,371.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement plans shall be funded on an actuarially sound basis. As of June 30, 2008, the Teachers Retirement System (TRS) was not in compliance. Detailed information for the retirement plan can be found in Note 6.

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 146,697	$ 146,697	$ 128,834	$ (17,863)
Taxes:				
Natural resource	129,151	129,151	184,114	54,963
Individual income	802,566	802,566	764,134	(38,432)
Corporate income	161,271	161,271	155,881	(5,390)
Property	198,117	198,117	205,044	6,927
Fuel	-	-	-	-
Other	220,890	220,890	227,968	7,078
Charges for services/fines/forfeits/settlements	35,450	35,450	36,022	572
Investment earnings	22,460	22,460	32,938	10,478
Sale of documents/merchandise/property	380	380	289	(91)
Rentals/leases/royalties	2	2	1	(1)
Contributions/premiums	-	-	17	17
Grants/contracts/donations	1,949	1,949	3,691	1,742
Federal	32,161	32,161	36,739	4,578
Federal indirect cost recoveries	128	128	93	(35)
Other revenues	-	-	(80)	(80)
Total revenues	1,751,222	1,751,222	1,775,685	24,463
EXPENDITURES				
Current:				
General government	327,113	327,332	307,759	19,573
Public safety/corrections	229,710	230,841	212,977	17,864
Transportation (Note RS-1)	3,372	3,364	453	2,911
Health/social services	381,859	379,197	356,988	22,209
Education/cultural	881,761	883,764	873,676	10,088
Resource/recreation/environment	83,213	81,544	78,515	3,029
Economic development/assistance	37,317	37,342	36,374	968
Debt service:				
Principal retirement	757	849	469	380
Interest/fiscal charges	186	186	170	16
Capital outlay (Note RS-1)	9,014	11,251	7,986	3,265
Total expenditures	1,954,302	1,955,670	1,875,367	80,303
Excess of revenue over (under) expenditures	(203,080)	(204,448)	(99,682)	104,766
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Bond premium	-	-	-	-
Insurance proceeds	3,122	3,122	1,408	(1,714)
General capital asset sale proceeds	44	44	28	(16)
Transfers in	79,781	79,781	59,660	(20,121)
Transfers out	(29,008)	(31,359)	(27,182)	4,177
Total other financing sources (uses)	53,939	51,588	33,914	(17,674)
Net change in fund balances (Budgetary basis)	(149,141)	(152,860)	(65,768)	87,092
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	2,964	2,964
2. Securities lending costs	-	-	(2,543)	(2,543)
3. Inception of lease/installment contract	-	-	597	597
4. Adjust expenditures for encumbrances	-	-	8,956	8,956
5. Adjustments for nonbudgeted activity	-	-	(49,327)	(49,327)
Net change in fund balances (GAAP basis)	(149,141)	(152,860)	(105,121)	47,739
Unreserved fund balances - July 1	549,158	549,158	549,158	-
Prior period adjustments	-	-	(1,273)	(1,273)
Decrease (increase):				
Encumbrances reserve	-	-	(8,911)	(8,911)
Long-term loans/notes receivable reserve	-	-	42	42
Advances to other funds reserve	-	-	1,306	1,306
Special revenue reserve	-	-	-	-
Trust principal	-	-	(10)	(10)
Escheated property reserve	-	-	(1,611)	(1,611)
Unreserved fund balances - June 30	$ 400,017	$ 396,298	$ 433,580	$ 37,282

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

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	**FINAL BUDGET**	**ACTUAL**	**VARIANCE WITH FINAL BUDGET**	**ORIGINAL BUDGET**	**FINAL BUDGET**	**ACTUAL**	**VARIANCE WITH FINAL BUDGET**
$ 178,199	$ 178,199	$ 157,695	$ (20,504)	$ -	$ -	$ -	$ -
188,405	188,405	190,578	2,173	-	-	-	-
-	-	-	-	-	-	(5)	(5)
-	-	-	-	-	-	-	-
12,981	12,981	13,336	355	-	-	-	-
215,408	215,408	205,778	(9,630)	-	-	-	-
84,025	84,025	91,046	7,021	1	1	-	(1)
97,812	97,812	92,081	(5,731)	47,694	47,694	35,792	(11,902)
16,632	16,632	14,610	(2,022)	2,975	2,975	985	(1,990)
4,417	4,417	4,600	183	-	-	-	-
2,545	2,545	30,318	27,773	5	5	5	-
16,960	16,960	17,011	51	-	-	-	-
24,211	24,211	16,243	(7,968)	108	108	86	(22)
21,527	21,527	13,654	(7,873)	1,556,851	1,556,851	1,472,485	(84,366)
35,663	35,663	43,678	8,015	54,858	54,858	52,809	(2,049)
-	-	8	8	-	-	-	-
898,785	898,785	890,636	(8,149)	1,662,492	1,662,492	1,562,157	(100,335)
238,370	239,392	221,066	18,326	21,908	23,000	15,962	7,038
53,451	53,966	48,002	5,964	77,379	101,082	42,919	58,163
310,335	334,148	250,769	83,379	305,299	365,749	302,836	62,913
132,677	133,064	109,997	23,067	1,017,974	1,033,758	911,244	122,514
95,730	96,979	79,459	17,520	215,442	227,769	180,966	46,803
172,152	184,114	120,592	63,522	101,911	138,437	90,644	47,793
106,073	111,478	67,420	44,058	98,185	88,947	54,067	34,880
4,145	4,044	382	3,662	262	329	248	81
1,302	1,302	1,302	-	18	18	18	-
71,742	64,122	23,366	40,756	57,895	69,125	28,095	41,030
1,185,977	1,222,609	922,355	300,254	1,896,273	2,048,214	1,626,999	421,215
(287,192)	(323,824)	(31,719)	292,105	(233,781)	(385,722)	(64,842)	320,880
1,000	1,000	-	(1,000)	-	-	-	-
26,000	26,000	44,670	18,670	-	-	-	-
-	-	733	733	-	-	-	-
7,606	7,606	4,298	(3,308)	245	245	234	(11)
162	162	172	10	-	-	-	-
247,050	247,050	215,093	(31,957)	9,521	9,521	7,622	(1,899)
(16,734)	(20,214)	1,453	21,667	(62,441)	(89,686)	(22,712)	66,974
265,084	261,604	266,419	4,815	(52,675)	(79,920)	(14,856)	65,064
(22,108)	(62,220)	234,700	296,920	(286,456)	(465,642)	(79,698)	385,944
-	-	1,639	1,639	-	-	27	27
-	-	(1,313)	(1,313)	-	-	(21)	(21)
-	-	41	41	-	-	236	236
-	-	(6,222)	(6,222)	-	-	8,817	8,817
-	-	(34,592)	(34,592)	-	-	49,831	49,831
(22,108)	(62,220)	194,253	256,473	(286,456)	(465,642)	(20,808)	444,834
(42,437)	(42,437)	(42,437)	-	(5,855)	(5,855)	(5,855)	-
-	-	157	157	-	-	(408)	(408)
-	-	(1,026)	(1,026)	-	-	(250)	(250)
-	-	(17,018)	(17,018)	-	-	32	32
-	-	(1,222)	(1,222)	-	-	-	-
-	-	(154,771)	(154,771)	-	-	1,489	1,489
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ (64,545)	$ (104,657)	$ (22,064)	$ 82,593	$ (292,311)	$ (471,497)	$ (25,800)	$ 445,697

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

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

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

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

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2008, reverted governmental fund appropriations were as follows: General Fund - $51.6 million, State Special Revenue Fund - $135.1 million, and Federal Special Revenue Fund - $298.9 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

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

B. Budget Basis

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

Due to large nonbudgeted expenditure transactions recorded in fiscal year 2008 by the Department of Transportation in the State Special and Federal Special Revenue Funds (transportation and capital outlay functions), there are significant differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Expenditure amounts of $18,580,485 and $191,263,923 were moved from the transportation to the capital outlay function in the State Special and Federal Special Revenue Funds, respectively.

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
HPORS						
6/30/2006	87,189	112,002	24,813	77.85%	7,878	314.97%
6/30/2007	95,758	128,306	32,548	74.63%	9,858	330.17%
6/30/2008	101,500	134,683	33,183	75.36%	10,866	305.38%
JRS						
6/30/2006	51,808	37,159	(14,649)	139.42%	4,762	(307.62%)
6/30/2007	57,778	36,863	(20,915)	156.74%	4,841	(432.04%)
6/30/2008	62,040	39,435	(22,605)	157.32%	5,096	(443.58%)
Multiple Employer Systems						
PERS-DBRP						
6/30/2006	3,459,084	3,919,313	460,229	88.26%	880,708	52.26%
6/30/2007	3,825,234	4,201,251	376,017	91.05%	907,424	41.44%
6/30/2008	4,065,307	4,504,743	439,436	90.25%	955,113	46.01%
MPORS						
6/30/2006	175,919	291,099	115,180	60.43%	27,644	416.65%
6/30/2007	198,310	310,423	112,113	63.88%	29,547	379.44%
6/30/2008	212,312	327,556	115,244	64.82%	32,181	358.11%
FURS						
6/30/2006	167,343	255,513	88,170	65.49%	22,917	384.74%
6/30/2007	188,545	269,399	80,854	69.99%	24,250	333.42%
6/30/2008	206,127	287,218	81,091	71.77%	29,158	278.11%
SRS						
6/30/2006	163,003	171,841	8,838	94.86%	34,242	25.81%
6/30/2007	183,894	189,036	5,142	97.28%	43,611	11.79%
6/30/2008	199,453	204,549	5,096	97.51%	47,196	10.80%
GWPORS						
6/30/2006	58,813	64,183	5,370	91.63%	25,846	20.78%
6/30/2007	68,755	72,992	4,237	94.20%	28,799	14.71%
6/30/2008	77,511	83,449	5,938	92.88%	32,365	18.35%
TRS (1)						
7/1/2006	2,745,800	3,733,600	863,100	76.10%	636,000	135.70%
7/1/2007	3,006,200	3,928,500	768,900	79.60%	664,100	115.80%
7/1/2008	3,159,100	4,110,800	794,600	79.90%	689,500	115.20%
Nonemployer Contributor						
VFCA						
6/30/2006	23,238	31,883	8,645	72.89%	N/A	N/A
6/30/2007	25,862	31,599	5,737	81.84%	N/A	N/A
6/30/2008	27,544	32,735	5,191	84.14%	N/A	N/A

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

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2008
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 18,191	$ 85,183	$ 3,158	$ 106,532
Receivables (net)	3,115	1,446	1,546	6,107
Due from other governments	-	36	-	36
Due from other funds	8	1,425	-	1,433
Due from component units	-	450	-	450
Equity in pooled investments	-	-	250,242	250,242
Long-term loans/notes receivable	27,961	-	-	27,961
Advances to other funds	2,816	-	-	2,816
Investments	1,358	6,055	7,036	14,449
Securities lending collateral	155	2,847	15,455	18,457
Total assets	$ 53,604	$ 97,442	$ 277,437	$ 428,483
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	549	4,884	6	5,439
Due to other funds	1,033	78	2,298	3,409
Due to component units	-	25	-	25
Advances from other funds	15,820	-	-	15,820
Deferred revenue	396	-	-	396
Securities lending liability	155	2,847	15,455	18,457
Total liabilities	17,953	7,834	17,759	43,546
Fund balances:				
Reserved for:				
Encumbrances	-	1,713	-	1,713
Long-term loans/notes receivable	27,961	-	-	27,961
Advances to other funds	2,816	-	-	2,816
Debt service	3,791	-	-	3,791
Trust principal	-	-	259,678	259,678
Unreserved, designated	8,532	-	-	8,532
Unreserved, undesignated	(7,449)	87,895	-	80,446
Total fund balances	35,651	89,608	259,678	384,937
Total liabilities and fund balances	$ 53,604	$ 97,442	$ 277,437	$ 428,483

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	$ -	$ -	$ 407	$ 407
Taxes:				
Natural resource	698	5,371	850	6,919
Fuel	-	-	11	11
Other	-	2,075	-	2,075
Charges for services/fines/forfeits/settlements	1,956	500	13,846	16,302
Investment earnings	9,252	1,385	14,752	25,389
Securities lending income	26	45	965	1,036
Sale of documents/merchandise/property	2,497	-	-	2,497
Rentals/leases/royalties	-	-	151	151
Grants/contracts/donations	-	-	1	1
Other revenues	97	4	-	101
Total revenues	14,526	9,380	30,983	54,889
EXPENDITURES				
Current:				
General government	4	162	-	166
Public safety/corrections	-	2,177	-	2,177
Health/social services	89	303	-	392
Education/cultural	-	-	15	15
Resource/recreation/environment	7	91	-	98
Economic development/assistance	-	438	-	438
Debt service:				
Principal retirement	32,669	-	-	32,669
Interest/fiscal charges	17,301	-	-	17,301
Capital outlay	-	56,032	19	56,051
Securities lending	20	35	771	826
Total expenditures	50,090	59,238	805	110,133
Excess of revenue over (under) expenditures	(35,564)	(49,858)	30,178	(55,244)
OTHER FINANCING SOURCES (USES)				
Bonds issued	-	14,820	-	14,820
Bond premium	95	-	-	95
General capital asset sale proceeds	-	-	1	1
Transfers in	38,718	92,572	8,785	140,075
Transfers out	(9,364)	(5,669)	(12,620)	(27,653)
Total other financing sources (uses)	29,449	101,723	(3,834)	127,338
Net change in fund balances	(6,115)	51,865	26,344	72,094
Fund balances - July 1 - as previously reported	41,748	37,743	233,313	312,804
Prior period adjustments	18	-	21	39
Fund balances - July 1 - as restated	41,766	37,743	233,334	312,843
Fund balances - June 30	$ 35,651	$ 89,608	$ 259,678	$ 384,937

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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, 2008
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	$ 6,256	$ 738	$ 7,333	$ -
Receivables (net)	460	11	2,643	1
Due from other funds	-	-	-	-
Long-term loans/notes receivable	9,862	-	18,072	27
Advances to other funds	2,816	-	-	-
Investments	-	-	301	-
Securities lending collateral	-	-	142	-
Total assets	$ 19,394	$ 749	$ 28,491	$ 28
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	2	543	-
Due to other funds	-	-	1,027	-
Advances from other funds	-	-	15,820	-
Deferred revenue	59	-	336	1
Securities lending liability	-	-	142	-
Total liabilities	59	2	17,868	1
Fund balances:				
Reserved for:				
Long-term loans/notes receivable	9,862	-	18,072	27
Advances to other funds	2,816	-	-	-
Debt service	3,791	-	-	-
Unreserved, designated	2,866	747	-	-
Unreserved, undesignated	-	-	(7,449)	-
Total fund balances	19,335	747	10,623	27
Total liabilities and fund balances	$ 19,394	$ 749	$ 28,491	$ 28

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ 3,292	$ 299	$ 273	$ 18,191
-	-	-	3,115
-	8	-	8
-	-	-	27,961
-	-	-	2,816
1,030	27	-	1,358
-	13	-	155
$ 4,322	$ 347	$ 273	$ 53,604
-	3	1	549
-	6	-	1,033
-	-	-	15,820
-	-	-	396
-	13	-	155
-	22	1	17,953
-	-	-	27,961
-	-	-	2,816
-	-	-	3,791
4,322	325	272	8,532
-	-	-	(7,449)
4,322	325	272	35,651
$ 4,322	$ 347	$ 273	$ 53,604

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	$ -	$ -	$ 425	$ -
Charges for services/fines/forfeits/settlements	-	-	999	-
Investment earnings	796	388	7,708	2
Securities lending income	11	12	3	-
Sale of documents/merchandise/property	2,497	-	-	-
Other revenues	-	-	-	-
Total revenues	3,304	400	9,135	2
EXPENDITURES				
Current:				
General government	-	4	-	-
Health/social services	-	-	-	-
Resource/recreation/environment	5	-	-	(4)
Debt service:				
Principal retirement	3,485	11,230	2,715	9
Interest/fiscal charges	1,253	6,835	1,486	2
Securities lending	8	10	2	-
Total expenditures	4,751	18,079	4,203	7
Excess of revenue over (under) expenditures	(1,447)	(17,679)	4,932	(5)
OTHER FINANCING SOURCES (USES)				
Bond premium	-	95	-	-
Transfers in	375	16,495	446	-
Transfers out	(1,535)	-	(7,829)	-
Total other financing sources (uses)	(1,160)	16,590	(7,383)	-
Net change in fund balances	(2,607)	(1,089)	(2,451)	(5)
Fund balances - July 1 - as previously reported	21,942	1,836	13,076	32
Prior period adjustments	-	-	(2)	-
Fund balances - July 1 - as restated	21,942	1,836	13,074	32
Fund balances - June 30	$ 19,335	$ 747	$ 10,623	$ 27

HEALTH CARE	INFORMATION TECHNOLOGY	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TOTAL
$ -	$ -	$ -	$ 273	$ -	$ 698
-	-	957	-	-	1,956
272	-	86	-	-	9,252
-	-	-	-	-	26
-	-	-	-	-	2,497
-	97	-	-	-	97
272	97	1,043	273	-	14,526
-	-	-	-	-	4
89	-	-	-	-	89
-	-	4	2	-	7
1,525	6,320	770	240	6,375	32,669
1,418	312	287	205	5,503	17,301
-	-	-	-	-	20
3,032	6,632	1,061	447	11,878	50,090
(2,760)	(6,535)	(18)	(174)	(11,878)	(35,564)
-	-	-	-	-	95
2,779	6,535	28	182	11,878	38,718
-	-	-	-	-	(9,364)
2,779	6,535	28	182	11,878	29,449
19	-	10	8	-	(6,115)
4,303	-	295	264	-	41,748
-	-	20	-	-	18
4,303	-	315	264	-	41,766
$ 4,322	$ -	$ 325	$ 272	$ -	$ 35,651

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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, 2008
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
ASSETS					
Cash/cash equivalents	$ 80,615	$ 2,701	$ -	$ 1,867	$ 85,183
Receivables (net)	1,446	-	-	-	1,446
Due from other governments	-	-	36	-	36
Due from other funds	1,290	135	-	-	1,425
Due from component units	450	-	-	-	450
Investments	6,053	2	-	-	6,055
Securities lending collateral	2,846	1	-	-	2,847
Total assets	$ 92,700	$ 2,839	$ 36	$ 1,867	$ 97,442
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	4,818	30	36	-	4,884
Due to other funds	77	1	-	-	78
Due to component units	25	-	-	-	25
Securities lending liability	2,846	1	-	-	2,847
Total liabilities	7,766	32	36	-	7,834
Fund balances:					
Encumbrances	1,713	-	-	-	1,713
Unreserved	83,221	2,807	-	1,867	87,895
Total fund balances	84,934	2,807	-	1,867	89,608
Total liabilities and fund balances	$ 92,700	$ 2,839	$ 36	$ 1,867	$ 97,442

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural Resource	$ 5,371	$ -	$ -	$ -	$ 5,371
Other	2,075	-	-	-	2,075
Charges for services/fines/forfeits/settlements	500	-	-	-	500
Investment earnings	1,385	-	-	-	1,385
Securities lending income	45	-	-	-	45
Other revenues	3	1	-	-	4
Total revenues	9,379	1	-	-	9,380
EXPENDITURES					
Current:					
General government	-	162	-	-	162
Public safety/corrections	-	2,175	2	-	2,177
Health/social services	303	-	-	-	303
Resource/recreation/environment	91	-	-	-	91
Economic development/assistance	438	-	-	-	438
Capital outlay	51,134	1,215	3,683	-	56,032
Securities lending	35	-	-	-	35
Total expenditures	52,001	3,552	3,685	-	59,238
Excess of revenue over (under) expenditures	(42,622)	(3,551)	(3,685)	-	(49,858)
OTHER FINANCING SOURCES (USES)					
Bonds issued	14,820	-	-	-	14,820
Transfers in	81,698	6,178	3,685	1,011	92,572
Transfers out	(5,182)	-	-	(487)	(5,669)
Total other financing sources (uses)	91,336	6,178	3,685	524	101,723
Net change in fund balances	48,714	2,627	-	524	51,865
Fund balances - July 1 - as previously reported	36,220	180	-	1,343	37,743
Fund balances - June 30	$ 84,934	$ 2,807	$ -	$ 1,867	$ 89,608

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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, 2008
(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
ASSETS					
Cash/cash equivalents	$ 457	$ 121	$ 245	$ 629	$ 712
Receivables (net)	529	227	120	68	80
Equity in pooled investments	101,596	18,266	10,246	12,387	7,211
Investments	47	12	25	64	2,580
Securities lending collateral	5,906	1,064	605	747	1,238
Total assets	$ 108,535	$ 19,690	$ 11,241	$ 13,895	$ 11,821
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	-	-	-	-	2
Due to other funds	1,011	86	145	59	571
Securities lending liability	5,906	1,064	605	747	1,238
Total liabilities	6,917	1,150	750	806	1,811
Fund balances:					
Reserved for:					
Trust principal	101,618	18,540	10,491	13,089	10,010
Total fund balances	101,618	18,540	10,491	13,089	10,010
Total liabilities and fund balances	$ 108,535	$ 19,690	$ 11,241	$ 13,895	$ 11,821

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
$ 111	$ 357	$ 487	$ 39	$ 3,158
3	46	473	-	1,546
1,208	8,713	90,615	-	250,242
8	37	50	4,213	7,036
100	522	5,271	2	15,455
$ 1,430	$ 9,675	$ 96,896	$ 4,254	$ 277,437
4	-	-	-	6
-	-	426	-	2,298
100	522	5,271	2	15,455
104	522	5,697	2	17,759
1,326	9,153	91,199	4,252	259,678
1,326	9,153	91,199	4,252	259,678
$ 1,430	$ 9,675	$ 96,896	$ 4,254	$ 277,437

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
REVENUES					
Licenses/permits	$ -	$ -	$ -	$ 407	$ -
Taxes:					
Natural resource	-	568	282	-	-
Fuel	-	-	-	-	11
Charges for services/fines/forfeits/settlements	-	-	-	-	-
Investment earnings	6,213	1,080	620	752	605
Securities lending income	329	58	33	40	100
Rentals/leases/royalties	-	-	-	151	-
Grants/contracts/donations	-	-	-	-	-
Total revenues	6,542	1,706	935	1,350	716
EXPENDITURES					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	260	46	26	31	85
Total expenditures	260	46	26	31	85
Excess of revenue over (under) expenditures	6,282	1,660	909	1,319	631
OTHER FINANCING SOURCES (USES)					
General capital asset sale proceeds	-	-	-	-	-
Transfers in	-	-	1,500	3	5,082
Transfers out	(5,801)	(929)	(584)	(644)	(571)
Total other financing sources (uses)	(5,801)	(929)	916	(641)	4,511
Net change in fund balances	481	731	1,825	678	5,142
Fund balances - July 1 - as previously reported	101,137	17,809	8,666	12,390	4,868
Prior period adjustments	-	-	-	21	-
Fund balances - July 1 - as restated	101,137	17,809	8,666	12,411	4,868
Fund balances - June 30	$ 101,618	$ 18,540	$ 10,491	$ 13,089	$ 10,010

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
$ -	$ -	$ -	$ -	$ 407
-	-	-	-	850
-	-	-	-	11
-	-	13,846	-	13,846
(74)	414	4,639	503	14,752
5	25	258	117	965
-	-	-	-	151
1	-	-	-	1
(68)	439	18,743	620	30,983
15	-	-	-	15
19	-	-	-	19
4	20	204	95	771
38	20	204	95	805
(106)	419	18,539	525	30,178
1	-	-	-	1
-	1,000	-	1,200	8,785
-	-	(4,091)	-	(12,620)
1	1,000	(4,091)	1,200	(3,834)
(105)	1,419	14,448	1,725	26,344
1,431	7,734	76,751	2,527	233,313
-	-	-	-	21
1,431	7,734	76,751	2,527	233,334
$ 1,326	$ 9,153	$ 91,199	$ 4,252	$ 259,678

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, 2008
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 2,370	$ 11,667	$ 1,690	$ 1,788
Receivables (net)	16,558	4,344	1,412	432
Interfund loans receivable	-	-	-	18
Due from other governments	-	-	-	-
Due from other funds	-	-	1	403
Due from component units	2	-	-	4
Inventories	71	-	1,400	5,214
Securities lending collateral	-	564	66	-
Other current assets	78	-	57	-
Total current assets	19,079	16,575	4,626	7,859
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	1,201	140	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,626	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	240
Buildings/improvements	2,044	-	-	4,682
Equipment	459	-	540	3,872
Infrastructure	-	-	-	884
Construction in progress	-	-	-	492
Intangible assets	-	-	-	-
Less accumulated depreciation	(1,631)	-	(313)	(5,790)
Total capital assets	872	-	227	5,070
Total noncurrent assets	947	1,201	1,993	5,362
Total assets	20,026	17,776	6,619	13,221

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ 34,606	$ 9,352	$ 124	$ 3,669	$ 158	$ 6
201	13	56	35	6	24
-	-	-	-	-	-
-	-	-	4	-	-
-	-	16	14	-	13
1,896	375	54	4	-	-
-	-	-	18	428	142
1,606	395	296	172	-	-
-	250	-	7	-	1
38,309	10,385	546	3,923	592	186
-	-	-	-	-	-
3,415	840	619	365	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	118
-	-	-	365	11	148
-	-	-	-	-	-
-	-	-	75	-	-
-	-	-	166	-	-
-	-	-	(207)	(10)	(171)
-	-	-	399	1	95
3,415	840	619	764	1	95
41,724	11,225	1,165	4,687	593	281

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COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	$ 348	$ 316	$ 1,140
Receivables (net)	-	-	327
Interfund loans receivable	141	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Due from component units	-	-	152
Inventories	-	-	-
Securities lending collateral	-	-	25
Other current assets	-	-	-
Total current assets	489	316	1,644
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	54
Long-term notes/loans receivable	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	2,103	-	-
Buildings/improvements	487	-	-
Equipment	282	-	-
Infrastructure	-	-	-
Construction in progress	-	-	-
Intangible assets	-	-	-
Less accumulated depreciation	(975)	-	-
Total capital assets	2,007	-	-
Total noncurrent assets	2,007	-	54
Total assets	2,496	316	1,698

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 7,994	$ 1,081	$ 76,309
72	-	23,480
-	-	159
676	49	729
1	17	465
-	-	2,487
-	115	7,388
372	6	3,502
1	-	394
9,116	1,268	114,913
-	-	75
791	12	7,437
420	-	420
-	-	1,918
-	-	800
-	-	2,343
-	-	7,331
52	94	5,823
-	-	884
-	-	567
20	-	186
(47)	(60)	(9,204)
25	34	8,730
1,236	46	18,580
10,352	1,314	133,493

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	$ 5,349	$ 19	$ 612	$ 267
Lottery prizes payable	-	-	2,031	-
Interfund loans payable	-	70	-	-
Due to other governments	-	-	-	-
Due to other funds	10,202	90	2,308	248
Due to component units	-	-	-	4
Deferred revenue	1,183	4,438	191	61
Amounts held in custody for others	80	-	-	-
Securities lending liability	-	564	66	-
Estimated insurance claims	-	3,475	-	-
Compensated absences payable	125	10	80	97
Total current liabilities	16,939	8,666	5,288	677
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,095	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	178	20	132	207
OPEB implicit rate subsisdy	124	12	104	111
Total noncurrent liabilities	302	32	1,331	318
Total liabilities	17,241	8,698	6,619	995
NET ASSETS				
Invested in capital assets, net of related debt	872	-	227	5,070
Restricted for:				
Other purposes	-	9,078	-	-
Unrestricted	1,913	-	(227)	7,156
Total net assets	$ 2,785	$ 9,078	$ -	$ 12,226

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ 2,574	$ 18	$ 1	$ 264	$ 44	$ 21
-	-	-	-	-	-
-	-	-	-	-	225
-	-	-	-	-	-
1	-	-	55	6	23
17	-	-	-	-	2
-	-	-	162	135	-
-	-	-	4	-	-
1,606	395	296	172	-	-
6,500	856	650	-	-	-
6	3	-	108	17	16
10,704	1,272	947	765	202	287
-	-	-	-	-	-
-	5,501	2,910	-	-	-
29	1	-	213	25	21
14	2	-	187	27	14
43	5,504	2,910	400	52	35
10,747	6,776	3,857	1,165	254	322
-	-	-	399	1	95
30,977	4,449	-	-	-	-
-	-	(2,692)	3,123	338	(136)
$ 30,977	$ 4,449	$ (2,692)	$ 3,522	$ 339	$ (41)

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	$ 127	$ 19	$ 70
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	2	-	-
Securities lending liability	-	-	25
Estimated insurance claims	-	-	-
Compensated absences payable	5	13	-
Total current liabilities	134	33	95
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	10	18	-
OPEB implicit rate subsisdy	7	11	-
Total noncurrent liabilities	17	29	-
Total liabilities	151	62	95
NET ASSETS			
Invested in capital assets, net of related debt	2,007	-	-
Restricted for:			
Other purposes	338	-	1,603
Unrestricted	-	254	-
Total net assets	$ 2,345	$ 254	$ 1,603

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 57	$ 224	$ 9,666
-	-	2,031
-	-	295
41	-	41
21	19	12,974
-	-	23
-	269	6,439
-	-	86
372	6	3,502
-	-	11,481
38	14	532
529	532	47,070
-	-	1,095
-	-	8,411
53	48	955
59	26	698
112	74	11,159
641	606	58,229
25	34	8,730
9,686	674	56,805
-	-	9,729
$ 9,711	$ 708	$ 75,264

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 69,096	$ -	$ 43,826	$ 7,150
Investment earnings	-	402	182	-
Securities lending income	-	13	4	-
Contributions/premiums	-	7,717	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	160	13	1	-
Total operating revenues	69,256	8,145	44,013	7,150
Operating expenses:				
Personal services	2,346	308	1,737	2,570
Contractual services	401	187	5,648	129
Supplies/materials	55,825	3	1,430	2,366
Benefits/claims	124	9,707	104	111
Depreciation	95	-	43	322
Amortization	-	-	-	-
Utilities/rent	166	9	140	187
Communications	59	8	724	23
Travel	20	30	68	24
Repair/maintenance	102	2	43	440
Grants	-	-	-	-
Lottery prize payments	-	-	22,838	-
Interest expense	-	-	-	-
Securities lending expense	-	10	4	-
Arbitrage rebate tax	-	-	-	-
Dividend expense	-	793	-	-
Other operating expenses	87	7	204	436
Total operating expenses	59,225	11,064	32,983	6,608
Operating income (loss)	10,031	(2,919)	11,030	542
Nonoperating revenues (expenses):				
Tax revenues	20,340	-	-	-
Gain (loss) on sale of capital assets	(2)	-	(1)	-
Federal indirect cost recoveries	-	-	-	-
Increase (decrease) value of livestock	-	-	-	(62)
Total nonoperating revenues (expenses)	20,338	-	(1)	(62)
Income (loss) before contributions and transfers	30,369	(2,919)	11,029	480
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(30,518)	(121)	(11,029)	-
Change in net assets	(149)	(3,040)	-	480
Total net assets - July 1 - as previously reported	2,934	12,118	-	11,746
Prior period adjustments	-	-	-	-
Total net assets - July 1 - as restated	2,934	12,118	-	11,746
Total net assets - June 30	$ 2,785	$ 9,078	$ -	$ 12,226

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ -	$ -	$ -	$ 4,953	$ 655	$ 309
1,354	338	56	153	-	-
44	6	25	5	-	-
62,666	4,660	489	-	-	-
885	-	-	-	58	-
1,448	-	4	51	4	-
66,397	5,004	574	5,162	717	309
337	81	-	3,028	332	230
3,742	405	-	1,136	104	18
33	-	-	172	268	339
54,578	2,512	964	187	27	14
-	-	-	31	-	12
-	-	-	146	-	-
8	5	-	252	11	24
10	1	-	204	36	7
7	3	-	122	6	1
5	-	-	46	13	2
-	-	-	4	-	-
-	-	-	-	-	-
-	19	-	-	-	-
34	4	22	4	-	-
-	1	-	-	-	-
-	-	-	-	-	-
580	78	-	92	41	6
59,334	3,109	986	5,424	838	653
7,063	1,895	(412)	(262)	(121)	(344)
-	-	-	-	-	-
-	-	-	(2)	-	(5)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(2)	-	(5)
7,063	1,895	(412)	(264)	(121)	(349)
-	-	-	-	-	326
-	-	-	-	95	-
-	-	(106)	-	(44)	-
7,063	1,895	(518)	(264)	(70)	(23)
23,914	2,554	(2,156)	3,808	409	(18)
-	-	(18)	(22)	-	-
23,914	2,554	(2,174)	3,786	409	(18)
$ 30,977	$ 4,449	$ (2,692)	$ 3,522	$ 339	$ (41)

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COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	$ 47	$ 358	$ 136
Investment earnings	-	-	22
Securities lending income	-	-	1
Contributions/premiums	-	-	11,206
Grants/contracts/donations	-	-	-
Other operating revenues	127	-	-
Total operating revenues	174	358	11,365
Operating expenses:			
Personal services	135	191	-
Contractual services	27	18	132
Supplies/materials	3	9	-
Benefits/claims	7	11	10,655
Depreciation	114	-	-
Amortization	-	-	-
Utilities/rent	38	29	-
Communications	7	7	-
Travel	6	3	-
Repair/maintenance	18	-	-
Grants	-	-	-
Lottery prize payments	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	1
Arbitrage rebate tax	-	-	-
Dividend expense	-	-	-
Other operating expenses	2	16	140
Total operating expenses	357	284	10,928
Operating income (loss)	(183)	74	437
Nonoperating revenues (expenses):			
Tax revenues	-	-	-
Gain (loss) on sale of capital assets	-	-	-
Federal indirect cost recoveries	8	-	-
Increase (decrease) value of livestock	-	-	-
Total nonoperating revenues (expenses)	8	-	-
Income (loss) before contributions and transfers	(175)	74	437
Capital contributions	200	-	-
Transfers in	14	-	-
Transfers out	-	-	-
Change in net assets	39	74	437
Total net assets - July 1 - as previously reported	2,315	180	1,166
Prior period adjustments	(9)	-	-
Total net assets - July 1 - as restated	2,306	180	1,166
Total net assets - June 30	$ 2,345	$ 254	$ 1,603

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 38	$ 1,550	$ 128,118
369	5	2,881
11	-	109
-	-	86,738
35,638	-	36,581
1	113	1,922
36,057	1,668	256,349
928	478	12,701
121	543	12,611
36	321	60,805
32,874	29	111,904
3	5	625
6	-	152
80	20	969
41	5	1,132
42	28	360
36	41	748
1,305	-	1,309
-	-	22,838
-	-	19
9	-	88
-	-	1
-	-	793
241	30	1,960
35,722	1,500	229,015
335	168	27,334
-	-	20,340
-	-	(10)
-	-	8
-	-	(62)
-	-	20,276
335	168	47,610
-	14	540
-	-	109
-	-	(41,818)
335	182	6,441
9,376	526	68,872
-	-	(49)
9,376	526	68,823
$ 9,711	$ 708	$ 75,264

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 68,257	$ 8,016	$ 43,882	$ 6,854
Payments to suppliers for goods and services	(67,481)	(290)	(7,990)	(3,433)
Payments to employees	(2,218)	(305)	(1,600)	(2,601)
Grant receipts	-	-	-	-
Grant payments	-	-	-	-
Cash payments for claims	-	(6,739)	-	-
Cash payments for prizes	-	-	(22,727)	-
Other operating revenues	160	-	-	-
Other operating payments	-	(793)	-	-
Net cash provided by (used for) operating activities	(1,282)	(111)	11,565	820
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	20,340	-	-	-
Transfers to other funds	(20,335)	(83)	(11,599)	-
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	-	-	-	-
Net cash provided by (used for) noncapital financing activities	5	(13)	(11,599)	(18)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(111)	-	(62)	(170)
Proceeds from sale of capital assets	-	-	1	-
Net cash used for capital and related financing activities	(111)	-	(61)	(170)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	(1,201)	(140)	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	13	-	-
Interest and dividends on investments	-	430	86	-
Payment of securities lending costs	-	(10)	-	-
Net cash provided by (used for) investing activities	-	(768)	(54)	-
Net increase (decrease) in cash and cash equivalents	(1,388)	(892)	(149)	632
Cash and cash equivalents, July 1	3,758	12,559	1,839	1,156
Cash and cash equivalents, June 30	$ 2,370	$ 11,667	$ 1,690	$ 1,788

MUS GROUP INSURANCE		MUS WORKERS COMPENSATION		SUBSEQUENT INJURY		SECRETARY OF STATE BUSINESS SERVICES		HISTORICAL SOCIETY PUBLICATIONS		SURPLUS PROPERY
64,145	$	4,454	$	390	$	4,925	$	716	$	658
(4,132)		-		-		(1,964)		(465)		(420)
(318)		(378)		-		(2,921)		(363)		(228)
-		-		-		-		58		-
-		-		-		-		-		-
(54,389)		(1,658)		(727)		-		-		-
-		(470)		-		-		-		-
1,320		-		4		51		4		-
-		(37)		-		-		-		-
6,626		1,911		(333)		91		(50)		10
-		(5)		-		-		-		-
-		-		(122)		-		(45)		-
-		-		-		-		94		-
-		-		-		-		(82)		-
-		-		-		-		-		-
-		(442)		-		-		-		-
-		(447)		(122)		-		(33)		-
-		-		-		(145)		-		(14)
-		-		-		-		-		-
-		-		-		(145)		-		(14)
(3,415)		(840)		(619)		(365)		-		-
-		650		1,005		-		-		-
44		6		25		5		-		-
1,283		341		63		145		-		-
(34)		-		(22)		(4)		-		-
(2,122)		157		452		(219)		-		-
4,504		1,621		(3)		(273)		(83)		(4)
30,102		7,731		127		3,942		241		10
34,606	$	9,352	$	124	$	3,669	$	158		6

(Continued on Next Page)

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

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	$ 48	$ 359	$ 11,291
Payments to suppliers for goods and services	(120)	(76)	(229)
Payments to employees	(133)	(187)	-
Grant receipts	-	-	-
Grant payments	-	-	-
Cash payments for claims	-	-	(10,825)
Cash payments for prizes	-	-	-
Other operating revenues	126	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	(79)	96	237
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	14	-	-
Proceeds from interfund loans/advances	(6)	-	-
Payments of interfund loans/advances	-	-	-
Payment of principal and interest on bonds and notes	-	-	-
Net cash provided by (used for) noncapital financing activities	8	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(11)	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	(11)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	(54)
Proceeds from sales or maturities of investments	-	-	-
Proceeds from securities lending transactions	-	-	1
Interest and dividends on investments	-	-	23
Payment of securities lending costs	-	-	(1)
Net cash provided by (used for) investing activities	-	-	(31)
Net increase (decrease) in cash and cash equivalents	(82)	96	206
Cash and cash equivalents, July 1	430	220	934
Cash and cash equivalents, June 30	$ 348	$ 316	$ 1,140

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 135	$ 1,910	$ 216,040
(33,472)	(954)	(121,026)
(914)	(456)	(12,622)
35,779	-	35,837
(1,305)	-	(1,305)
-	-	(74,338)
-	-	(23,197)
1	112	1,778
-	-	(830)
224	612	20,337
-	-	20,335
-	-	(32,184)
-	-	108
-	-	(18)
-	-	(18)
-	-	(442)
-	-	(12,219)
(1)	(12)	(526)
-	-	1
(1)	(12)	(525)
(672)	(17)	(7,323)
-	-	1,655
-	-	94
363	5	2,739
(9)	5	(75)
(318)	(7)	(2,910)
(95)	593	4,683
8,089	488	71,626
$ 7,994	$ 1,081	$ 76,309

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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)	$ 10,031	$ (2,919)	$ 11,030	$ 542
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	95	-	43	322
Amortization	-	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	10	4	-
Investment earnings	-	(430)	(182)	-
Securities lending income	-	(13)	(4)	-
Federal indirect cost recoveries	-	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(473)	731	(30)	(87)
Decr (incr) in due from other funds	6	1	-	(138)
Decr (incr) in due from component units	(1)	-	-	8
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(7)	-	215	(211)
Decr (incr) in other assets	-	-	(48)	-
Incr (decr) in accounts payable	363	5	(115)	20
Incr (decr) in lottery prizes payable	-	-	419	-
Incr (decr) in due to other funds	(11,105)	(47)	15	193
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	136	(421)	84	28
Incr (decr) in amounts held in custody for others	(505)	-	-	-
Incr (decr) in compensated absences payable	54	4	30	32
Incr (decr) in OPEB implicit rate subsidy	124	12	104	111
Incr (decr) in estimated claims	-	2,956	-	-
Net cash provided by (used for) operating activities	$ (1,282)	$ (111)	$ 11,565	$ 820
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 PROPERY
7,063	$ 1,895	$ (412)	$ (262)	$ (119)	$ (344)
-	-	-	31	-	12
-	9	-	146	-	-
-	13	-	-	-	-
34	-	22	4	-	-
(1,283)	(341)	(56)	(145)	-	-
(44)	-	(25)	(5)	-	-
-	-	-	-	-	-
274	-	(47)	(15)	13	23
-	-	(16)	(7)	8	(1)
123	(205)	(54)	(4)	-	-
-	-	-	-	-	-
-	-	-	6	1	297
-	(250)	-	(9)	-	-
187	(37)	(99)	61	3	(9)
-	-	-	-	-	-
(15)	(34)	-	24	(2)	10
17	-	-	-	-	2
-	-	-	-	-	-
(4)	-	-	(10)	39	-
-	-	-	-	-	-
10	5	-	90	(20)	6
14	2	-	186	27	14
250	854	354	-	-	-
6,626	$ 1,911	$ (333)	$ 91	$ (50)	$ 10
-	$ -	$ -	$ -	$ -	$ -
-	$ 9	$ -	$ -	$ -	$ -
-	$ 21	$ -	$ -	$ -	$ -
-	$ 30	$ -	$ -	$ -	$ -

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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)	$ (183)	$ 74	$ 437
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	114	-	-
Amortization	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	1
Investment earnings	-	-	(23)
Securities lending income	-	-	(1)
Federal indirect cost recoveries	(8)	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	(128)	-	(48)
Decr (incr) in due from other funds	9	-	-
Decr (incr) in due from component units	-	-	(2)
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	-
Incr (decr) in accounts payable	107	9	(127)
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	(1)	-	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	-	-	-
Incr (decr) in amounts held in custody for others	1	-	-
Incr (decr) in compensated absences payable	3	2	-
Incr (decr) in OPEB implicit rate subsidy	7	11	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for) operating activities	$ (79)	$ 96	$ 237
Schedule of noncash transactions:			
Capital asset acquisitions from contributed capital	$ 200	$ -	$ -
Amortization of bond issuance costs	$ -	$ -	$ -
Incr (decr) in fair value of investments	$ -	$ -	$ -
Total noncash transactions	$ 200	$ -	$ -

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 335	$ 168	$ 27,336
3	5	625
6	-	161
-	-	13
9	-	84
(352)	(5)	(2,817)
(11)	-	(103)
-	-	(8)
24	-	237
-	81	(57)
-	-	(135)
88	-	88
-	(2)	299
(1)	-	(308)
(1)	48	415
-	-	419
-	3	(10,959)
-	-	19
53	7	60
-	269	121
-	-	(504)
12	12	240
59	26	697
-	-	4,414
$ 224	$ 612	$ 20,337
$ -	$ 14	$ 214
$ -	$ -	$ 9
$ -	$ -	$ 21
$ -	$ 14	$ 244

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 State Lands 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, 2008
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 64	$ 3,505	$ 26,112	$ 3,386	$ 21,948
Receivables (net)	12	167	4,595	63	45
Interfund loans receivable	-	-	-	483	-
Due from other funds	263	38	36	3,494	18
Due from component units	-	-	-	230	-
Inventories	-	1,659	-	-	-
Securities lending collateral	-	-	12,898	-	878
Other current assets	-	-	16	59	-
Total current assets	339	5,369	43,657	7,715	22,889
Noncurrent assets:					
Long-term investments	-	-	23,155	-	1,869
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	10,803	129,280	-	44,729	-
Construction in progress	-	5,870	-	-	-
Intangible assets	19	-	79	-	130
Less accumulated depreciation	(4,411)	(71,804)	-	(39,758)	-
Total capital assets	6,411	63,346	79	5,764	130
Total noncurrent assets	6,411	63,346	23,234	5,764	1,999
Total assets	6,750	68,715	66,891	13,479	24,888
LIABILITIES					
Current liabilities:					
Accounts payable	459	2,464	2,929	5,806	508
Interfund loans payable	490	-	-	-	-
Due to other funds	1	1	5	58	66
Due to component units	-	2	-	17	27
Deferred revenue	-	-	975	87	-
Lease/installment purchase payable	-	-	-	-	-
Securities lending liability	-	-	12,898	-	878
Estimated insurance claims	-	-	8,787	-	4,655
Compensated absences payable	4	368	19	657	51
Total current liabilities	954	2,835	25,613	6,625	6,185
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Estimated insurance claims	-	-	1,313	-	11,843
Compensated absences payable	9	527	45	1,222	115
OPEB implicit rate subsidy	9	389	36	543	46
Total noncurrent liabilities	18	916	1,394	1,765	12,004
Total liabilities	972	3,751	27,007	8,390	18,189
NET ASSETS					
Invested in capital assets, net of related debt	6,412	63,346	79	5,764	130
Unrestricted	(634)	1,618	39,805	(675)	6,569
Total net assets	$ 5,778	$ 64,964	$ 39,884	$ 5,089	$ 6,699

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 280	$ 414	$ 242	$ 2,545	$ 242	$ 789	$ 384	$ 309
69	-	60	-	-	-	-	-
225	-	-	-	-	-	100	-
199	539	651	57	-	364	-	363
9	12	16	-	-	28	2	-
305	24	136	-	-	-	-	-
-	-	-	-	-	-	-	-
8	-	562	-	1	3	1	-
1,095	989	1,667	2,602	243	1,184	487	672
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	32	-	-	-	-
115	17,629	1,826	454	-	280	78	-
-	-	-	33	-	-	-	-
-	-	-	-	-	49	2	-
(101)	(7,253)	(1,040)	(220)	-	(186)	(12)	-
14	10,612	786	394	-	143	68	-
14	10,612	786	394	-	143	68	-
1,109	11,601	2,453	2,996	243	1,327	555	672
235	453	260	539	54	199	77	118
-	801	-	-	-	-	-	-
2	2,363	13	11	4	11	9	23
2	-	-	-	1	-	-	-
-	-	-	-	-	-	-	-
-	-	29	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
22	21	73	70	25	180	67	62
261	3,638	375	620	84	390	153	203
-	6,872	-	-	-	-	-	-
-	-	59	-	-	-	-	-
-	-	-	-	-	-	-	-
47	21	87	93	117	269	127	103
28	20	110	90	39	165	55	74
75	6,913	256	183	156	434	182	177
336	10,551	631	803	240	824	335	380
14	10,612	786	394	-	144	68	-
759	(9,562)	1,036	1,799	3	359	152	292
$ 773	$ 1,050	$ 1,822	$ 2,193	$ 3	$ 503	$ 220	$ 292

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
INTERNAL SERVICE FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 653	$ 259	$ 97	$ 1,009	$ 257
Receivables (net)	4	-	-	-	-
Interfund loans receivable	-	-	-	-	-
Due from other funds	408	3	77	37	220
Due from component units	2	-	20	38	-
Inventories	-	-	37	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	1	-	-	34	-
Total current assets	1,068	262	231	1,118	477
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	544	-	149	10	62
Construction in progress	-	-	-	-	-
Intangible assets	12	471	-	-	-
Less accumulated depreciation	(329)	-	(55)	(6)	(32)
Total capital assets	227	471	94	4	30
Total noncurrent assets	227	471	94	4	30
Total assets	1,295	733	325	1,122	507
LIABILITIES					
Current liabilities:					
Accounts payable	259	120	23	216	102
Interfund loans payable	-	-	-	-	-
Due to other funds	84	86	63	9	52
Due to component units	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Lease/installment purchase payable	-	-	14	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	175	60	5	93	26
Total current liabilities	518	266	105	318	180
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	57	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	245	47	15	203	69
OPEB implicit rate subsidy	164	82	19	87	35
Total noncurrent liabilities	409	129	91	290	104
Total liabilities	927	395	196	608	284
NET ASSETS					
Invested in capital assets, net of related debt	227	471	94	3	30
Unrestricted	141	(133)	35	511	193
Total net assets	$ 368	$ 338	$ 129	$ 514	$ 223

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 72	$ 29	$ 270	$ 627	$ 95	$ 536	$ 64,124
-	10	-	44	-	-	5,069
-	-	-	-	-	-	808
168	15	-	372	4	-	7,326
3	1	2	-	-	-	363
-	-	-	139	114	-	2,414
-	-	-	-	-	-	13,776
-	-	-	-	-	-	685
243	55	272	1,182	213	536	94,565
-	-	-	-	-	-	25,024
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	2,820	-	-	3,645
-	-	-	1,273	93	66	207,391
-	-	-	-	-	533	6,436
-	-	-	-	-	242	1,004
-	-	-	(1,374)	(73)	(59)	(126,713)
-	-	-	2,719	20	782	92,094
-	-	-	2,719	20	782	117,118
243	55	272	3,901	233	1,318	211,683
73	18	15	95	22	89	15,133
-	-	-	18	3	-	1,312
16	1	1	72	-	138	3,089
-	-	-	-	-	-	49
-	2	-	10	-	-	1,074
-	-	-	-	-	-	43
-	-	-	-	-	-	13,776
-	-	-	-	-	-	13,442
51	12	2	39	3	110	2,195
140	33	18	234	28	337	50,113
-	-	-	-	-	-	6,872
-	-	-	-	-	-	116
-	-	-	-	-	-	13,156
147	22	2	41	3	129	3,705
48	10	6	77	6	50	2,188
195	32	8	118	9	179	26,037
335	65	26	352	37	516	76,150
-	-	-	2,719	21	781	92,095
(92)	(10)	246	830	175	21	43,438
$ (92)	$ (10)	$ 246	$ 3,549	$ 196	$ 802	$ 135,533

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 2,803	$ 27,434	$ 68	$ 34,785	$ -
Investment earnings	-	-	1,836	-	1,114
Securities lending income	-	-	131	-	36
Contributions/premiums	-	-	113,849	-	12,350
Grants/contracts/donations	-	-	1,555	-	-
Other operating revenues	-	160	1,229	109	-
Total operating revenues	2,803	27,594	118,668	34,894	13,500
Operating expenses:					
Personal services	109	6,995	795	13,559	885
Contractual services	106	458	5,946	2,100	4,698
Supplies/materials	1,362	8,440	48	1,905	19
Benefits/claims	9	389	104,606	543	10,402
Depreciation	453	5,866	-	2,680	-
Amortization	7	-	49	-	28
Utilities/rent	26	138	74	8,996	68
Communications	5	9	55	6,152	17
Travel	10	39	7	209	21
Repair/maintenance	692	3,283	-	2,152	6
Interest expense	-	-	-	-	-
Securities lending expense	-	-	107	-	28
Other operating expenses	3	239	601	892	96
Total operating expenses	2,782	25,856	112,288	39,188	16,268
Operating income (loss)	21	1,738	6,380	(4,294)	(2,768)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	97
Gain (loss) on sale of capital assets	(76)	61	-	-	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(76)	61	-	-	97
Income (loss) before contributions and transfers	(55)	1,799	6,380	(4,294)	(2,671)
Capital contributions	-	632	-	-	-
Transfers in	136	659	-	-	1,681
Transfers out	-	-	-	-	(942)
Change in net assets	81	3,090	6,380	(4,294)	(1,932)
Total net assets - July 1 - as previously reported	5,705	62,005	33,504	9,945	8,631
Prior period adjustments	(8)	(131)	-	(562)	-
Total net assets - July 1 - as restated	5,697	61,874	33,504	9,383	8,631
Total net assets - June 30	$ 5,778	$ 64,964	39,884	$ 5,089	$ 6,699

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,995	$ 5,904	$ 10,688	$ 10,467	$ 985	$ 3,261	$ 25	$ 822
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	2	-	-	-	-	1,290	6
4,995	5,906	10,688	10,467	985	3,261	1,315	828
396	337	1,410	1,517	855	2,940	1,138	1,295
42	352	87	2,932	43	821	33	312
4,417	2,070	4,621	131	26	125	45	99
28	20	110	90	39	165	55	74
1	2,518	213	33	-	20	8	-
-	-	-	-	-	-	2	-
100	87	218	2,580	39	207	91	263
18	2	3,588	26	14	43	20	77
-	-	-	1	8	32	31	21
2	296	473	1,064	3	20	7	22
-	277	-	-	-	-	-	-
-	-	-	-	-	-	-	-
23	45	103	171	17	247	13	30
5,027	6,004	10,823	8,545	1,044	4,620	1,443	2,193
(32)	(98)	(135)	1,922	(59)	(1,359)	(128)	(1,365)
-	23	-	738	-	-	-	-
-	(69)	(10)	2	-	(5)	-	-
-	-	-	-	-	1,659	198	859
-	(46)	(10)	740	-	1,654	198	859
(32)	(144)	(145)	2,662	(59)	295	70	(506)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(1,061)	-	-	-	-
(32)	(144)	(145)	1,601	(59)	295	70	(506)
805	1,194	1,967	590	62	181	150	798
-	-	-	2	-	27	-	-
805	1,194	1,967	592	62	208	150	798
$ 773	$ 1,050	$ 1,822	$ 2,193	$ 3	$ 503	$ 220	$ 292

(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, 2008
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 3,273	$ 3,290	$ 1,211	$ 4,586	$ 1,233
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	9	-	-	-	-
Grants/contracts/donations	-	-	-	-	8
Other operating revenues	19	-	-	-	1
Total operating revenues	3,301	3,290	1,211	4,586	1,242
Operating expenses:					
Personal services	3,264	1,667	216	2,360	915
Contractual services	595	1,102	202	1,078	55
Supplies/materials	254	20	25	52	385
Benefits/claims	164	82	19	87	35
Depreciation	78	-	22	-	4
Amortization	6	182	-	-	-
Utilities/rent	1,209	53	16	151	131
Communications	44	42	552	51	10
Travel	39	7	-	54	25
Repair/maintenance	15	388	22	1	549
Interest expense	-	-	8	-	-
Securities lending expense	-	-	-	-	-
Other operating expenses	108	49	14	568	7
Total operating expenses	5,776	3,592	1,096	4,402	2,116
Operating income (loss)	(2,475)	(302)	115	184	(874)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	(4)	-	-	-	-
Federal indirect cost recoveries	2,015	-	-	-	-
Total nonoperating revenues (expenses)	2,011	-	-	-	-
Income (loss) before contributions and transfers	(464)	(302)	115	184	(874)
Capital contributions	-	1,586	-	-	-
Transfers in	-	-	-	-	977
Transfers out	(69)	-	-	-	-
Change in net assets	(533)	1,284	115	184	103
Total net assets - July 1 - as previously reported	898	(1,508)	14	330	120
Prior period adjustments (Note 3)	3	562	-	-	-
Total net assets - July 1 - as restated	901	(946)	14	330	120
Total net assets - June 30	$ 368	$ 338	$ 129	$ 514	$ 223

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,324	$ 321	$ 96	$ 3,772	$ 173	$ 4,117	$ 125,633
-	-	-	-	-	-	2,950
-	-	-	-	-	-	167
-	-	-	-	-	-	126,208
-	-	-	-	-	-	1,563
-	-	-	-	-	2	2,818
1,324	321	96	3,772	173	4,119	259,339
1,071	187	67	1,099	137	1,018	44,232
79	38	7	35	8	1,770	22,899
24	34	1	2,443	130	38	26,714
48	10	6	77	6	50	117,114
-	-	-	218	7	-	12,121
-	-	-	-	-	105	379
63	34	2	116	7	24	14,693
13	4	6	2	1	9	10,760
7	16	-	4	-	21	552
5	2	-	45	16	531	9,594
-	-	-	-	-	-	285
-	-	-	-	-	-	135
8	6	3	7	1	75	3,326
1,318	331	92	4,046	313	3,641	262,804
6	(10)	4	(274)	(140)	478	(3,465)
-	-	-	-	-	-	858
-	-	-	-	-	-	(101)
-	-	-	-	158	-	4,889
-	-	-	-	158	-	5,646
6	(10)	4	(274)	18	478	2,181
-	-	-	-	-	508	2,726
-	-	-	-	-	-	3,453
-	-	-	-	(4)	(1,586)	(3,662)
6	(10)	4	(274)	14	(600)	4,698
(98)	-	242	3,823	182	(184)	129,356
-	-	-	-	-	1,586	1,479
(98)	-	242	3,823	182	1,402	130,835
$ (92)	$ (10)	$ 246	$ 3,549	$ 196	$ 802	$ 135,533

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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	$ 2,755	$ 27,408	$ 114,077	$ 34,328	$ 12,407
Payments to suppliers for goods and services	(2,085)	(11,542)	(6,674)	(17,615)	(4,979)
Payments to employees	(105)	(6,527)	(767)	(14,311)	(855)
Grant receipts	-	-	1,555	-	-
Cash payments for claims	-	-	(106,717)	-	(8,863)
Other operating revenues	-	-	1,114	108	-
Net cash provided by (used for) operating activities	565	9,339	2,588	2,510	(2,290)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfers to other funds	-	-	-	-	(942)
Transfers from other funds	136	659	42	-	1,681
Proceeds from interfund loans/advances	(85)	-	-	(609)	-
Payment of interfund loans/advances	-	(900)	-	-	-
Contributed capital transfers from other funds	-	-	-	-	-
Residual equity transfers to other funds	-	-	-	184	-
Net cash provided by (used for) noncapital financing activities	51	(241)	42	(425)	739
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	98
Acquisition of capital assets	(737)	(6,532)	-	(2,661)	(70)
Proceeds from sale of capital assets	21	203	-	-	-
Net cash used for capital and related financing activities	(716)	(6,329)	-	(2,661)	28
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(18,407)	-	(1,868)
Proceeds from securities lending transactions	-	-	123	-	36
Interest and dividends on investments	-	-	1,881	-	1,114
Payment of securities lending costs	-	-	(107)	-	(29)
Net cash provided by (used for) investing activities	-	-	(16,510)	-	(747)
Net increase (decrease) in cash and cash equivalents	(100)	2,769	(13,880)	(576)	(2,270)
Cash and cash equivalents, July 1	164	736	39,992	3,962	24,218
Cash and cash equivalents, June 30	$ 64	$ 3,505	$ 26,112	$ 3,386	$ 21,948

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,926	$ 5,712	$ 10,718	$ 10,511	$ 985	$ 3,034	$ 23	$ 767
(4,474)	(2,639)	(9,166)	(6,739)	(144)	(1,495)	(169)	(836)
(387)	(314)	(1,482)	(1,473)	(817)	(3,059)	(1,125)	(1,332)
-	-	-	-	-	1,594	209	978
-	-	-	-	-	-	-	-
-	2	-	-	-	-	1,290	6
65	2,761	70	2,299	24	74	228	(417)
-	(388)	-	-	-	-	-	-
-	-	-	(1,061)	-	-	(100)	(1)
-	-	-	-	-	-	-	-
-	2,427	-	-	-	-	-	-
-	(2,735)	-	-	-	-	-	-
-	23	-	738	-	-	-	-
-	-	-	-	-	-	-	-
-	(673)	-	(323)	-	-	(100)	(1)
-	-	-	-	-	-	-	-
-	(2,090)	(54)	(48)	-	(90)	(71)	-
-	321	3	-	-	-	-	-
-	(1,769)	(51)	(48)	-	(90)	(71)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
65	319	19	1,928	24	(16)	57	(418)
215	95	223	617	218	805	327	727
$ 280	$ 414	$ 242	$ 2,545	$ 242	$ 789	$ 384	$ 309

(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
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 3,188	$ 3,287	$ 1,190	$ 4,564
Payments to suppliers for goods and services	(2,190)	(1,557)	(866)	(1,868)
Payments to employees	(3,211)	(1,584)	(216)	(2,452)
Grant receipts	1,967	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	19	-	-	-
Net cash provided by (used for) operating activities	(227)	146	108	244
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes	-	-	-	-
Transfers to other funds	-	-	-	-
Transfers from other funds	(69)	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Contributed capital transfers from other funds	(2)	1,586	-	-
Residual equity transfers to other funds	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(71)	1,586	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	49	(1,585)	(11)	(3)
Proceeds from sale of capital assets	-	-	-	-
Net cash used for capital and related financing activities	49	(1,585)	(11)	(3)
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	(249)	147	97	241
Cash and cash equivalents, July 1	902	112	-	768
Cash and cash equivalents, June 30	$ 653	$ 259	$ 97	$ 1,009

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,203	$ 1,240	$ 306	$ 94	$ 3,715	$ 179	$ 4,117	$ 250,734
(1,132)	(200)	(127)	(7)	(2,770)	(134)	(2,314)	(81,722)
(919)	(1,016)	(182)	(10)	(1,078)	(146)	(706)	(44,074)
-	-	-	-	-	-	-	6,303
-	-	-	-	-	-	-	(115,580)
1	-	-	-	-	-	2	2,542
(847)	24	(3)	77	(133)	(101)	1,099	18,203
-	-	-	-	-	-	-	(388)
-	-	-	-	-	(4)	(1,586)	(3,694)
976	-	-	-	-	158	-	3,583
-	-	-	-	18	1	-	1,752
-	-	-	-	-	-	-	(3,635)
8	-	-	-	-	-	508	2,861
-	-	-	-	-	-	(184)	-
984	-	-	-	18	155	(1,262)	479
-	-	-	-	-	-	-	98
(21)	-	-	-	(30)	-	596	(13,358)
-	-	-	-	-	-	103	651
(21)	-	-	-	(30)	-	699	(12,609)
-	-	-	-	-	-	-	(20,275)
-	-	-	-	-	-	-	159
-	-	-	-	-	-	-	2,995
-	-	-	-	-	-	-	(136)
-	-	-	-	-	-	-	(17,257)
116	24	(3)	77	(145)	54	536	(11,184)
141	48	32	193	772	40	-	75,307
$ 257	$ 72	$ 29	$ 270	$ 627	$ 94	$ 536	$ 64,123

(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)

	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)	$ 21	$ 1,738	$ 6,380	$ (4,294)	$ (2,768)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	453	5,866	-	2,680	-
Amortization	7	-	49	-	28
Interest expense	-	-	-	-	-
Securities lending expense	-	-	107	-	28
Investment earnings	-	-	(1,836)	-	(1,114)
Securities lending income	-	-	(131)	-	(36)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	1	(155)	14	14	57
Decr (incr) in due from other funds	(51)	(31)	(36)	(687)	(13)
Decr (incr) in due from component units	-	-	1	34	1
Decr (incr) in due from other governments	1	-	-	-	-
Decr (incr) in inventories	-	(32)	-	-	-
Decr (incr) in other assets	5	-	(7)	29	-
Incr (decr) in accounts payable	118	1,553	387	4,160	90
Incr (decr) in due to other funds	(2)	-	(1)	(36)	18
Incr (decr) in due to component units	-	2	-	4	(28)
Incr (decr) in deferred revenue	-	-	48	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-	-
Incr (decr) in compensated absences payable	3	9	21	63	24
Incr (decr) in OPEB implicit rate subsidy	9	389	-	543	46
Incr (decr) in estimated claims	-	-	(2,408)	-	1,377
Net cash provided by (used for) operating activities	$ 565	$ 9,339	$ 2,588	$ 2,510	$ (2,290)
Schedule of noncash transactions:					
Capital contributions from other funds	$ -	$ 632	$ -	$ -	$ -
Total noncash transactions	$ -	$ 632	$ -	$ -	$ -

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
	$ (32)	$ (98)	$ (135)	$ 1,922	$ (59)	$ (1,359)	$ (128)	$ (1,365)
	1	2,518	213	33	-	20	8	-
	-	-	-	-	-	-	2	-
	-	277	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	1,659	198	859
	(1)	-	(18)	-	-	-	-	-
	(22)	(184)	18	(21)	-	(284)	66	65
	(2)	(7)	45	-	-	(6)	9	1
	-	-	-	-	-	-	-	-
	75	(1)	(23)	-	-	-	-	-
	(1)	-	(243)	-	-	41	-	-
	11	196	77	198	11	(64)	7	(35)
	(1)	38	(2)	10	1	(31)	4	(29)
	2	-	-	-	1	-	-	-
	-	-	-	25	-	-	-	-
	-	-	-	-	-	-	-	-
	7	2	28	42	31	(67)	7	13
	28	20	110	90	39	165	55	74
	-	-	-	-	-	-	-	-
	$ 65	$ 2,761	$ 70	$ 2,299	$ 24	$ 74	$ 228	$ (417)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(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)	$ (2,475)	$ (302)	$ 115	$ 184
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	78	-	22	-
Amortization	6	182	-	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	2,015	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(3)	-	-	-
Decr (incr) in due from other funds	(156)	(3)	(18)	(11)
Decr (incr) in due from component units	5	-	(3)	(11)
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	-	-	20	-
Decr (incr) in other assets	(16)	-	-	39
Incr (decr) in accounts payable	50	78	(34)	(7)
Incr (decr) in due to other funds	53	77	(22)	(15)
Incr (decr) in due to component units	-	-	-	(8)
Incr (decr) in deferred revenue	-	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-
Incr (decr) in compensated absences payable	52	32	9	(14)
Incr (decr) in OPEB implicit rate subsidy	164	82	19	87
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	$ (227)	$ 146	$ 108	$ 244
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
$ (874)	$ 6	$ (10)	$ 4	$ (274)	$ (140)	$ 478	$ (3,465)
4	-	-	-	218	7	-	12,121
-	-	-	-	-	-	105	379
-	-	-	-	-	-	-	277
-	-	-	-	-	-	-	135
-	-	-	-	-	-	-	(2,950)
-	-	-	-	-	-	-	(167)
-	-	-	-	-	-	-	4,731
-	-	(6)	-	(11)	-	-	(108)
(97)	(83)	(10)	63	(93)	6	-	(1,582)
-	(2)	(1)	(2)	-	-	-	62
6	-	-	-	-	-	-	7
-	-	-	-	45	12	-	96
-	1	-	-	8	-	-	(144)
6	10	8	7	6	6	90	6,929
52	14	-	-	(122)	(1)	138	143
-	-	-	-	-	-	-	(27)
-	-	2	-	10	-	-	85
-	-	-	-	-	-	-	-
21	30	4	(1)	3	3	238	560
35	48	10	6	77	6	50	2,152
-	-	-	-	-	-	-	(1,031)
$ (847)	$ 24	$ (3)	$ 77	$ (133)	$ (101)	$ 1,099	$ 18,203
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 632
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 632

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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, 2008
(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	$ 44,520	$ 92	$ 1,580	$ 3,408	$ 1,078	$ 971
Receivables (net):						
Accounts receivable	1,247	119	99	203	-	-
Interest	9,443	469	451	459	235	143
Due from primary government	28	9,452	9,568	-	-	-
Due from other PERB plans	321	-	-	-	-	-
Long-term notes/loans receivable	69	-	-	-	-	-
Total receivables	11,108	10,040	10,118	662	235	143
Investments at fair value:						
Equity in pooled investments	3,754,073	190,496	183,002	184,521	94,882	57,593
Other investments	45,229	9	162	340	104	99
Total investments	3,799,302	190,505	183,164	184,861	94,986	57,692
Securities lending collateral	234,521	11,785	11,404	11,583	5,915	3,610
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(5)	-	-	-	-	-
Intangible assets	281	3	3	4	3	3
Total capital assets	281	3	3	4	3	3
Other assets	-	-	-	-	-	-
Total assets	4,089,732	212,425	206,269	200,518	102,217	62,419
LIABILITIES						
Accounts payable	444	-	-	18	-	-
Due to primary government	37	-	-	-	-	-
Due to other PERB plans	161	65	54	76	26	7
Deferred revenue	68	89	3	-	-	-
Securities lending liability	234,521	11,785	11,404	11,583	5,915	3,610
Compensated absences payable	253	-	-	-	-	-
OPEB implicit rate subsidy	72	2	1	2	1	-
Total liabilities	235,556	11,941	11,462	11,679	5,942	3,617
NET ASSETS						
Held in trust for pension benefits and other purposes	$ 3,854,176	$ 200,484	$ 194,807	$ 188,839	$ 96,275	$ 58,802

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
$ 1,773	$ 1,410	$ 2,054	$ 654	$ 31,811	$ 851	$ 90,202
-	-	-	2	18,946	-	20,616
178	60	4	1	7,292	-	18,735
-	-	-	-	3,241	-	22,289
-	-	162	-	-	-	483
-	-	-	-	-	-	69
178	60	166	3	29,479	-	62,192
71,182	24,443	-	-	2,893,545	-	7,453,737
181	145	42,939	296,968	38,547	896	425,619
71,363	24,588	42,939	296,968	2,932,092	896	7,879,356
4,497	1,581	88	31	180,987	-	466,002
-	-	-	-	35	-	35
-	-	-	-	158	-	158
-	-	-	-	64	-	69
-	-	-	-	(193)	-	(198)
3	2	4	14	252	-	572
3	2	4	14	316	-	636
-	-	-	-	1	853	854
77,814	27,641	45,251	297,670	3,174,686	2,600	8,499,242
18	-	198	212	86	-	976
-	-	2	-	14	-	53
49	44	1	-	-	-	483
1	-	-	1	-	-	162
4,497	1,581	88	31	180,987	-	466,002
-	-	15	12	159	-	439
1	1	7	5	47	-	139
4,566	1,626	311	261	181,293	-	468,254
$ 73,248	$ 26,015	$ 44,940	$ 297,409	$ 2,993,393	$ 2,600	$ 8,030,988

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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	$ 72,242	$ 5,156	$ 4,467	$ 4,834	$ 3,949	$ 1,315
Employee	72,680	2,968	3,152	4,776	1,082	386
Other contributions	599	9,457	9,568	38	289	-
Net investment earnings:						
Investment earnings	(179,440)	(9,384)	(8,892)	(8,760)	(4,491)	(2,727)
Administrative investment expense	(19,841)	(993)	(950)	(949)	(495)	(299)
Securities lending income	12,314	628	600	603	311	189
Securities lending expense	(10,064)	(513)	(491)	(493)	(254)	(154)
Charges for services	-	-	-	-	-	-
Other additions	-	-	-	-	-	-
Total additions	(51,510)	7,319	7,454	49	391	(1,290)
DEDUCTIONS						
Benefits	180,887	13,708	13,355	7,245	6,814	1,829
Refunds	12,783	4,293	116	733	75	-
Administrative expenses:						
Personal services	1,549	6	-	-	-	-
Contractual services	747	5	-	2	1	1
Supplies/materials	52	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Amortization	64	1	1	1	1	1
Utilities/rent	199	-	-	-	-	-
Communications	112	-	-	-	-	-
Travel	34	-	-	-	-	-
Repair/maintenance	1	-	-	-	-	-
Other operating expenses	-	65	54	76	26	7
Local assistance	-	-	-	-	-	-
Transfers to ORP	250	-	-	-	-	-
Transfers to PERS-DCRP	1,077	-	-	-	-	-
Total deductions	197,755	18,078	13,526	8,057	6,917	1,838
Change in net assets	(249,265)	(10,759)	(6,072)	(8,008)	(6,526)	(3,128)
Net assets - July 1 - as previously reported	4,103,436	211,243	200,879	196,847	102,801	61,930
Prior period adjustments	5	-	-	-	-	-
Net assets - July 1 - as restated	4,103,441	211,243	200,879	196,847	102,801	61,930
Net assets - June 30	$ 3,854,176	$ 200,484	$ 194,807	$ 188,839	$ 96,275	$ 58,802

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)						
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE-FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 2,979	$ -	$ 3,255	$ 71	$ 67,922	$ 749	$ 166,939
3,595	-	5,118	19,107	59,553	-	172,417
18	1,562	-	-	13,492	-	35,023
(3,334)	(1,161)	(2,988)	3,854	(139,628)	357	(356,594)
(361)	(129)	-	(567)	(15,426)	-	(40,010)
229	81	2	1	9,544	-	24,502
(187)	(66)	(2)	(1)	(7,803)	-	(20,028)
-	-	216	416	-	-	632
-	-	338	-	16	-	354
2,939	287	5,939	22,881	(12,330)	1,106	(16,765)
2,272	1,718	2,526	13,307	196,108	-	439,769
672	-	-	-	5,695	-	24,367
-	-	133	96	964	-	2,748
1	-	83	76	427	-	1,343
-	-	5	3	23	-	83
-	-	-	-	20	-	20
1	1	1	46	76	-	194
-	-	15	10	58	-	282
-	-	3	5	37	-	157
-	-	5	5	22	-	66
-	-	-	-	50	-	51
52	44	216	813	72	-	1,425
-	14	-	-	-	-	14
-	-	-	-	-	-	250
-	-	-	-	-	-	1,077
2,998	1,777	2,987	14,361	203,552	-	471,846
(59)	(1,490)	2,952	8,520	(215,882)	1,106	(488,611)
73,307	27,505	41,988	288,889	3,209,275	1,494	8,519,594
-	-	-	-	-	-	5
73,307	27,505	41,988	288,889	3,209,275	1,494	8,519,599
$ 73,248	$ 26,015	$ 44,940	$ 297,409	$ 2,993,393	$ 2,600	$ 8,030,988

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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 1 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, 2008
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	$ 123,359	$ 1,047	$ -	$ 42
Receivables (net):				
Interest	-	2	-	-
Total receivables	-	2	-	-
Investments at fair value:				
Other investments	119,057	97	-	5
Total investments	119,057	97	-	5
Securities lending collateral	-	46	-	2
Other assets	-	-	10,641	-
Total assets	242,416	1,192	10,641	49
LIABILITIES				
Accounts payable	-	3	-	-
Securities lending liability	-	46	-	2
Total liabilities	-	49	-	2
NET ASSETS				
Held in trust for other purposes	$ 242,416	$ 1,143	$ 10,641	$ 47

MOORE-SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
$ 218	$ 3,887	$ 128,553
-	9	11
-	9	11
22	105	119,286
22	105	119,286
10	49	107
-	3,037	13,678
250	7,087	261,635
-	7	10
10	49	107
10	56	117
$ 240	$ 7,031	$ 261,518

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Participant contributions	$ 52,153	$ -	$ 5,472	$ -
Net investment earnings:				
Investment earnings	5,334	37	-	2
Securities lending income	-	1	-	-
Securities lending expense	-	(1)	-	-
Other additions	-	2,009	-	-
Total additions	57,487	2,046	5,472	2
DEDUCTIONS				
Distributions	19,670	1,819	-	-
Administrative expenses:				
Grants	-	-	-	-
Contractual services	959	-	-	-
Total deductions	20,629	1,819	-	-
Change in net assets	36,858	227	5,472	2
Net assets - July 1 - as previously reported	205,558	916	5,169	45
Net assets - July 1 - as restated	205,558	916	5,169	45
Net assets - June 30	$ 242,416	$ 1,143	$ 10,641	$ 47

MOORE-SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
$ -	$ -	$ 57,625
10	32	5,415
-	1	2
-	(1)	(2)
-	1,444	3,453
10	1,476	66,493
-	596	22,085
12	-	12
-	-	959
12	596	23,056
(2)	880	43,437
242	6,151	218,081
242	6,151	218,081
$ 240	$ 7,031	$ 261,518

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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, 2008
(amounts amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
ASSETS					
Cash/cash equivalents	$ 2,029	$ 497	$ 143	$ 1,304	$ 842
Receivables (net):					
Accounts receivable	-	-	-	26	276
Interest receivable	-	-	-	1	-
Total receivables	-	-	-	27	276
Investments at fair value:					
Other investments	-	-	-	24	-
Total investments	-	-	-	24	-
Securities lending collateral	-	-	-	12	-
Other assets	13,332	-	-	-	-
Total assets	15,361	497	143	1,367	1,118
LIABILITIES					
Accounts payable	17	-	21	9	238
Amounts held in custody for others	15,344	497	122	1,346	880
Securities lending liability	-	-	-	12	-
Total liabilities	15,361	497	143	1,367	1,118
NET ASSETS					
Held in trust for pension benefits and other purposes	$ -	$ -	$ -	$ -	$ -

UNCLEARED COLLECTIONS	INTER-GOVERNMENTAL	DEBT COLLECTION	MILK PASS-THROUGH	TOTAL
$ 233	$ 132	$ 128	$ 61	$ 5,369
-	-	13	-	315
-	-	-	-	1
-	-	13	-	316
-	-	-	-	24
-	-	-	-	24
-	-	-	-	12
-	-	-	-	13,332
233	132	141	61	19,053
230	87	1	50	653
3	45	140	11	18,388
-	-	-	-	12
233	132	141	61	19,053
$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2007	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2008
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 2,078	$ 95,294	$ 95,343	$ 2,029
Receivables (net)	-	10	10	-
Other assets	12,374	1,177	219	13,332
Total assets	$ 14,452	$ 96,481	$ 95,572	$ 15,361
LIABILITIES				
Accounts payable	$ 26	$ 1,527	$ 1,536	$ 17
Amounts held in custody for others	14,426	6,005	5,087	15,344
Total liabilities	$ 14,452	$ 7,532	$ 6,623	$ 15,361
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 1,863	$ 779,000	$ 780,366	$ 497
Receivables (net)	-	1	1	-
Total assets	$ 1,863	$ 779,001	$ 780,367	$ 497
LIABILITIES				
Accounts payable	$ -	$ 10,706	$ 10,706	$ -
Amounts held in custody for others	1,863	779,062	780,428	497
Total liabilities	$ 1,863	$ 789,768	$ 791,134	$ 497
CRIMINAL OFFENDER RESTITUTION:				
ASSETS				
Cash/cash equivalents	$ 183	$ 4,512	$ 4,552	$ 143
Total assets	$ 183	$ 4,512	$ 4,552	$ 143
LIABILITIES				
Accounts payable	$ 19	2,519	2,517	21
Amounts held in custody for others	164	4,687	4,729	122
Total liabilities	$ 183	$ 7,206	$ 7,246	$ 143
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 1,439	$ 5,929	$ 6,064	$ 1,304
Receivables (net)	16	35	24	27
Investments	-	61	37	24
Securities lending collateral	-	24	12	12
Total assets	$ 1,455	$ 6,049	$ 6,137	$ 1,367
LIABILITIES				
Accounts payable	$ 49	$ 1,457	$ 1,497	$ 9
Amounts held in custody for others	1,406	9,883	9,943	1,346
Securities lending liability	-	24	12	12
Total liabilities	$ 1,455	$ 11,364	$ 11,452	$ 1,367

(Continued on Next Page)

FUND	BALANCE JUNE 30, 2007	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2008
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 841	$ 84,035	$ 84,034	$ 842
Receivables (net)	286	1	11	276
Total assets	$ 1,127	$ 84,036	$ 84,045	$ 1,118
LIABILITIES				
Accounts payable	$ 86	$ 46,621	$ 46,469	$ 238
Amounts held in custody for others	1,041	83,996	84,157	880
Total liabilities	$ 1,127	$ 130,617	$ 130,626	$ 1,118
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 382	$ 15,186,224	$ 15,186,373	$ 233
Receivables (net)	-	248,763	248,763	-
Investments	-	331	331	-
Total assets	$ 382	$ 15,435,318	$ 15,435,467	$ 233
LIABILITIES				
Accounts payable	$ 331	$ 2,694	$ 2,795	$ 230
Amounts held in custody for others	51	14,816	14,864	3
Total liabilities	$ 382	$ 17,510	$ 17,659	$ 233
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 150	$ 2,909	$ 2,927	$ 132
Receivables (net)	-	$ -	$ -	$ -
Total assets	$ 150	$ 2,909	$ 2,927	$ 132
LIABILITIES				
Accounts payable	$ 108	$ 2,440	$ 2,461	$ 87
Amounts held in custody for others	42	2,194	2,191	45
Total liabilities	$ 150	$ 4,634	$ 4,652	$ 132
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 108	$ 4,659	$ 4,639	$ 128
Receivables (net)	14	5	6	13
Total assets	$ 122	$ 4,664	$ 4,645	$ 141
LIABILITIES				
Accounts payable	$ -	$ 5,564	$ 5,563	$ 1
Amounts held in custody for others	122	3,782	3,764	140
Total liabilities	$ 122	$ 9,346	$ 9,327	$ 141

(Continued on Next Page)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2007	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2008
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 4	$ 1,354	$ 1,297	$ 61
Total assets	$ 4	$ 1,354	$ 1,297	$ 61
LIABILITIES				
Accounts payable	$ -	$ 1,347	$ 1,297	$ 50
Amounts held in custody for others	4	1,354	1,347	11
Total liabilities	$ 4	$ 2,701	$ 2,644	$ 61
OPEB STATE:				
ASSETS				
Cash/cash equivalents	$ -	$ 20,138	$ 20,138	$ -
Other assets	$ -	$ 20,138	$ 20,138	$ -
Total assets	$ -	$ 40,276	$ 40,276	$ -
OPEB MUS:				
Cash/cash equivalents	$ -	$ 8,867	$ 8,867	$ -
Other assets	$ -	$ 8,867	$ 8,867	$ -
Total assets	$ -	$ 17,734	$ 17,734	$ -
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 7,048	$ 16,192,921	$ 16,194,600	$ 5,369
Receivables (net)	316	248,815	248,815	316
Investments	-	392	368	24
Securities lending collateral	-	24	12	12
Other assets	12,374	30,182	29,224	13,332
Total assets	$ 19,738	$ 16,472,334	$ 16,473,019	$ 19,053
LIABILITIES				
Accounts payable	$ 619	$ 74,875	$ 74,841	$ 653
Amounts held in custody for others	19,119	905,779	906,510	18,388
Securities lending liability	-	24	12	12
Total liabilities	$ 19,738	$ 980,678	$ 981,363	$ 19,053

STATISTICAL SECTION

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

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

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

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

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

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

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

SCHEDULE A-1 – NET ASSETS BY COMPONENT
Last Seven Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
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
Restricted	1,742,193	1,817,193	1,858,088	2,159,185	2,202,592	2,347,395	2,617,435
Unrestricted	140,044	177,161	222,829	404,724	647,182	675,752	595,019
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
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
Restricted	203,710	202,268	212,473	240,514	269,687	314,722	337,036
Unrestricted	17,223	19,251	14,909	16,672	18,539	11,761	11,234
Total business-type activities net assets	$ 233,429	$ 230,603	$ 236,307	$ 266,856	$ 296,929	$ 335,181	$ 357,003
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
Restricted	1,945,903	2,019,461	2,070,561	2,399,699	2,472,279	2,662,117	2,594,471
Unrestricted	157,267	196,412	237,738	421,396	665,721	687,513	606,253
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

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 Seven Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
Expenses	**2002**	**2003**	**2004**	**2005**	**2006**
Governmental activities:					
General government	$ 248,089	$ 280,740	$ 285,781	$ 305,819	$ 525,981
Public safety/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**
$ 450,646	$ 634,984
293,193	322,769
197,510	488,450
1,266,098	1,380,629
1,065,504	1,144,637
256,751	258,058
152,154	152,456
19,418	18,344
3,701,274	4,400,327
72,378	90,269
55,521	59,227
30,416	32,984
4,167	4,552
4,663	11,064
53,851	56,697
6,487	6,670
58,532	59,334
2,647	3,109
288,662	323,906
$ 3,989,936	$ 4,724,233

$ 61,713	$ 83,720
153,577	149,534
34,963	42,348
30,547	38,137
96,903	150,906
80,320	80,933
38,441	38,520
1,395,324	1,493,944
325,352	380,856
2,217,140	2,458,898
83,661	85,801
63,943	69,242
41,567	43,826
22	33
6,042	7,730
18,176	19,844
5,600	7,150
57,159	62,666
4,047	4,660
64,691	63,524
171	540
345,079	365,016
$ 2,562,219	$ 2,823,914

SCHEDULE A-2 – CHANGE IN NET ASSETS - Continued
Last Seven 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
$(1,484,134)	$(1,941,429)
56,417	41,110
$(1,427,717)	$(1,900,319)
$ 206,527	$ 214,868
210,573	205,758
276,793	407,007
819,473	862,273
183,913	161,118
309,232	320,398
3,911	28
27,853	38,760
78,032	72,203
-	-
10,823	6,351
3,050	5,810
41,080	43,010
2,171,260	2,337,584
19,046	20,340
10	-
569	406
-	-
1,953	2,662
(41,080)	(43,010)
(19,502)	(19,602)
2,151,758	2,317,982
687,126	396,155
36,915	21,508
$ 724,041	$ 417,663

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Seven Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
General Fund							
Reserved	$ 7,927	$ 8,056	$ 8,903	$ 10,118	$ 11,533	$ 20,498	$ 28,221
Unreserved	81,316	43,065	132,873	289,675	408,580	549,158	433,580
Total general fund	$ 89,243	$ 51,121	$ 141,776	$ 299,793	$ 420,113	$ 569,656	$ 461,801
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
Unreserved, reported in:							
Special revenue funds	437,188	501,679	(83,891)	(51,010)	(53,266)	(48,292)	(47,864)
Debt service funds	21,985	10,731	7,003	5,456	6,783	5,920	1,083
Capital project funds	13,487	16,935	10,661	8,721	47,272	37,735	87,895
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

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 Seven 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**
$ 285,890	$ 283,755
2,009,620	2,162,928
160,571	188,518
171,047	165,165
20,460	19,711
51,442	65,176
25,362	27,825
1,586,206	1,713,478
17,280	30,952
4,327,878	4,657,508
401,331	545,662
284,777	311,094
575,157	360,383
1,267,854	1,372,335
1,050,239	1,137,548
247,090	300,207
152,442	149,056
33,103	33,767
19,080	18,931
95,834	351,111
5,261	7,244
4,132,168	4,587,338
195,710	70,170
-	-
-	59,490
16,740	-
946	828
(17,504)	-
49	874
115	1,681
10,946	6,497
306,867	413,287
(269,595)	(373,728)
48,564	108,929
$ 244,274	$ 179,099
1.4%	1.3%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Farm Earnings	$ 336,530	$ 390,893	$ 243,540	$ 286,085	$ 179,587	$ 356,957	$ 439,511	$ 490,058	$ 96,302	$ 326,767
Agricultural/forestry, fishing, and other	116,033	140,509	153,663	189,345	176,468	197,423	183,885	193,707	206,521	219,170
Mining	334,151	353,488	378,056	455,664	437,359	453,988	557,432	635,530	764,406	823,551
Construction/utilities	949,346	1,019,946	1,013,657	1,134,142	1,150,017	1,286,800	1,418,705	1,636,256	1,821,595	1,953,252
Manufacturing	1,012,992	990,870	1,056,316	994,677	972,587	970,138	1,067,473	1,122,867	1,229,461	1,287,884
Transportation and public utilities	1,064,492	1,105,624	1,149,160	939,462	957,401	980,540	1,085,581	1,152,820	1,245,898	1,302,497
Wholesale trade	654,840	675,370	697,897	630,434	660,867	692,618	757,989	815,993	878,607	956,323
Retail trade	1,481,694	1,538,007	1,639,454	1,425,133	1,489,275	1,521,505	1,574,472	1,651,826	1,749,118	1,879,295
Finance, insurance, and real estate	784,026	856,974	972,587	1,315,939	1,244,419	1,247,036	1,455,002	1,557,304	1,595,047	1,595,528
Services	3,258,980	3,457,003	3,742,485	4,789,559	5,056,160	5,299,448	5,682,040	6,123,734	6,632,635	7,137,171
Federal, civilian	721,427	733,730	842,339	851,497	913,187	973,870	1,046,988	1,085,912	1,134,861	1,181,305
Military	240,428	252,917	261,623	278,212	335,236	398,500	426,432	456,902	460,360	466,921
State and local government	1,977,542	2,051,609	2,170,150	2,290,747	2,400,623	2,579,116	2,665,797	2,820,515	2,973,155	3,139,472
Other (1)	5,924,147	5,805,624	6,395,293	6,778,287	6,845,808	7,219,252	7,451,579	7,777,800	8,566,496	9,479,553
Total personal income	$18,856,628	$19,372,564	$20,716,220	$22,359,183	$22,818,994	$24,177,191	$25,812,886	$27,521,224	$29,354,462	$31,748,689
Average effective rate (2)	2.4%	2.5%	2.5%	2.5%	2.3%	2.2%	2.3%	2.6%	2.6%	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 2005-2007 released on September 18, 2008.*

(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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Personal income tax revenue (1)	$444,160	$483,032	$516,262	$556,015	$517,568	$535,831	$605,348	$712,281	$768,912	$827,095
Personal income	$18,856,628	$19,372,564	$20,716,220	$22,359,183	$22,818,994	$24,177,191	$25,812,886	$27,521,224	$29,354,462	$31,748,689
Average effective rate (2)	2.4%	2.5%	2.5%	2.5%	2.3%	2.2%	2.3%	2.6%	2.6%	2.6%

	Tax Rates on the Portion of Taxable Income in Ranges (3)									
Calendar Year 1998										
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	$2-3.9	$3.9-7.9	$7.9-11.8	$11.8-15.8	$15.8-19.7	$19.7-27.6	$27.6-39.4	$39.4-69	$69 +
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 +			

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 2005-2007 released on September 18, 2008.*
(1) Personal income tax revenue is reported on a fiscal year basis.
(2) Average effective rate equals personal income tax revenue divided by personal income.
(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

SCHEDULE B-3 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
Latest Completed Calendar Year and Five Years Ago

	Calendar Year 2002				Calendar Year 2007			
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$9,999 and under	89,242	23.40%	$ 2,760,602	0.56%	84,048	19.59%	$ 1,209,461	0.16%
$10,000–$19,999	77,797	20.39	15,669,018	3.17	73,927	17.22	11,069,039	1.44
$20,000–$44,999	109,471	28.68	79,961,558	16.18	118,074	27.53	81,758,767	10.60
$45,000–$69,999	58,212	15.27	103,379,044	20.92	67,441	15.72%	113,921,771	14.77
$70,000–$109,999	31,965	8.38	103,658,074	20.98	53,672	12.51%	164,083,950	21.26
$110,000–$174,999	9,177	2.41	57,273,392	11.58	19,956	4.65	111,191,152	14.42
$175,000–$499,999	4,873	1.28	73,208,628	14.82	9,930	2.30	127,511,476	16.53
$500,000 and higher	730	0.19	58,222,536	11.79	2,054	0.48	160,830,336	20.82
Total	381,467	100.00%	$494,132,852	100.00%	429,102	100.00%	$771,575,952	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 Seven Fiscal Years
(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Governmental activities							
General obligation bonds	$214,135	$227,625	$219,645	$213,195	$230,065	$208,015	$201,560
Special revenue bonds	100,337	85,070	76,368	192,775	181,770	171,080	204,365
Notes payable	23,203	21,299	12,807	12,439	12,099	11,755	11,411
Lease/installment purchase payable	3,652	3,286	2,332	2,705	2,459	1,057	1,421
Total governmental activities	$341,327	$337,280	$311,152	$421,114	$426,393	$391,907	$418,757
Business-type activities							
Bonds/notes payable	$ 13,914	$ 10,376	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853
Total business-type activities	$ 13,914	$ 10,376	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853
Total primary government	$355,421	$347,656	$319,094	$426,282	$430,329	$395,014	$420,610
Debt as a percentage of personal income (1)	1.6%	1.5%	1.3%	1.7%	1.6%	1.3%	1.3%
Amount of debt per capita (2)	$391	$379	$344	$455	$454	$412	$440

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 2007 personal income for fiscal year 2008 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. State population for 2008 is based on a U.S. Census Bureau interim population projection. Numbers revised for prior years due to population estimate revisions.

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	$3,395	$4,361	$3,317	$3,933	$3,464	$3,643	$ 4,247	$3,036	$2,576	$1,549
Northwestern Energy	2,648	2,747	2,269	2,026	2,535	2,348	2,623	2,800	3,057	2,498
STIP interest earnings	-	-	-	-	59	119	100	176	460	329
Debt service fund interest	-	-	-	-	72	53	131	877	528	472
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$6,043	$7,108	$5,586	$5,959	$6,130	$6,163	$7,101	$6,889	$6,621	$4,848
Debt service										
Principal	$2,695	$3,805	$2,910	$3,205	$4,040	$4,535	$10,515	$4,630	$3,095	$3,485
Interest	$3,381	$3,225	$3,030	$1,714	$1,975	$1,919	$ 1,719	$1,476	$1,357	$1,253
Coverage (1)	1.0	1.0	0.9	1.2	1.0	1.0	0.6	1.1	1.5	1.0

	Fiscal Year					
Governmental Activities	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Transportation Refunding Bond						
Revenue						
Motor fuel taxes	$ 171,265	$ 178,938	$ 174,299	$ 180,600	$ 181,758	$ 188,754
Gross vehicle weight fees	30,983	33,935	31,555	26,425	25,339	26,308
Other	9,056	5,141	6,408	6,211	4,132	41,715
Less: Operating expenses	(210,797)	(226,147)	(212,237)	(202,624)	(199,193)	(281,286)
Net available revenue	$ 507	$ (8,133)	$ 25	$ 10,612	$ 12,036	$ (24,509)
Debt service						
Principal	$ 10,865	$ 11,355	$ 11,885	$ 12,470	$ 13,095	$ 3,705
Interest	$ 2,826	$ 2,315	$,,,,,1,757	$ 1,154	$ 514	$ 94
Coverage (1)	0.0	(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			
Governmental Activities	**2005**	**2006**	**2007**	**2008**
US Highway 93 GARVEES Bond (2)				
Revenue				
Federal Highway Administration	$ 160,060	$ 278,109	$ 300,808	$ 345,583
Less: Operating expenses	(159,846)	(266,232)	(288,930)	(333,705)
Net available revenue	$ 214	$ 11,877	$ 11,878	$ 11,878
Debt service				
Principal	-	$ 4,960	$ 6,130	$ 6,375
Interest	$ 214	$ 6,917	$ 5,747	$ 5,503
Coverage (1)	1.0	1.0	1.0	1.0

	Fiscal Year									
Governmental Activities	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$79	$87	$104	$104	$119	$99	$99	$82	$96	$89
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$79	$87	$104	$104	$119	$99	$99	$82	$96	$89
Debt service										
Principal	$33	$34	$ 35	$ 37	$ 38	$39	$41	$42	$44	$46
Interest	$46	$53	$ 69	$ 67	$ 81	$60	$59	$40	$52	$43
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

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

	Fiscal Year									
Governmental Activities	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Water Conservation Note Payable										
(Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	$3	$3	$3	$3	$3	$3	$3	$3	$3	$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$3	$3	$3	$3	$3	$3	$3	$3	$3	$3
Debt service										
Principal	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2
Interest	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
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	$1	$2	$2	$2	$2	$2	$2
Interest	$2	$2	$2	$2	$1	$1	$1	$1	$1	$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

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

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

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

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

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

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

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

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

SCHEDULE C-3 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Seven 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%	$218
2003	227,625	14,304	213,321	0.88%	233
2004	219,645	14,946	204,699	0.79%	221
2005	213,195	12,957	200,238	0.73%	214
2006	230,065	13,700	216,365	0.74%	228
2007	208,015	15,471	192,544	0.61%	201
2008	201,560	11,967	189,593	0.60%	199

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 2007 personal income for fiscal year 2008 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. State population for 2008 is based on a U.S. Census Bureau interim population projection. Numbers revised for prior years due to population estimate revisions.

SCHEDULE D-1 – DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years

	Calendar Year									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Population										
Montana *(in thousands)*	892	898	903	906	910	917	927	936	947	958
Percentage change	0.2%	0.7%	0.6%	0.3%	0.4%	0.8%	1.1%	1.0%	1.2%	1.2%
National *(in thousands)*	275,854	279,040	282,194	285,112	287,888	290,448	293,192	295,896	298,755	301,621
Percentage change	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%
Total Personal Income										
Montana *(in millions)*	18,857	19,373	20,716	22,359	22,819	24,177	25,813	27,521	29,354	31,749
Percentage change	6.6%	2.7%	6.9%	7.9%	2.1%	6.0%	6.8%	6.6%	6.7%	8.2%
National *(in billons)*	7,416	7,796	8,422	8,717	8,873	9,150	9,711	10,253	10,977	11,632
Percentage change	7.4%	5.1%	8.0%	3.5%	1.8%	3.1%	6.1%	5.6%	7.1%	6.0%
Per Capital Personal Income										
Montana	21,130	21,585	22,929	24,676	25,065	26,353	27,854	29,410	31,004	33,145
Percentage change	6.3%	2.2%	6.2%	7.6%	1.6%	5.1%	5.7%	5.6%	5.4%	6.9%
National	26,883	27,939	29,845	30,574	30,810	31,504	33,123	34,650	36,744	38,564
Percentage change	6.1%	3.9%	6.8%	2.4%	0.8%	2.3%	5.1%	4.6%	6.0%	5.0%
Resident Civilian Labor Force and Employment										
Civilian labor force	459,925	464,782	469,083	470,262	466,787	469,119	478,561	483,681	497,406	501,499
Employed	434,076	440,063	446,742	449,175	445,739	448,805	458,974	465,362	481,262	485,846
Unemployed	25,849	24,719	22,341	21,087	21,048	20,314	19,587	18,319	16,144	15,653
Unemployment rate	5.6%	5.3%	4.8%	4.5%	4.5%	4.3%	4.1%	3.9%	3.2%	3.1%
Nonfarm Wage and Salary Workers *(in thousands)*										
Goods-producing industries										
Natural Resources and Mining	6.1	6.1	6.0	6.2	6.2	6.2	7.1	7.7	8.2	8.4
Construction	19.3	20.0	20.4	21.2	21.7	23.1	24.9	27.6	30.2	32.5
Durable goods	14.6	15.1	15.2	14.4	13.1	12.1	12.1	12.4	12.8	13.0
Nondurable goods	7.4	7.4	7.2	7.0	6.9	6.9	7.1	7.2	7.4	7.5
Subtotal goods-producing industries	47.4	48.6	48.8	48.8	47.9	48.3	51.2	54.9	58.6	61.4
Service-producing industries										
Transp, communications, and utilities	24.1	24.6	24.7	24.1	23.7	23.1	23.3	23.8	24.3	24.6
Trade	68.4	69.0	69.4	68.9	68.9	69.1	70.8	71.6	72.8	75.3
Finance, insurance, and real estate	17.6	18.1	18.5	18.8	19.3	20.3	21.1	21.4	22.0	21.8
Service	136.2	140.5	145.2	146.9	151.4	154.2	158.4	162.9	169.3	175.0
State and local government	68.4	69.3	70.6	70.7	71.1	72.0	72.9	72.7	72.1	71.7
Federal government	12.7	12.7	13.4	13.4	13.8	13.8	13.8	13.5	13.5	13.3
Subtotal service-producing industries	327.4	334.2	341.8	342.8	348.2	352.5	360.3	365.9	374.0	381.7
Total Nonfarm Wage and Salary Employment	374.8	382.8	390.6	391.6	396.1	400.8	411.5	420.8	432.6	443.1

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

	1999			2008		
Employer	**Employees** (1)	**Rank**	**Percentage of Total State Employment** (2)	**Employees** (1)	**Rank**	**Percentage of Total State Employment** (2)
State of Montana	19,000–19,500	1	5.30%	21,000–21,500	1	4.92%
Federal Government	11,500-12,000	2	3.24	12,500-13,000	2	2.95
Wal-Mart	2,000-2500	4	0.62	4,500-5,000	3	1.10
Billings Deaconess Clinic	1,500-2,000	7	0.48	3,000-3,500	4	0.75
Town Pump	1,000-1,500	9	0.34	2,500–3,000	5	0.64
Albertson's	2,000-2,500	5	0.62	2,000–2,500	6	0.52
St. Vincent Healthcare	1,500-2,000	8	0.48	2,000–2,500	7	0.52
Benefis Healthcare	2,000-2,500	6	0.62	1,500–2,000	8	0.40
Better Business Systems				1,500-2,000	9	0.40
Stillwater Mining				1,500–2,000	10	0.40
Montana Power	2,500-3,000	3	0.76			
Plum Creek Timber	1,000-1,500	10	0.34			
Total State Employment	362,882			432,220		

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

Notes:: (1) Number of employees based on March 2008 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 Seven Fiscal Years

	Fiscal Year				
Function/Program	**2002**	**2003**	**2004**	**2005**	**2006**
Governmental:					
General government	1,375	1,614	1,575	1,562	1,615
Public safety/corrections	1,925	1,937	1,930	1,955	2,048
Transportation	2,036	2,055	2,025	2,023	2,063
Health/social services	2,674	2,577	2,539	2,575	2,621
Education/cultural	416	429	402	407	428
Resource/recreation/environment	1,430	1,694	1,731	1,765	1,853
Economic development/assistance	912	884	925	952	965
Total governmental	10,768	11,190	11,127	11,239	11,593
Business-type:					
Liquor Stores	28	28	29	27	38
State Lottery	30	31	30	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	2	2	3	2	3
General Government Services	109	102	94	104	96
Prison Funds	38	35	31	32	34
MUS Group Insurance	3	3	3	2	3
MUS Workers Compensation	-	-	-	-	-
Total business-type	214	205	194	203	210
Fiduciary:					
Pension Trust	46	49	47	46	48
Total fiduciary	46	49	47	46	48
Component unit:					
Housing Authority	18	17	19	21	20
Facility Finance Authority	2	2	2	2	2
State Compensation Insurance (New Fund)	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**
1,552	1,696
2,176	2,270
2,031	2,023
2,587	2,704
432	463
1,825	1,876
913	951
11,516	11,983
39	43
32	33
6	5
3	3
103	108
34	35
4	4
1	1
222	232
46	48
46	48
19	21
2	2
279	276
4,056	4,021
3,364	3,557
7,720	7,877
19,504	20,140

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Seven Fiscal Years

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

Fiscal Year	
2007	**2008**
234,543	234,299
266,891	300,784
676	N/A
41,546	N/A
2,608	2,439
9,838	10,433
181,804	156,088
1,657,285	1,610,753
3,386	3,610
2,781	3,441
1,373	750
19,447	19,465
54,883	55,472
2,857	2,966
19,254	18,929
144,418	143,405
831	830
29,140	29,072
4,033	4,277
$103.6	$107.1
37.2	34.9
118.0	120.7
1,737,413	1,808,093
1.85	1.78

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued
Last Seven Fiscal Years

	Fiscal Year				
Function/Program	**2002**	**2003**	**2004**	**2005**	**2006**
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permit applications	3,819	5,047	5,192	6,245	8,044
Environmental violations	2,788	2,888	3,338	3,655	2,166
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	55	-	47	-	57
Treasure State Endowment Project – construction awards	-	40	-	40	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
8,222	9,104
3,271	4,586
-	65
56	-
17	17
8	10
47,147	49,530
$225.00	$241.44
32.1%	32.3%
2,249	4,601
616,400	653,475
$41.56	$43.83
$11.42	$11.03
$4,536,558	$3,217,708
$4,140,419	$3,830,524

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Seven Fiscal Years

	Fiscal Year					
Function/Program	**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 Year 2008
50
1,110
52
283
149
524
287
4,289
783
189
131
2
798
181
1,844
769
60
134
261
15
13
49

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