A REPORT
TO THE
MONTANA
LEGISLATURE

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FEDERAL SINGLE AUDIT

Montana Single Audit Report

For the Two Fiscal Years Ended June 30, 2007

JANUARY 2008

LEGISLATIVE AUDIT
DIVISION

07-02

EIN: 810302402 000 MT FY: 6/30/2007 S 08
STATE OF MONTANA
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Federal Single Audit

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

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

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

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

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

Direct comments or inquiries to:
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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

January 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2007. This document contains the independent auditor's reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2007 (page A-3), and June 30, 2006 (page B-3). The Independent Auditor's Reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements. This report also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations (pages A-1, B-1, and C-1), a schedule of findings and questioned costs (pages C-4 through C-96), a corrective action plan (pages D-1 through D-14), and a summary schedule of prior audit findings (pages E-1 through E-9). The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

The audit disclosed certain questioned costs and deficiencies in internal control and compliance, which are summarized in the schedule of findings and questioned costs. We implemented Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit,* related to reporting control deficiencies over financial reporting for the fiscal year ended June 30, 2007. The Independent Auditor's Report on page A-1 summarizes control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. We also implemented an amendment to OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* related to reporting control deficiencies affecting compliance with federal regulations for the two fiscal years ended June 30, 2007. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses.

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

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
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Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2007, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated December 28, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, the Montana State University component units, and the University of Montana component units, as described in our report on the state of Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

1. The Montana Department of Transportation did not estimate infrastructure asset values and record related transactions in accordance with generally accepted accounting principles, as required by

state law, because the state does not have adequate procedures to ensure estimates are reasonable and asset details agree to the accounting records.

2. The state of Montana's Treasury Unit completed its identification of differences between cash recorded on the accounting records and cash in banks at June 30, 2007, on November 16, 2007, over four months after the end of the fiscal year, preventing timely identification and correction of errors on the accounting records.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 1 to be a material weakness.

Compliance and Other Matters

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

We also noted certain immaterial instances of noncompliance, which we reported to the management of the state of Montana during the course of our audit work.

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

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 28, 2007

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2007, 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, which represents .06 and 1.10 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents .08 and .12 percent, respectively, of the 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 11.54 and 7.35 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based solely on the reports of the other auditors.

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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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have issued our report dated December 28, 2007, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 28, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2007. 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 2007 by $6.5 billion (reported as net assets) compared with $6 billion at the end of fiscal year 2006. Of this amount, $600.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $1,127.3 million compared with $991.8 million at fiscal year 2006.

Fund Highlights
As of the close of fiscal year 2007, the State's governmental funds reported combined ending fund balances of $3.1 billion compared with $2.9 billion at fiscal year 2006. Of this amount, $544.5 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of $2.5 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was $549.2 million compared with $408.6 million in fiscal year 2006, which is an increase of $140.6 million (or 34.4%).

The State's business-type activity funds reported net assets at the close of fiscal year 2007 in the amount of $335.2 million compared with the fiscal year-end 2006 net assets of $296.9 million. $314.7 million of the business-type activity fund equity was restricted at fiscal year-end 2007 leaving an unrestricted balance of $11.8 million. This represents a $6.7 million (or 36.2%) decrease from the fiscal year-end 2006 business-type activity fund unrestricted net asset balance of $18.5 million.

Long-term Debt
The State's total bonds and notes payable for governmental activities decreased by $32.5 million, from $428.5 million in fiscal year 2006 to $396 million (or 7.6%) in fiscal year 2007.

Business-type activities reported bonds and notes payable of $3.1 million at fiscal year-end 2007. This represents a decrease of $0.8 million (or 20.5%) over the fiscal year-end 2006 reported amount of $3.9 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). 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:

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:

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session and 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 $6.5 billion at the end of fiscal year 2007. Net assets of the governmental activities increased $445.9 million (or 7.8%), and business-type activities had a $38.3 million (or 12.9%) 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 is 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	
	2006	2007	2006	2007	2006	2007
Current and other assets	$3,562,620	$3,830,490	$410,309	$466,063	$3,972,929	$4,296,553
Capital assets	3,240,577	3,402,036	9,110	8,698	3,249,687	3,410,734
Total assets	6,803,197	7,232,526	419,419	474,761	7,222,616	7,707,287
Long-term liabilities	451,014	415,944	9,766	10,212	460,780	426,156
Other liabilities	659,701	678,175	112,724	129,368	772,425	807,543
Total liabilities	1,110,715	1,094,119	122,490	139,580	1,233,205	1,233,699
Invested in capital assets, net of related debt	2,842,708	3,115,260	8,703	8,698	2,851,411	3,123,958
Restricted	2,202,592	2,347,395	269,687	314,722	2,472,279	2,662,117
Unrestricted	647,182	675,752	18,539	11,761	665,721	687,513
Total net assets	$5,692,482	$6,138,407	$296,929	$335,181	$5,989,411	$6,473,588

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:

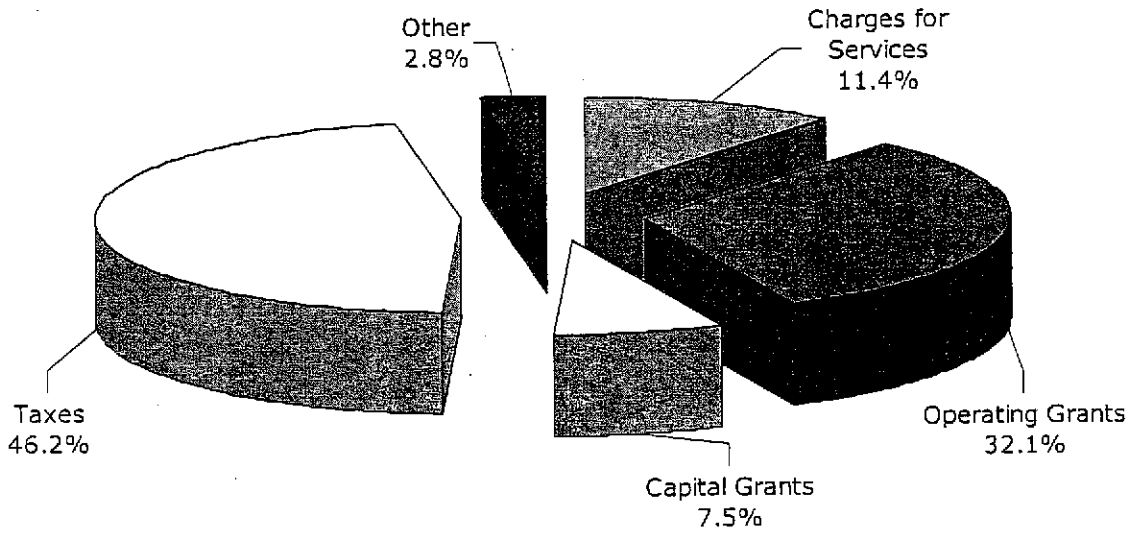
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues						
Charges for services	$ 487,767	$ 496,464	$257,729	$280,217	$ 745,496	$ 776,681
Operating grants	1,371,109	1,395,324	58,051	64,691	1,429,160	1,460,015
Capital grants	305,345	325,352	378	171	305,723	325,523
General revenues						
Taxes	1,871,808	2,006,511	17,317	19,046	1,889,125	2,025,557
Other	73,388	123,669	5,162	2,532	78,550	126,201
Total revenues	4,109,417	4,347,320	338,637	366,657	4,448,054	4,713,977
Expenses:						
General government	525,981	450,646	-	-	525,981	450,646
Public safety/corrections	245,810	293,193	-	-	245,810	293,193
Transportation	216,942	197,510	-	-	216,942	197,510
Health/social services	1,270,056	1,266,098	-	-	1,270,056	1,266,098
Educational/cultural	976,046	1,065,504	-	-	976,046	1,065,504
Resource/rec/environ	142,460	256,751	-	-	142,460	256,751
Econ dev/assistance	150,449	152,154	-	-	150,449	152,154
Interest on long-term debt	19,569	19,418	-	-	19,569	19,418
Unemployment Insurance	-	-	72,661	72,378	72,661	72,378
Liquor Stores	-	-	50,514	55,521	50,514	55,521
State Lottery	-	-	31,020	30,416	31,020	30,416
Economic Dev Bonds	-	-	3,441	4,167	3,441	4,167
Hail Insurance	-	-	4,632	4,663	4,632	4,663
Gen Govt Services	-	-	51,017	53,851	51,017	53,851
Prison Funds	-	-	5,356	6,487	5,356	6,487
MUS Group Insurance	-	-	52,139	58,532	52,139	58,532
MUS Workers Comp	-	-	2,978	2,647	2,978	2,647
Total expenses	3,547,313	3,701,274	273,758	288,662	3,821,071	3,989,936
Increase (decrease) in net assets before transfers	562,104	646,046	64,879	77,995	626,983	724,041
Transfers	34,802	41,080	(34,802)	(41,080)	-	-
Change in net assets	596,906	687,126	30,077	36,915	626,983	724,041
Net assets, beg of year (restated)	5,095,576	5,451,281	266,852	298,266	5,362,428	5,749,547
Net assets, end of year	$5,692,482	$6,138,407	$296,929	$335,181	$5,989,411	$6,473,588

Governmental Activities

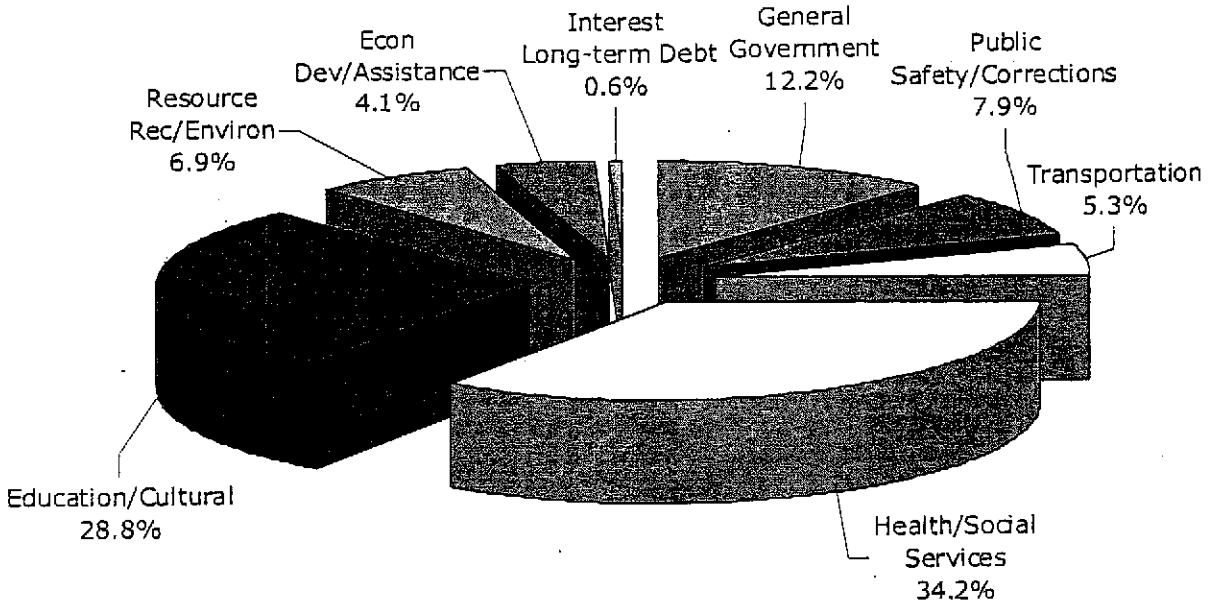
The following chart depicts revenues of the governmental activities for the fiscal year:

Revenues - Governmental Activities
Fiscal Year Ended June 30, 2007

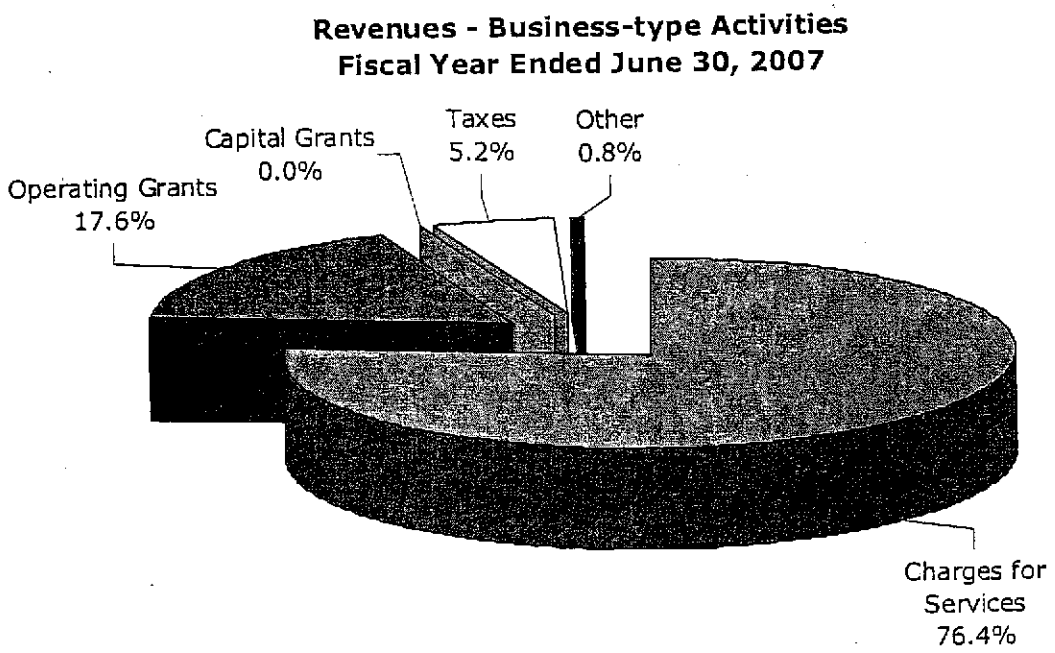


The following chart depicts expenses of the governmental activities for the fiscal year:

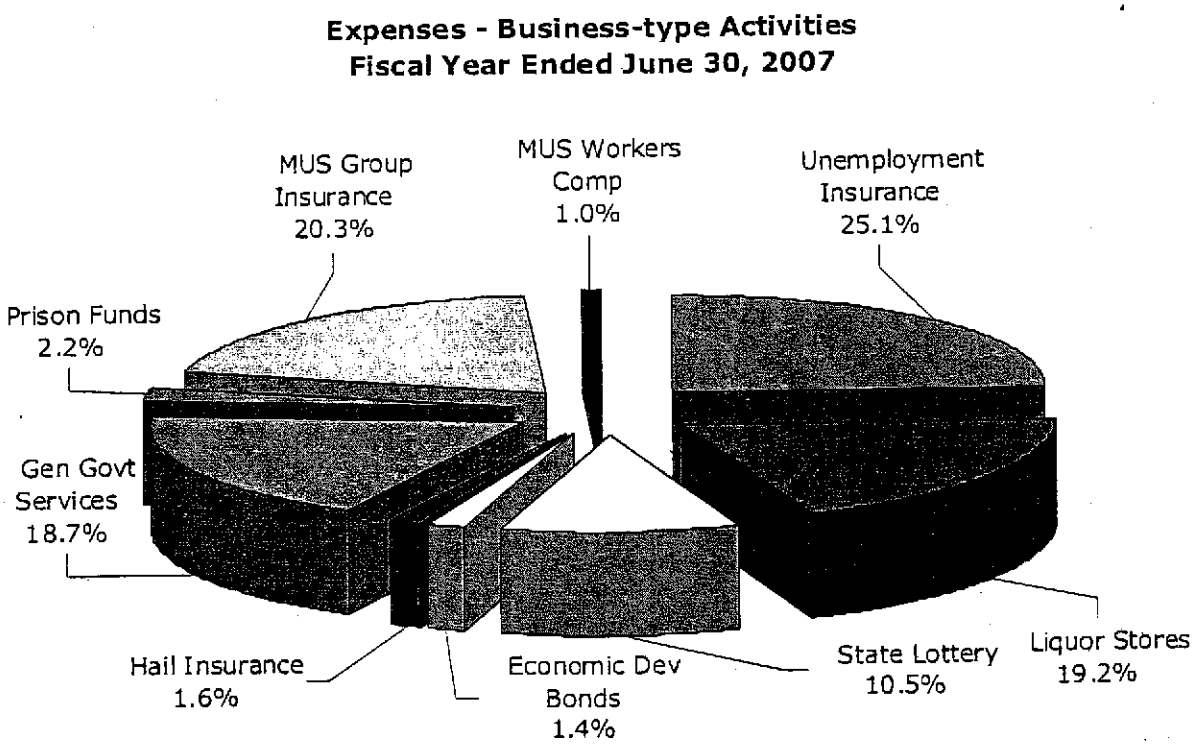
Expenses - Governmental Activities
Fiscal Year Ended June 30, 2007



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 $3.1 billion. Of this total amount, $544.5 million (or 17.6%) 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.

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 $549.2 million. The ending General Fund unreserved fund balance was $90.3 million higher than the anticipated $458.9 million estimated by the 60th Legislature. Unreserved fund balance increased during the fiscal year by $140.6 million, primarily because of increases in all tax revenue categories and investment earnings combined with under-spent budget authority and program expenditure increases as discussed below.

Higher Revenues Than Anticipated – Total General Fund revenue, including transfers; was $1,845 million for fiscal year 2007. This is $129.9 million (7.6%) more than fiscal year 2006, and $69.4 million (3.9%) more than was projected for fiscal year 2007. The increase in revenue from fiscal year 2006 to fiscal year 2007 was primarily a result of increased revenue from taxes, including individual income, property, corporate license, and oil/natural gas production, and treasury cash account interest earnings. Within the tax category, individual and corporate income tax revenue increased $61.1 and $24.2 million, respectively. Continued economic growth within Montana and a strong investment market contributed to this income tax growth.

As noted above, total collections for fiscal year 2007 were $69.4 million over the official forecast. Individual income tax exceeded the revenue estimate by $33.2 million. Corporate income tax exceeded the estimate by $16.4 million; oil and natural gas taxes exceeded the estimate by $10.1 million; and treasury cash account interest earning exceeded the estimate by $6.5 million. These four revenue sources account for 95.4% of the $69.4 million difference. Individual and corporate income taxes account for 71.5% of the difference. Two other categories, lottery ($3.1 million) and coal trust interest earnings ($2.4 million), had differences that exceeded $2 million.

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly $53 million. This was primarily caused by:

- School funding - $22.4 million was due to a biennial reversion of school funding appropriations resulting from an increase in mineral revenues in the guarantee account which offset the need for general fund expenditures, lower expenditures for school facilities ($3 million) due to fewer schools than anticipated qualified for facilities funding, and other minor reversions. Most of this reverted authority was anticipated during the legislative session.
- The Department of Health and Human Services reverted authority from the supplemental in the amount of $5.4 million primarily due to lower Medicaid costs than anticipated during the legislative session.
- The Department of Corrections reverted authority from supplemental appropriations in the amount of $4.6 million due to less than anticipated demand for secure care beds.
- The Commissioner of Higher Education reverted $4.2 million in authority, primarily due to fewer resident students attending Montana schools than anticipated.
- The Department of Natural Resources and Conservation did not require as much supplemental funding as originally anticipated to cover the fiscal year 2007 fire season.
- The Legislative Branch ($3.6 million) and the Long-Range Building ($2.5 million) program both spent less than appropriated in fiscal year 2007, but most of these amounts will be carried forward in to the next biennium as these appropriations are continuing.

General Fund Expenditures – Overall General Fund expenditures increased by $83.6 million (or 5.4%). This increase and offsetting decreases are summarized below:

- The $89.9 million (or 16.8%) increase in the education/cultural function was primarily due to increased payments for the support of K-12 schools.
- The $70.8 million (or 22.8%) decrease in the general government function was primarily due to a decrease in one-time-only payments designed to actuarially fund the Teachers and Public Employee retirement systems.
- Within the public safety/corrections function, the increase of $28.7 million (or 18.1%) was caused primarily by increases of $18.6 million within the Public Defenders Office, which became fully functional in 2007, and $6.5 million in the corrections function.

- The $30.4 million (or 109.7%) increase in the resource/recreation/environmental function was primarily the result of the costs of fighting fires in a very active 2007 firefighting season.

State Special Revenue Fund
At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $984.4 million. Fund balance increased during the fiscal year by $47.5 million (or 5.1%).

In the State Special Revenue Fund, investment income increased by $21.8 million (or 140.9%), other tax revenues by $5.9 million (or 7.2%) as discussed in Note 1, and licenses and permits by $21.5 million (or 16.5%). These increases account for 95.4% of the overall $51.4 million increased revenue in the fund.

Expenditures within the State Special Revenue Fund increased by $13.8 million (or 1.6%). Within the State Special Revenue Fund, expenditures increased $18.8 million in the general government function. This primarily was due to:

- Increased oil production tax distributions of $5.9 million to the counties and an increase to Insure Montana providing accessibility to health insurance for the State's small employers within the general government function.
- A decrease in education/cultural functional expenditures by $17.7 million as a result of less common school trust interest and income revenues.
- Increases in the Big Sky RX program of $2.9 million, a $3.7 million increase resulting from the Nursing Home bed tax rate, and $3.5 million in increased Medicaid spending in the health and social services function.
- A decrease in transportation expenditures of $10.1 million as the result of internal funding adjustments.

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased by $4.6 million (or 16.7%).

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2007. Significant changes within the functional categories were caused by (1) Transportation - increased federal highway construction expenditures of $31.8 million due to internal funding adjustments; (2) General Government - decreases in Montana Votes Montana Database and voting systems - $7.0 million and Public Safety Communications - $2.9 Million; (3) Health and Social Services - decrease of $25.7 million caused by decreased estimated Medicaid incurred but unpaid claims.

Coal Severance Tax Permanent Fund
Reserved fund balance in the Coal Severance Tax Permanent Fund increased by $25.9 million (or 3.5%). This was primarily caused by decreases in natural resource taxes of $3.2 million (or 19.2%) and increased investment income of $30.9 million (or 221.2%).

Land Grant Permanent Fund
Reserved fund balance in the Land Grant Permanent Fund increased by $11.7 million (or 2.7%). This was caused by an increase in investment income of $26.5 million (or 973.0%) due to the fund's increased investment valuation. Rentals, leases, and royalties income decreased by $11.7 million (or 18.8%) primarily as a result of decrease in oil and gas bonus receipts of $11 million and timber revenues of $5.5 million. Most other land grant revenues increased as the result of higher natural resource production (other than timber) from the related state lands during 2007.

Unemployment Insurance Enterprise Fund
Net assets restricted for unemployment compensation increased by $29.9 million (or 12.9%). Unemployment premium collections increased by $6.9 million (or 9.0%). Unemployment benefits paid increased by $3.0 million. The large increase in unemployment collections offset the small increase in unemployment benefits paid and contributed to the increase in net assets. This was reflective of Montana's continued strong economy during 2007.

Economic Development Bonds Enterprise Fund
Net assets decreased by $0.7 million in fiscal year 2007. This decrease was the result of a $0.9 million transfer from the fund to the Board of Investment's investment account. No transfers were made in fiscal year 2006. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions
Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 5.3% from fiscal year 2006 to fiscal year 2007. Revenues from various sources

for fiscal year 2007, 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	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease)
Licenses/permits	$ 285,890	6.6%	$ 26,817	10.4
Taxes	2,009,620	46.4	128,782	6.8
Chg srv/fines/forfeits/settle	160,571	3.7	(1,949)	(1.2)
Investment earnings	171,047	4.0	108,070	171.6
Securities lending income	5,339	0.1	(2,172)	(28.9)
Sales doc/merch/property	20,460	0.5	(952)	(4.4)
Rentals/leases/royalties	51,442	1.2	(11,876)	(18.8)
Contributions/premiums	9,240	0.2	455	5.2
Grants/contracts/donations	25,362	0.6	(625)	(2.4)
Federal	1,504,595	34.8	(26,200)	(1.7)
Federal indir cost recvy	81,611	1.9	(311)	(0.4)
Other revenues	2,701	0.0	(1,992)	(42.4)
Total revenues	$4,327,878	100.0%	$218,047	5.3%

Total expenditures for all governmental functions increased 2.8% from fiscal year 2006 to fiscal year 2007. Expenditures by function for fiscal year 2007, 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)*	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease)
General government	$ 401,331	9.7%	$(65,555)	(14.0)%
Public safety/corrections	284,777	6.9	30,396	11.9
Transportation	575,157	13.9	15,462	2.8
Health/social services	1,267,854	30.7	(7,093)	(0.6)
Education/cultural	1,050,239	25.4	73,793	7.6
Resource/recreation/environment	247,090	6.0	42,677	20.9
Economic development/assistance	152,442	3.7	1,422	0.9
Securities lending	5,261	0.1	(2,402)	(31.3)
Debt service	52,183	1.3	(1,108)	(2.1)
Capital outlay	95,834	2.3	26,329	37.9
Total expenditures	$4,132,168	100.0%	$113,921	2.8%

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, 2007, amounts to $5.2 billion, net of accumulated depreciation of $1.8 billion, leaving a net book value of $3.4 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 3.0% 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- with a positive outlook) and Fitch Ratings (AA). The State received bond rating upgrades from Moody's and Fitch in 2007. These are the first bond rating upgrades for the State's general obligation debt in 26 years.

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 $230.1 million at June 30, 2006, to $208 million at June 30, 2007.

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	$208,015	0.71%	$219.55

(1) Personal income is for calendar year 2006.
(2) Based on estimated 2007 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 2.4% in the second quarter of 2007, which is a slight improvement from the rate of 3.1% during the second quarter of 2006. This compares favorably with the nation's average unemployment rate of 4.5% during the same time period. As of October 2007, the State's rate has risen to 3.1%.

The 60th Legislative Session adjourned on April 27, 2007, without passing a general appropriations act. The legislature was reconvened in special session on May 10, and adjourned upon the completion of business, including the passage of a general appropriations act, on May 15. After completion of the regular and special sessions, the projected unreserved General Fund balance for the 2009 biennium is $183.8 million. During fiscal year 2007, economic conditions continued to improve with the unreserved General Fund balance, as of June 30, 2007, ending at the $549.2 million level.

A second special session of the legislature was called to order to address forest fire suppression funding issues. This session was called to order, passed related legislation, and adjourned on September 5, 2007. The laws resulting from the session provided for a $40 million transfer from the General to the State Special Revenue Fund, with future transfers from the General Fund required at the beginning of each fiscal year to maintain the $40 million balance in the State Special Revenue Fund, with this money restricted to be used only for fire suppression costs. The long term impact of these transactions on the General Fund should be zero since the General Fund paid for these fire costs in the past, and will continue to either pay for costs in excess of the amount transferred, or transfer additional money to the State Special Revenue Fund for expenditure.

The State's retirement systems are actuarially sound as of fiscal year end 2007. This represents a significant improvement over the previous fiscal year, and is largely a result of actions taken by the executive and legislative branches.

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, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

STATEMENT OF NET ASSETS
JUNE 30, 2007
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,298,950	$ 360,741	$ 1,659,691	$ 246,848
Receivables (net)	333,601	35,626	369,227	98,053
Due from primary government	-	-	-	4,017
Due from other governments	170,025	907	170,932	21,914
Due from component units	1,860	4,167	6,027	1,043
Internal balances	(8,857)	8,857	-	-
Inventories	29,836	7,443	37,279	4,577
Advances to component units	8,722	5,184	13,906	-
Long-term loans/notes receivable	250,866	32,820	283,686	826,208
Equity in pooled investments (Note 3)	1,362,728	-	1,362,728	21,468
Investments (Note 3)	294,008	6,351	300,359	1,483,274
Securities lending collateral (Note 3)	75,304	474	75,778	161,058
Deferred charges	3,652	1,535	5,187	11,224
Capital assets (net) (Note 5)	3,402,036	8,698	3,410,734	571,618
Other assets	9,795	1,958	11,753	34,010
Total assets	7,232,526	474,761	7,707,287	3,485,312
LIABILITIES				
Accounts payable	433,584	10,968	444,552	63,707
Lottery prizes payable	-	2,706	2,706	-
Due to primary government	-	-	-	6,027
Due to other governments	2,697	53	2,750	54
Due to component units	4,010	7	4,017	1,043
Advances from primary government	-	-	-	13,906
Deferred revenue	32,289	6,320	38,609	31,728
Amounts held in custody for others	34,985	649	35,634	48,562
Securities lending liability (Note 3)	75,304	474	75,778	161,058
Other liabilities	2,055	-	2,055	3,670
Short-term debt (Note 11)	-	98,460	98,460	-
Long-term liabilities (Note 11):				
Due within one year	93,251	9,731	102,982	195,714
Due in more than one year	415,944	10,212	426,156	1,832,513
Total liabilities	1,094,119	139,580	1,233,699	2,357,982

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in capital assets, net of related debt	$ 3,115,260	$ 8,698	$ 3,123,958	$ 325,019
Restricted for:				
Transportation	79,816	-	79,816	-
Fish, wildlife, and parks	79,714	-	79,714	-
Federal grants	24,573	-	24,573	-
Debt service/construction	33,264	-	33,264	24,086
Unemployment compensation	-	261,618	261,618	-
Funds held as permanent investments:				
Nonexpendable	1,414,841	-	1,414,841	211,459
Expendable	21,014	-	21,014	-
Housing authority	-	-	-	146,186
Resource/environment	621,245	-	621,245	-
Other purposes	72,928	53,104	126,032	141,153
Unrestricted	675,752	11,761	687,513	279,427
Total net assets	$ 6,138,407	$ 335,181	$ 6,473,588	$ 1,127,330

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 450,646	$ 61,713	$ 50,974	$ 1,583	$ (336,376)
Public safety/corrections	293,193	153,577	54,461	-	(85,155)
Transportation	197,510	34,963	34,290	316,716	188,459
Health/social services	1,266,098	30,547	874,617	-	(360,934)
Education/cultural	1,065,504	96,903	185,491	304	(782,806)
Resource/recreation/environment	256,751	80,320	124,397	5,655	(46,379)
Economic development/assistance	152,154	38,441	71,094	1,094	(41,525)
Interest on long-term debt	19,418	-	-	-	(19,418)
Total governmental activities	3,701,274	496,464	1,395,324	325,352	(1,484,134)
Business-type activities:					
Unemployment Insurance	72,378	83,661	18,556	-	29,839
Liquor Stores	55,521	63,943	-	-	8,422
State Lottery	30,416	41,567	-	-	11,151
Economic Development Bonds	4,167	22	4,306	-	161
Hail Insurance	4,663	6,042	560	-	1,939
General Government Services	53,851	18,176	38,785	171	3,281
Prison Funds	6,487	5,600	-	-	(887)
MUS Group Insurance	58,532	57,159	2,142	-	769
MUS Workers Compensation	2,647	4,047	342	-	1,742
Total business-type activities	288,662	280,217	64,691	171	56,417
Total primary government	$ 3,989,936	$ 776,681	$ 1,460,015	$ 325,523	$ (1,427,717)
Component units:					
Housing Authority	$ 49,114	$ 380	$ 54,973	$ -	$ 6,239
Facility Finance Authority	324	584	143	-	403
State Compensation Insurance (New Fund)	259,663	238,282	-	-	(21,381)
State Compensation Insurance (Old Fund)	13,750	2	-	-	(13,748)
Montana Surplus Lines	543	613	-	-	.70
Montana State University	410,657	170,960	168,314	15,257	(56,126)
University of Montana	326,068	153,898	107,890	8,150	(56,130)
Total component units	$ 1,060,119	$ 564,719	$ 331,320	$ 23,407	$ (140,673)

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	$ (1,484,134)	$ 56,417	$ (1,427,717)	$ (140,673)
General revenues:				
Taxes:				
Property	206,527	-	206,527	-
Fuel	210,573	-	210,573	-
Natural resource	276,793	-	276,793	-
Individual income	819,473	-	819,473	-
Corporate income	183,913	-	183,913	-
Other	309,232	19,046	328,278	-
Unrestricted grants and contributions	3,911	-	3,911	106
Settlements	27,853	10	27,863	-
Unrestricted investment earnings	78,032	569	78,601	110,622
Payment from State of Montana	-	-	-	153,986
Gain on sale of capital assets	10,823	-	10,823	182
Miscellaneous	3,050	1,953	5,003	-
Contributions to term and permanent endowments	-	-	-	11,313
Transfers	41,080	(41,080)	-	-
Total general revenues, contributions, and transfers	2,171,260	(19,502)	2,151,758	276,209
Change in net assets	687,126	36,915	724,041	135,536
Total net assets - July 1 - as previously reported	5,692,482	296,930	5,989,412	991,824
Prior period adjustments (Note 2)	(241,201)	1,336	(239,865)	(30)
Total net assets - July 1 - as restated	5,451,281	298,266	5,749,547	991,794
Total net assets - June 30	$ 6,138,407	$ 335,181	$ 6,473,588	$ 1,127,330

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007
(amounts expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
ASSETS							
Cash/cash equivalents (Note 3)	$ 517,244	$ 522,661	$ 40,519	$ 52,102	$ 17,289	$ 73,829	$ 1,223,644
Receivables (net) (Note 4)	184,636	115,163	10,141	8,641	4,731	5,235	328,547
Interfund loans receivable (Note 12)	33,717	33,241	724	-	-	-	67,682
Due from other governments	25,053	1,927	143,037	-	-	-	170,017
Due from other funds (Note 12)	71,186	16,896	603	-	431	41	89,157
Due from component units	229	1,079	142	80	-	-	1,530
Inventories	5,033	22,294	-	-	-	-	27,327
Equity in pooled investments (Note 3)	-	233,153	-	483,231	429,615	216,728	1,362,727
Long-term loans/notes receivable	198	221,971	385	-	-	28,313	250,867
Advances to other funds (Note 12)	3,950	15,439	-	14,326	-	2,916	36,631
Advances to component units	-	-	-	8,722	-	-	8,722
Investments (Note 3)	15,116	60,353	3,161	204,074	-	6,557	289,261
Securities lending collateral (Note 3)	-	22,818	-	21,397	19,023	11,521	74,759
Other assets	2,199	6,724	313	-	-	-	9,236
Total assets	$ 858,561	$ 1,273,719	$ 199,025	$ 792,573	$ 471,089	$ 345,140	$ 3,940,107
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	170,823	120,194	103,372	-	4,537	3,832	402,758
Interfund loans payable (Note 12)	-	15,124	50,831	-	-	42	65,997
Due to other governments	47	975	1,675	-	-	-	2,697
Due to other funds (Note 12)	9,012	54,881	2,716	6,849	7,031	2,331	82,820
Due to component units	16,996	1,658	1,816	-	418	2	20,890
Advances from other funds (Note 12)	-	30,776	1,893	-	-	14,271	46,940
Deferred revenue	70,202	28,607	13,557	-	-	337	112,703
Amounts held in custody for others	21,825	12,839	242	-	78	-	34,984
Securities lending liability (Note 3)	-	22,818	-	21,397	19,023	11,521	74,759
Other liabilities	-	1,409	-	-	-	-	1,409
Total liabilities	288,905	289,281	176,102	28,246	31,087	32,336	845,957
Fund balances:							
Reserved for:							
Encumbrances	10,329	17,987	265	-	-	8	28,589
Inventories	5,033	22,294	-	-	-	-	27,327
Long-term loans/notes receivable	198	221,971	385	-	-	28,313	250,867
Advances to other funds/component units	3,950	15,439	-	23,048	-	2,916	45,353
Special revenue (Note 14)	-	749,184	28,128	-	-	-	777,312
Debt service	-	-	-	-	-	4,599	4,599
Trust principal (Note 14)	-	-	-	741,279	440,002	233,313	1,414,594
Escheated property	988	-	-	-	-	-	988
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	10,331	10,331
Unreserved, undesignated	549,158	(42,437)	(5,855)	-	-	-	500,866
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(4,411)	(4,411)
Capital projects funds	-	-	-	-	-	37,735	37,735
Total fund balances	569,656	984,438	22,923	764,327	440,002	312,804	3,094,150
Total liabilities and fund balances	$ 858,561	$ 1,273,719	$ 199,025	$ 792,573	$ 471,089	$ 345,140	$ 3,940,107

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, 2007
(amounts expressed in thousands)

Total fund balances for governmental funds		$ 3,094,150
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	416,193	
Land improvements	21,547	
Buildings/improvements	390,911	
Equipment	83,169	
Infrastructure	3,509,995	
Other capital assets	159,791	
Construction in progress	348,098	
Intangible assets	28,121	
Less accumulated depreciation	(1,647,082)	
Total capital assets		3,310,743
Certain revenues are earned, but not available and therefore deferred in the funds.		81,445
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.		130,944
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.		3,652
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	(5,652)	
Lease/installment purchase payable	(1,057)	
Bonds/notes payable (net)	(395,967)	
Compensated absences payable	(78,793)	
Early retirement benefits payable	(48)	
Arbitrage rebate tax payable	(364)	
Other liabilities	(646)	
Total long-term liabilities		(482,527)
Net assets of governmental activities		$ 6,138,407

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, 2007
(amounts expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
REVENUES							
Licenses/permits	$ 133,205	$ 151,236	$ -	$ -	$ 1,018	$ 431	$ 285,890
Taxes:							
Natural resource	118,864	130,073	-	20,186	-	6,289	275,412
Individual income	828,452	-	-	-	-	-	828,452
Corporate income	177,852	-	-	-	-	-	177,852
Property	191,075	15,451	-	-	-	-	206,526
Fuel	-	210,559	-	-	-	14	210,573
Other (Note 1)	221,030	87,710	-	-	-	2,065	310,805
Charges for services/fines/forfeits/settlements	32,093	85,857	31,061	-	-	11,560	160,571
Investment earnings	34,901	37,210	1,050	44,713	29,229	23,944	171,047
Securities lending income	2,220	1,109	1	844	761	404	5,339
Sale of documents/merchandise/property	366	2,943	6	-	14,086	3,059	20,460
Rentals/leases/royalties	29	826	-	-	50,456	131	51,442
Contributions/premiums	-	9,240	-	-	-	-	9,240
Grants/contracts/donations	2,654	23,276	(687)	-	119	-	25,362
Federal	28,024	10,752	1,465,819	-	-	-	1,504,595
Federal indirect cost recoveries	82	31,002	50,527	-	-	-	81,611
Other revenues	1,301	1,520	(120)	-	-	-	2,701
Total revenues	1,772,148	798,764	1,547,657	65,743	95,669	47,897	4,327,878
EXPENDITURES							
Current:							
General government	240,408	156,834	4,089	-	-	-	401,331
Public safety/corrections	186,569	50,182	43,817	-	-	4,209	284,777
Transportation	290	270,094	304,773	-	-	-	575,157
Health/social services	317,091	91,437	859,326	-	-	-	1,267,854
Education/cultural	789,124	75,122	182,295	-	3,692	6	1,050,239
Resource/recreation/environment	58,048	124,931	64,070	-	-	41	247,090
Economic development/assistance	28,103	67,579	56,760	-	-	-	152,442
Debt service:							
Principal retirement	460	383	206	-	-	32,054	33,103
Interest/fiscal charges	52	863	35	-	-	18,130	19,080
Capital outlay	1,720	35,825	13,688	-	9,097	35,504	95,834
Securities lending	2,208	1,087	1	825	744	396	5,261
Total expenditures	1,624,073	874,337	1,529,060	825	13,533	90,340	4,132,168
Excess of revenue over (under) expenditures	148,075	(75,573)	18,597	64,918	82,136	(42,443)	195,710
OTHER FINANCING SOURCES (USES)							
Refunding bonds issued	-	-	-	-	-	16,740	16,740
Bond premium	-	-	-	-	-	946	946
Payment to refunding bond escrow agent	-	-	-	-	-	(17,504)	(17,504)
Inception of lease/installment contract	13	2	34	-	-	-	49
Insurance proceeds	-	115	-	-	-	-	115
General capital asset sale proceeds	49	223	1	-	10,671	2	10,946
Transfers in (Note 12)	72,840	154,536	2,255	2,459	-	74,777	306,867
Transfers out (Note 12)	(71,658)	(29,714)	(25,054)	(41,437)	(81,092)	(20,640)	(269,595)
Total other financing sources (uses)	1,244	125,162	(22,764)	(38,978)	(70,421)	54,321	48,564
Net change in fund balances	149,319	49,589	(4,167)	25,940	11,715	11,878	244,274
Fund balances - July 1 - as previously reported	420,113	936,941	27,555	738,387	428,287	300,923	2,852,206
Prior period adjustments (Note 2)	(247)	(563)	(465)	-	-	3	(1,272)
Fund balances - July 1 - as restated	419,866	936,378	27,090	738,387	428,287	300,926	2,850,934
Increase (decrease) in inventories	471	(1,529)	-	-	-	-	(1,058)
Fund balances - June 30	$ 569,656	$ 984,438	$ 22,923	$ 764,327	$ 440,002	$ 312,804	$ 3,094,150

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, 2007
(amounts expressed in thousands)

Net change in fund balances - total governmental funds		$ 244,274
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	538,336	
Depreciation expense	(141,345)	
Excess of capital outlay over depreciation expense		396,991
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.		(731)
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.		2,020
Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.		(1,058)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(179)
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.		17,900
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:		
Refunding bonds issued	(16,740)	
Bond premium	(946)	
Payment to refunding bond escrow agent	17,504	
Capital lease financing	(49)	
Principal retirement	33,103	
Issuance costs deferral	237	
Bond issuance costs amortization	(364)	
Bond refunding gain amortization	131	
Bond discount amortization	(13)	
Bond premium amortization	1,314	
Total long-term debt proceeds/repayment		34,177

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	(1,589)	
Compensated absences	(4,547)	
Early retirement benefits	2	
Arbitrage rebate tax	(290)	
Other liabilities	156	
Total additional expenditures		(6,268)
Change in net assets of governmental activities		$ 687,126

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007
(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)	$ 259,402	$ 29,713	$ 71,626	$ 360,741	$ 75,307
Receivables (net) (Note 4)	2,735	9,031	23,857	35,623	4,959
Interfund loans receivable (Note 12)	-	-	-	-	269
Due from other governments	22	-	885	907	7
Due from other funds (Note 12)	-	5,071	371	5,442	5,845
Due from component units	-	1,815	2,354	4,169	426
Inventories	-	-	7,443	7,443	2,509
Short-term investments (Note 3)	-	1,063	-	1,063	-
Securities lending collateral (Note 3)	-	-	474	474	546
Other current assets	-	-	156	156	556
Total current assets	262,159	46,693	107,166	416,018	90,424
Noncurrent assets:					
Advances to other funds (Note 12)	-	18,046	75	18,121	-
Advances to component units	-	5,184	-	5,184	-
Long-term investments (Note 3)	-	3,630	1,658	5,288	4,747
Long-term notes/loans receivable	-	32,280	539	32,819	-
Deferred charges	-	1,526	9	1,535	-
Other long-term assets	-	-	1,802	1,802	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,316	7,316	3,645
Equipment	-	3	5,283	5,286	198,030
Infrastructure	-	-	884	884	-
Construction in progress	-	-	459	459	5,639
Intangible assets	-	-	275	275	1,347
Less accumulated depreciation	-	(3)	(8,662)	(8,665)	(117,701)
Total capital assets	-	-	8,698	8,698	91,291
Total noncurrent assets	-	60,666	12,781	73,447	96,038
Total assets	262,159	107,359	119,947	489,465	186,462

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007
(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)	$ 431	$ 1,364	$ 9,173	$ 10,968	$ 8,215
Lottery prizes payable	-	-	1,600	1,600	-
Interfund loans payable (Note 12)	-	-	307	307	1,647
Due to other governments	-	-	52	52	-
Due to other funds (Note 12)	110	5	14,283	14,398	3,226
Due to component units	-	-	7	7	77
Deferred revenue	-	-	6,321	6,321	1,031
Short-term debt (Note 11)	-	98,460	-	98,460	-
Bonds/notes payable - net (Note 11)	-	662	430	1,092	-
Amounts held in custody for others	-	58	590	648	-
Securities lending liability (Note 3)	-	-	474	474	546
Estimated insurance claims (Note 8)	-	-	7,901	7,901	14,126
Compensated absences payable (Note 11)	-	15	688	703	2,893
Arbitrage rebate tax payable	-	35	-	35	-
Total current liabilities	541	100,599	41,826	142,966	31,761
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,106	1,106	-
Advances from other funds (Note 12)	-	-	-	-	7,812
Bonds/notes payable - net (Note 11)	-	2,015	-	2,015	-
Estimated insurance claims (Note 8)	-	-	7,577	7,577	13,503
Compensated absences payable (Note 11)	-	29	566	595	2,442
Arbitrage rebate tax payable	-	25	-	25	-
Total noncurrent liabilities	-	2,069	9,249	11,318	23,757
Total liabilities	541	102,668	51,075	154,284	55,518
NET ASSETS					
Invested in capital assets, net of related debt	-	-	8,698	8,698	91,292
Restricted for:					
Unemployment Compensation	261,618	-	-	261,618	-
Other Purposes	-	3,078	50,026	53,104	-
Unrestricted	-	1,613	10,148	11,761	39,652
Total net assets	$ 261,618	$ 4,691	$ 68,872	$ 335,181	$ 130,944

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, 2007
(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	$ -	$ 22	$ 118,780	$ 118,802	$ 112,272
Investment earnings	11,656	932	3,374	15,962	3,269
Securities lending income	-	-	18	18	13
Financing income	-	3,450	-	3,450	-
Contributions/premiums	83,661	-	77,523	161,184	120,453
Grants/contracts/donations	6,899	-	38,930	45,829	-
Taxes	-	-	19,046	19,046	-
Other operating revenues	1,130	-	1,064	2,194	2,396
Total operating revenues	103,346	4,404	258,735	366,485	238,403
Operating expenses:					
Personal services	-	257	11,313	11,570	41,368
Contractual services	-	32	12,255	12,287	23,264
Supplies/materials	-	4	57,030	57,034	23,350
Benefits/claims	73,503	-	99,690	173,193	98,811
Depreciation	-	-	635	635	11,303
Amortization	-	-	759	759	524
Utilities/rent	-	42	854	896	8,814
Communications	-	7	1,593	1,600	9,832
Travel	-	2	267	269	470
Repair/maintenance	-	-	725	725	8,419
Grants	-	-	1,333	1,333	256
Lottery prize payments	-	-	21,417	21,417	-
Interest expense	-	3,837	34	3,871	395
Securities lending expense	-	-	17	17	12
Arbitrage rebate tax	-	(51)	-	(51)	-
Dividend expense	-	-	2,583	2,583	-
Other operating expenses	(1,127)	38	1,538	449	3,005
Total operating expenses	72,376	4,168	212,043	288,587	229,823
Operating income (loss)	30,970	236	46,692	77,898	8,580
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	376
Gain (loss) on sale of capital assets	-	-	(18)	(18)	(520)
Federal indirect cost recoveries	-	-	-	-	4,424
Increase (decrease) value of livestock	-	-	(57)	(57)	-
Total nonoperating revenues (expenses)	-	-	(75)	(75)	4,280
Income (loss) before contributions and transfers	30,970	236	46,617	77,823	12,860
Capital contributions	-	-	171	171	1,450
Transfers in (Note 12)	-	-	79	79	4,226
Transfers out (Note 12)	(1,066)	(900)	(39,192)	(41,158)	(636)
Change in net assets	29,904	(664)	7,675	36,915	17,900
Total net assets - July 1 - as previously reported	231,715	5,355	59,860	296,930	113,160
Prior period adjustments (Note 2)	(1)	-	1,337	1,336	(116)
Total net assets - July 1 - as restated	231,714	5,355	61,197	298,266	113,044
Total net assets - June 30	$ 261,618	$ 4,691	$ 68,872	$ 335,181	$ 130,944

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, 2007
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 83,442	$ 22	$ 193,869	$ 277,333	$ 231,825
Payments to suppliers for goods and services	1,127	(137)	(94,521)	(93,531)	(75,947)
Payments to employees	-	(243)	(11,436)	(11,679)	(24,561)
Grant receipts	6,947	-	36,137	43,084	4,279
Grant payments	-	-	(1,333)	(1,333)	-
Cash payments for claims	(73,238)	-	(64,824)	(138,062)	(114,710)
Cash payments for prizes	-	-	(21,346)	(21,346)	-
Other operating revenues	1,130	-	1,053	2,183	2,834
Other operating payments	-	-	(2,587)	(2,587)	-
Net cash provided by (used for) operating activities	19,408	(358)	35,012	54,062	23,720
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	19,044	19,044	-
Transfers to other funds	(1,066)	(900)	(48,813)	(50,779)	(744)
Transfers from other funds	-	-	79	79	4,177
Proceeds from interfund loans/advances	-	-	49	49	(6,498)
Payments of interfund loans/advances	-	-	3	3	6,103
Payment of principal and interest on bonds and notes	-	(5,650)	(444)	(6,094)	(387)
Proceeds from issuance of bonds and notes	-	16,532	-	16,532	-
Payment of bond issuance costs	-	(325)	-	(325)	-
Net cash provided by (used for) noncapital financing activities	(1,066)	9,657	(30,082)	(21,491)	2,651
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	378
Acquisition of capital assets	-	-	368	368	(18,183)
Proceeds from sale of capital assets	-	-	3	3	294
Principal and interest payments on bonds and notes	-	-	-	-	(16)
Net cash used for capital and related financing activities	-	-	371	371	(17,527)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(271)	(271)	-
Proceeds from sales or maturities of investments	-	1,521	1,545	3,066	13,959
Proceeds from securities lending transactions	-	-	18	18	302
Interest and dividends on investments	11,656	804	3,308	15,768	3,331
Payment of securities lending costs	-	-	(17)	(17)	(301)
Collections of principal and interest on loans	-	27,152	-	27,152	-
Cash payment for loans	-	(20,286)	-	(20,286)	-
Arbitrage rebate tax	-	(19)	-	(19)	-
Net cash provided by (used for) investing activities	11,656	9,172	4,583	25,411	17,291
Net increase (decrease) in cash and cash equivalents	29,998	18,471	9,884	58,353	26,135
Cash and cash equivalents, July 1	229,404	11,242	61,742	302,388	49,172
Cash and cash equivalents, June 30	$ 259,402	$ 29,713	$ 71,626	$ 360,741	$ 75,307

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)	$ 30,970	$ 236	$ 46,692	$ 77,898	$ 8,580
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	635	635	11,300
Amortization	-	-	768	768	524
Taxes	-	-	(19,046)	(19,046)	-
Interest expense	-	3,837	24	3,861	395
Securities lending expense	-	-	17	17	12
Investment Earnings	(11,656)	(932)	(3,322)	(15,910)	(3,269)
Securities lending income	-	-	(18)	(18)	(13)
Financing income	-	(3,450)	-	(3,450)	-
Federal indirect cost recoveries	-	-	-	-	4,424
Arbitrage rebate tax	-	(51)	-	(51)	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(219)	-	(4,665)	(4,884)	(306)
Decr (incr) in due from other funds	50	-	(125)	(75)	338
Decr (incr) in due from component units	(3)	-	(514)	(517)	55
Decr (incr) in due from other governments	-	-	(584)	(584)	(6)
Decr (incr) in inventories	-	-	426	426	(267)
Decr (incr) in other assets	-	-	(580)	(580)	3,123
Incr (decr) in accounts payable	157	(2)	2,703	2,858	(605)
Incr (decr) in lottery prizes payable	-	-	(101)	(101)	-
Incr (decr) in due to other funds	109	1	10,999	11,109	86
Incr (decr) in due to component units	-	-	34	34	23
Incr (decr) in due to other governments	-	-	(409)	(409)	-
Incr (decr) in deferred revenue	-	-	102	102	(27)
Incr (decr) in amounts held in custody for others	-	-	505	505	(3)
Incr (decr) in compensated absences payable	-	3	74	77	462
Incr (decr) in estimated claims	-	-	1,397	1,397	(1,106)
Net cash provided by (used for) operating activities	$ 19,408	$ (358)	$ 35,012	$ 54,062	$ 23,720
Schedule of noncash transactions:					
Capital contributions from other funds	-	$ -	$ -	$ -	$ 1,177
Incr (decr) in fair value of investments	$ -	$ (92)	$ -	$ (92)	$ -
Total noncash transactions	$ -	$ (92)	$ -	$ (92)	$ 1,177

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007
(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)	$ 227,222	$ 121,707	$ 924,559	$ 7,048
Receivables (net):				
Accounts receivable	16,682	-	4,076	315
Interest	15,865	8	-	1
Due from primary government	16,955	-	-	-
Due from other PERB plans	498	-	-	-
Long-term loans/notes receivable	85	-	-	-
Total receivables	50,085	8	4,076	316
Investments at fair value:				
Equity in pooled investments (Note 3)	7,828,284	-	-	-
Other investments (Note 3)	415,112	88,441	-	-
Total investments	8,243,396	88,441	-	-
Securities lending collateral (Note 3)	401,670	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(276)	-	-	-
Intangible assets	534	-	-	-
Total capital assets	603	-	-	-
Other assets	75	7,930	-	12,374
Total assets	8,923,051	218,086	928,635	19,738
LIABILITIES				
Accounts payable	714	5	4,076	619
Due to primary government	98	-	-	-
Due to other PERB plans	498	-	-	-
Deferred revenue	72	-	-	-
Amounts held in custody for others	-	-	-	19,119
Securities lending liability (Note 3)	401,670	-	-	-
Compensated absences payable	406	-	-	-
Total liabilities	403,458	5	4,076	19,738
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 8,519,593	$ 218,081	$ 924,559	$ -

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, 2007
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 152,309	$ -	$ -
Employee	162,362	-	-
Participant contributions	-	35,047	-
Other contributions	20,233	-	1,512,776
Net investment earnings:			
Investment earnings	1,306,980	5,183	39,296
Administrative investment expense	(20,241)	-	-
Securities lending income	14,946	-	47
Securities lending expense	(14,159)	-	(47)
Grants/contractions/donations	-	-	-
Charges for services	480	-	-
Other additions	333	5,107	-
Payment from State of Montana	51,375	-	-
Total additions	1,674,618	45,337	1,552,072
DEDUCTIONS			
Benefits	410,059	-	-
Refunds	22,103	-	-
Distributions	-	20,027	1,282,428
Administrative expenses:			
Personal services	2,573	-	-
Contractual services	2,182	545	-
Supplies/materials	78	-	-
Depreciation	5	-	-
Amortization	163	-	-
Utilities/rent	262	-	-
Communications	174	-	-
Travel	69	-	-
Repair/maintenance	43	-	-
Grants	-	13	-
Interest expense	56	-	-
Other operating expenses	408	-	-
Local assistance	13	-	-
Gain (loss) on sale of capital assets	502	-	-
Transfers to ORP	211	-	-
Transfers to PERS-DCRP	1,209	-	-
Total deductions	440,110	20,585	1,282,428
Change in net assets	1,234,508	24,752	269,644
Net assets - July 1 - as previously reported	7,283,826	10,441	654,915
Prior period adjustments (Note 2)	1,259	182,888	-
Net assets - July 1 - as restated	7,285,085	193,329	654,915
Net assets - June 30	$ 8,519,593	$ 218,081	$ 924,559

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

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2007
(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)	$ 13,818	$ 2,438	$ 13,744	$ 7,862
Receivables (net)	21,419	266	31,041	575
Due from primary government	8	-	13	-
Due from other governments	2	-	-	-
Due from component units	-	-	612	-
Inventories	-	-	-	-
Long-term loans/notes receivable	799,348	452	34	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	223,755	-	868,027	34,713
Securities lending collateral (Note 3)	-	-	146,413	13,688
Deferred charges	8,719	-	-	-
Capital assets (net) (Note 5)	52	-	6,772	-
Other assets	65	-	25,884	-
Total assets	1,067,186	3,156	1,092,540	56,838
LIABILITIES				
Accounts payable	4,729	14	17,213	108
Due to primary government	19	2	1,415	1
Due to component units	-	-	-	612
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	10,216	-
Amounts held in custody for others	-	-	34,274	-
Securities lending liability (Note 3)	-	-	146,413	13,688
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	12,392	1	139,297	10,354
Due in more than one year	903,808	26	542,107	64,709
Total liabilities	920,948	43	890,935	89,472
NET ASSETS				
Invested in capital assets, net of related debt	52	-	6,772	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	146,186	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	3,113	194,833	(32,634)
Total net assets	$ 146,238	$ 3,113	$ 201,605	$ (32,634)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 462	$ 112,405	$ 96,119	$ 246,848
164	20,900	23,688	98,053
-	1,652	2,344	4,017
-	14,155	7,757	21,914
-	39	392	1,043
-	2,775	1,802	4,577
-	17,333	9,041	826,208
-	14,422	7,046	21,468
97	169,011	187,671	1,483,274
-	639	318	161,058
-	-	2,505	11,224
-	296,640	268,154	571,618
23	5,179	2,859	34,010
746	655,150	609,696	3,485,312
296	25,563	15,784	63,707
-	3,666	924	6,027
-	392	39	1,043
-	-	54	54
-	8,830	5,076	13,906
2	8,025	13,485	31,728
-	3,351	10,937	48,562
-	639	318	161,058
-	3,670	-	3,670
-	18,590	15,080	195,714
-	157,109	164,754	1,832,513
298	229,835	226,451	2,357,982
-	179,205	138,990	325,019
-	24,086	-	24,086
-	92,887	118,572	211,459
-	-	-	146,186
338	55,150	85,665	141,153
110	73,987	40,018	279,427
$ 448	$ 425,315	$ 383,245	$ 1,127,330

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	$ 49,114	$ 324	$ 259,663	$ 13,750
PROGRAM REVENUES:				
Charges for services	380	584	238,282	2
Operating grants and contributions	54,973	143	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	55,353	727	238,282	2
Net (expenses) program revenues	6,239	403	(21,381)	(13,748)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	65,402	3,015
Payment from State of Montana	-	-	-	-
Gain on sale of capital assets	-	-	-	-
Miscellaneous	-	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	-	-	65,402	3,015
Change in net assets	6,239	403	44,021	(10,733)
Total net assets - July 1 - as previously reported	139,999	2,710	157,584	(21,901)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	139,999	2,710	157,584	(21,901)
Total net assets - June 30	$ 146,238	$ 3,113	$ 201,605	$ (32,634)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 543	$ 410,657	$ 326,068	$ 1,060,119
613	170,960	153,898	564,719
-	168,314	107,890	331,320
-	15,257	8,150	23,407
613	354,531	269,938	919,446
70	(56,126)	(56,130)	(140,673)
-	106	-	106
11	12,860	29,334	110,622
-	89,025	64,961	153,986
-	-	182	182
-	-	-	-
-	3,458	7,855	11,313
11	105,449	102,332	276,209
81	49,323	46,202	135,536
367	376,022	337,043	991,824
-	(30)	-	(30)
367	375,992	337,043	991,794
$ 448	$ 425,315	$ 383,245	$ 1,127,330

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

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

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

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

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The

University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

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 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. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using 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.

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 both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are 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 defined above.

The State Special Revenue 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.

The Federal Special Revenue Fund accounts for all 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. (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.

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 GASB Statement 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 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2006, was 2,580 hours. For fiscal year 2007, 945 hours were contributed to the sick leave pool and 964 hours were withdrawn, leaving a balance of 2,561 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 $2,662,116, of which $580,692 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	$ 13,429	$18,404	$ -	$ 31,833
Agriculture sales	-	3,654	-	3,654
Cigarette/tobacco	40,488	50,616	2,065	93,169
Fire protection	-	2,586	-	2,586
Insurance premium	61,399	-	-	61,399
Livestock	-	3,538	-	3,538
Other taxes	23,949	6,275	-	30,224
Public Service Commission	-	2,641	-	2,641
Telephone license	21,582	-	-	21,582
Video gaming (1)	60,183	(4)	-	60,179
Total other taxes	$221,030	$87,710	$2,065	$310,805

(1) Negative video gaming revenues in the State Special Revenue Fund due to a prior year adjustment.

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2007, the State of Montana implemented the provision of the Governmental Accounting Standards Board (GASB) Statement No. 50 – Pension Disclosures. The disclosures are amendments to GASB Statement No. 27, and present the disclosures of the actuarial methods, assumptions, and funded status of the plan in the financial notes.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to various capital asset corrections. Additionally, a correction was made in a private-purpose trust fund, the College Savings Plan. In the financial statements for the year ended June 30, 2006, an error was made in accounting for the College Savings Plan in the private-purpose trust funds. This error has been corrected, and had the following effect on the beginning fund balance:

College Saving Plan	
Beginning fund balance, as previously reported	$ -
Adjustment of 2006 activity not reported in 2006	$182,888
Beginning fund balance, as corrected	$182,888

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$3,187,075
Equity in pooled investments	$9,212,480
Investments	$2,291,022

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, 2007.

(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, municipals, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, 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.

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.

Diversified real estate portfolio consists of investments in external real estate managers with both open-end and close-end pooled funds. Open-ended commingled funds provide timely access to existing large funds with diversified property types, diversified geographic exposure to larger properties, and a reasonable liquidity. The close-ended commingled fund investments may be made to obtain exposure to value and opportunistic investments. Reasonable due diligence is exercised prior to selecting investments.

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.

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 currency cash, U.S. government securities, 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 exceed 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	$ 13,734
Uninsured and uncollateralized cash	16,167
Undeposited cash	955
Cash in U.S. Treasury	262,960
Cash in MSU component units	5,578
Cash in UM component units	10,223
Less: outstanding warrants	(67,577)
Total cash deposits	$242,040

As of June 30, 2007, the carrying amount of deposits for component units was $95,080,122, 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	Fund
Commercial paper	$1,854,757	A1	Various
Corporate fixed	475,001	A1+	Various
Corporate variable-rate	379,983	A1+	Various
Municipal variable-rate	5,000	NR	
Money market	25,000	A1+	
U.S. government indirect-backed	49,999	A1+	Various
Repurchase agreement (1)	18,255	NR	
Government direct-indirect (2)	148,539	AAA	Various
Money market	214,635	NR	
Less: STIP included in pooled investment balance	(226,134)		
Total cash equivalents	$2,945,035		
Securities lending collateral investment pool	$ -		

(1) As of June 30, 2007, a repurchase agreement, per contract, was collateralized at 102% for $18,628,275 by a Federal Home Loan Mortgage Corporation REMIC maturing April 15, 2034. 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, 2007, local governments invested $924,558,963 in STIP.

As of June 30, 2007, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $453,546,674.

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 have the highest investment grade rating in the short-term category 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, 2007. 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.

In April 2007, the BOI purchased two issues of Axon Financial Funding totaling $90 million par. As of June 30, 2007, these corporate variable-rate securities held in the STIP portfolio (Note 13) carried a combined amortized cost of $89,993,901, representing 3.22% of the total portfolio. At the time of purchase, and as of June 30, 2007, these issues received the highest investment grade rating of AAA by Standard and Poors and Aaa by Moody's. As of September 14, 2007, these issues were still rated AAA by Standard and Poors. Standard and Poors downgraded these two issues to BBB on October 30, 2007, and CCC on November 9, 2007. The Axon investment was downgraded to D on November 27 due to the triggering of an "automatic liquidation event." The investment is currently being restructured by a committee of senior creditors owning more than 80% of the total $8.3 billion issue. All the underlying assets backing the investment are still in place. The BOI, as one of the senior creditors, is monitoring the progress of the restructuring.

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, 2007, 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 Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or $15 million, whichever is higher, to be invested in repurchase agreements." Other investments had concentrations of credit risk exposure to the Federal National Mortgage Association of 7.34% as of June 30, 2007.

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

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

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.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk
As of June 30, 2007, Montana was not aware of any legal risks regarding any investments.

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 on the next page).*

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Common Stock Pool	$1,079,260	$1,318,109
Transition Account	731	690
Artisan Mid Cap	65,571	67,861
Martingale Mid Cap	118,374	120,573
North Pointe Small Cap	50,316	54,108
Times Square Mid Cap	78,634	81,566
Vaughn Nelson Small Cap	45,814	48,774
Equity Index Funds	1,231,293	1,660,341
DFA Small Cap Subtrust	41,567	77,260
MidCap Equity Index Fund	17,956	23,221
SPIFF	14,386	15,077
TFBP:		
Corporate bonds (rated)	670,142	672,496
Corporate bonds (unrated)	1,275	1,320
Municipal government bonds (rated)	1,130	1,181
Municipal government bonds (unrated)	2,287	2,287
U.S. government direct-backed	46,092	47,635
U.S. government indirect-backed	594,086	587,139
STIP	62,784	62,784
RFBP:		
Corporate bonds (rated)	965,267	969,566
Corporate bonds (unrated)	8,043	8,030
U.S. government direct-backed	73,545	75,036
U.S. government indirect-backed	808,894	798,830
STIP	113,252	113,253
MTIP:		
BGI MSCI Europe Index	93,208	174,066
DFA International Small Company	46,890	68,532
ISPIFF/SPIFF	41,754	50,883
Nomura Asset Management USA	68,785	97,539
Axa Rosenberg Investment Management	46,909	57,912
BGI Alpha Tilts	101,211	126,482
Batterymarch Financial Management	182,716	210,513
Julius Baer Investment Management	157,610	192,569
Acadian Asset Management	140,423	161,658
Alliance/Bernstein	117,647	144,312
Martin Currie	109,628	125,725
Hansberger Global Investors	107,149	127,752
Principal Global Investors	64,815	74,128
MPEP:		
Private equities	467,026	574,515
State Street SPIFF	48,035	47,382
MTRP:		
ABR Chesapeake Fund III	8,000	8,000
Apollo Real Estate Finance Group	1,210	1,103
Clarion Lion Properties Fund	30,000	30,918
JP Morgan Chase Bank Strategic Properties	50,421	52,322
Hudson Realty Capital Fund IV	6,750	6,715
Strategic Partners Value Enhancement	4,846	4,635
TA Associates Realty Fund VIII	5,000	5,000
STIP	50,097	50,097
Total pooled investments	8,040,829	9,199,895
Pool adjustments (net)	12,585	12,585
Total equity in pooled investments	$8,053,414	$9,212,480

At June 30, 2007, the carrying and fair value of the underlying securities on loan was $1,391,763,275 and $1,413,941,218, respectively. The collateral provided for the securities on loan totaled $1,444,513,811.

As of June 30, 2007, component units of the State of Montana had equity in pooled investments with a book value of $4,814,514,897 and a fair value of $7,849,752,111, 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 State Street repurchase agreement was 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. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2007, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 10.10%. As of June 30, 2007, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 5.39%.

As of June 30, 2006, MTRP's single investment was in STIP. As of June 30, 2007, the STIP represented 31.55% of the MTRP portfolio. As of June 30, 2007, 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. The TFBP and RFBP investment pool 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. 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.
According to GASB Statement 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7 like pool". Because STIP operates as a 2a-7 like pool, this exclusion applies to MTRP.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling $57,019 at amortized cost as of June 30, 2007. The RFBP portfolio holds REMICs totaling $303,613 in amortized cost as of June 30, 2007. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 carry an amortized cost of $3 as of June 30, 2007.

The TFBP holds one inverse variable-rate corporate $15 million par bond. The RFBP holds one inverse variable-rate corporate $25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2007, 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, 2007
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 672,496	A	4.75
Corporate bonds (unrated)	1,320	NR	.94
Municipal government bonds (rated)	1,181	AAA	1.85
Municipal government bonds (unrated)	2,287	NR	4.74
U.S. government direct-backed	47,634	AAA	8.78
U.S. government indirect-backed	587,139	AAA	5.56
STIP	62,784	NR	NA
Total fixed-income investments	$1,374,841	AA	5.25
Securities lending collateral investment pool	$ 61,184	NR	NA

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2007
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 969,566	A	5.01
Corporate bonds (unrated)	8,030	NR	5.61
U.S. government direct-backed	75,036	AAA	6.09
U.S. government indirect-backed	798,830	AAA	5.50
STIP	113,253	NR	NA
Total fixed-income investments	$1,964,715	AA	5.27
Securities lending collateral investment pool	$ 86,995	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. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

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)

	2007	
Cash	Carrying Amount	Fair Value
Australian Dollar	$ 784	$ 793
Canadian Dollar	17	18
Danish Krone	52	52
Hong Kong Dollar	320	320
Hungarian Forint	24	24
Euro	1,261	1,268
Israeli Shekel	9	9
Japanese Yen	3,026	2,984
South Korean Won	43	43
Malaysian Ringgit	27	27
Mexican Peso	2	2
Norwegian Krone	439	448
Singapore Dollar	86	86
Swedish Krona	72	72
Swiss Franc	545	540
New Taiwan Dollar	62	63
Thailand Baht	12	12
Turkish Lira	4	4
UK British Pound	384	388
Total cash	$7,169	$7,153

The MTIP, through the funds below, has significant investments in multiple foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested. MTIP reorganized its investments to minimize exposure. The pool restructuring resulted in terminating Schroeders' involvement and downsizing the other active Pacific region manager, Nomura. The BGI Passive Pacific Index Strategy fund was eliminated. Nine new external managers were added.

MTIP
Investment by Security Type
(in thousands)

Security Investment Type	2007 Carrying Amount	2007 Fair Value
Axa Rosenberg Investment Management	$ 46,908	$ 57,912
BGI MSCI Europe Index	93,208	174,066
BGI Alpha Tilts	101,211	126,482
DFA International Small Company	46,890	68,532
State Street ISPIFF	41,754	50,883
Nomura Asset Management	68,785	97,539
Batterymarch Financial Management	182,716	210,513
Julius Baer Investment Management	157,609	192,569
Acadian Asset Management	140,423	161,658
Alliance/Bernstein	117,647	144,312
Martin Currie	109,628	125,725
Hansberger Global Investors	107,149	127,752
Principal Global Investors	64,815	74,128
Total investments	$1,278,743	$1,612,071
Securities lending collateral investment pool	$ 145,724	$ 145,724

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	65.41%
PERA (Public Employee Retirement Administration)	15.00
Board of Housing	11.53
College Savings Plan	4.57
Montana State University/University of Montana	2.21
Other (1)	1.28
Total	100.00%

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

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)	$ 23,546	$ 23,216
U.S. govt direct/indirect (rated) (1)	41,784	42,207
U.S. govt mortgage-backed (rated) (1)	1,864	1,858
Govt securities	27,939	27,389
MUS Workers Compensation	674	653
Other equities	226,767	204,074
Total	$ 322,575	$ 299,397
Component units/fiduciary funds		
Corporate (rated) (1)	$ 421,650	$ 417,477
U.S. govt direct/indirect (rated) (1)	373,183	367,490
U.S. govt mortgage-backed (rated) (1)	17,244	17,094
Govt securities	265,934	269,240
Other equities	68,499	100,642
Deferred compensation	258,261	288,538
Defined contribution	32,096	40,420
College Savings Plan	88,441	88,441
VEBA	775	840
Investments of MSU component units	157,530	143,610
Investments of UM component units	177,389	171,378
Real estate	17,970	18,193
Mortgages	68,838	68,261
Total	$1,947,810	$1,991,625
Total investments	$2,270,385	$2,291,022
Securities lending collateral investment pool	$ 234,940	$ 234,940

(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, 2007
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	$ 440,549	A	3.89
U.S. government direct-backed (1)	59,916	AAA	4.62
U.S. government indirect-backed (1)	517,415	AAA	3.30
Total	$1,017,880	AA	3.63

(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 Assoication) 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, 2007, 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. The US Bank Municipal Investors Account, 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, 2007, Montana had concentration of credit risk exposure to Federal National Mortgage Association of 7.34%.

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).

Specific Legal and Credit Risk

As of June 30, 2007, Montana was not aware of any specific legal or credit risks regarding any investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2007, 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	$ 6,642	$ 4,526	$ -	$ -	$ -	$ -
Taxes	172,576	84,528	-	4,909	-	1,362
Charges for services/ fines/forfeitures	1,042	20,129	1,357	-	-	-
Investment income	4,596	5,798	81	3,732	4,731	3,425
Other	7,150	8,347	9,855	-	-	448
Total receivables	192,006	123,328	11,293	8,641	4,731	5,235
Less: allowance for doubtful accounts	(7,370)	(8,165)	(1,152)	-	-	-
Receivables, net	$184,636	$115,163	$10,141	$8,641	$4,731	$5,235

	Proprietary Funds			
Receivables	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$18,225	$ -
Investment income	-	9,031	269	264
Contributions/premiums	7,533	-	5,024	4,670
Other	-	-	346	25
Total receivables	7,533	9,031	23,864	4,959
Less: allowance for doubtful accounts	(4,798)	-	(7)	-
Receivables, net	$ 2,735	$9,031	$23,857	$4,959

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Tax refunds	$105,397	$ -	$ -	$-	$ -	$ -
Tax distributions to other govt	-	51,636	-	-	-	-
Vendors/individuals	49,653	50,801	96,004	-	-	3,795
Payroll	15,270	15,887	6,021	-	-	5
Accrued interest	-	85	-	-	4,537	21
Other	503	1,785	1,347	-	-	11
Total	$170,823	$120,194	$103,372	$-	$4,537	$3,832

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	$431	$ 1	$8,518	$5,692
Payroll	-	20	653	2,523
Accrued interest	-	1,343	2	-
Total	$431	$1,364	$9,173	$8,215

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2007, 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	$ 378,483	$ 39,166	$ (1,221)	$ 416,428
Construction work in progress	316,767	342,943	(305,972)	353,738
Other (2)	151,422	506	-	151,928
Total capital assets, not being depreciated	846,672	382,615	(307,193)	922,094
Capital assets, being depreciated				
Infrastructure	3,417,984	724,639	(632,628)	3,509,995
Land improvements	20,459	1,443	(260)	21,642
Buildings/improvements	385,966	9,594	(1,003)	394,557
Equipment	269,197	26,884	(14,883)	281,198
Other	3,666	4,239	(41)	7,864
Total capital assets, being depreciated	4,097,272	766,799	(648,815)	4,215,256
Less: accumulated depreciation for:				
Infrastructure	(1,377,835)	(417,185)	395,506	(1,399,514)
Land improvements	(3,130)	(1,058)	27	(4,161)
Buildings/improvements	(168,646)	(13,712)	761	(181,597)
Equipment	(166,447)	(23,513)	14,053	(175,907)
Other	(3,388)	(752)	536	(3,604)
Total accumulated depreciation	(1,719,446)	(456,220)	410,883	(1,764,783)
Total capital assets, being depreciated, net	2,377,826	310,579	(237,932)	2,450,473
Intangible assets (2)	16,079	33,504	(20,116)	29,467
Governmental activity capital assets, net	$ 3,240,577	$ 726,698	$(565,241)	$ 3,402,034

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

(2) Land easements were reclassified from intangible assets to other – nondepreciable assets.

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	309	150	-	459
Total capital assets, not being depreciated	1,109	150	-	1,259
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	7,301	14	-	7,315
Equipment	5,177	262	(152)	5,287
Total capital assets, being depreciated	15,705	276	(152)	15,829
Less: accumulated depreciation for:				
Infrastructure	(522)	(17)	-	(539)
Land improvements	(238)	(107)	-	(345)
Buildings/improvements	(3,938)	(220)	-	(4,158)
Equipment	(3,419)	(315)	111	(3,623)
Total accumulated depreciation	(8,117)	(659)	111	(8,665)
Total capital assets, being depreciated, net	7,588	(383)	(41)	7,164
Intangible assets	413	2,177	(2,315)	275
Business-type activity capital assets, net	$ 9,110	$1,944	$(2,356)	$ 8,698

(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	$ 4,636
Public safety/corrections	7,579
Transportation (including depreciation of the highway system maintained by the State)	104,693
Health/social services	2,035
Education/cultural	18,596
Resource/recreation/environment (including depreciation of the State's dams).	3,147
Economic development/assistance	659
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.	11,303
Total depreciation expense – governmental activities	$152,648

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

	Amount
Liquor Stores	$ 96
State Lottery	31
General Government Services	183
Prison Funds	327
Total depreciation expense – business-type activities	$637

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	$ 6,624	$ 7,126	$ -	$ 13,750
Construction work in progress	59,149	52,029	932	112,110
Capitalized collections	7,827	16,210	-	24,037
Total capital assets, not being depreciated	73,600	75,365	932	149,897
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,606	12,619	-	26,225
Buildings/improvements	310,785	334,116	-	644,901
Equipment	102,374	49,941	4,568	156,883
Other	63,080	50,945	-	114,025
Total capital assets, being depreciated	521,973	447,621	4,568	974,162
Less: accumulated depreciation	(310,414)	(259,879)	(2,769)	(573,062)
Total capital assets, being depreciated, net	211,559	187,742	1,799	401,100
Intangible assets	1,434	338	4,093	5,865
Capital assets (net) of MSU component units	10,047	-	-	10,047
Capital assets (net) of UM component units	-	4,709	-	4,709
Discretely presented component units Total capital assets, net	$ 296,640	$ 268,154	$ 6,824	$ 571,618

NOTE 6. RETIREMENT PLANS

Defined Contribution Plans

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 discussed in the next section. 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 subfund 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 6.56% of salary, for a total of 13.59% of salary contributed to the ORP.

	TIAA-CREF *(in thousands)*
Covered payroll	$158,576
Total payroll	325,568
Employer contributions	$ 10,397
Percent of covered payroll	6.56%
Employee contributions	$ 11,158
Percent of covered payroll	7.03%

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.

Deferred Compensation Plan

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, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2007, the net assets of the plan were $288,888,994.

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.

Defined Benefit 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 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 plan. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

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

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. 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 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2007, follows:

	Retirement Plan									
	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457	TRS
Employers										
State agencies	36		1	1	1	1	4	28	36	8
Counties	55			56				43	2	
Cities/towns	96	23	16					43	2	
Colleges/universities	5						3	5	6	5
School districts	238							84	2	358
Other	98							34	3	
Total	528	23	17	57	1	1	7	237	51	371

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 payroll. 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.

Effective June 30, 2007, the Montana Public Employees Retirement Administration (MPERA) implemented the provision of the Governmental Accounting Standards Board (GASB) Statement No. 50 – Pension Disclosures. The disclosures are amendments to GASB Statement 25, and present the disclosures of the actuarial methods, assumptions, and funded status of the plan in the financial notes.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This 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 2007 was $2,518. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members. For the funded status, refer to the Required Supplementary Information (Schedule of Funding Progress).

JRS – Judges Retirement System – This 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, refer to the Required Supplementary Information (Schedule of Funding Progress).

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

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, 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 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 21.9 years. This amortization period does not reflect the sunset provision for the additional contributions under House Bill 131; 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 25.3 years. At June 20, 2006, the plan did not amortize over the next 30 years.

MPORS – Municipal Police Officers Retirement System – The plan, 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 covered by 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 five years 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 plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, 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. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993, and all Montana sheriffs.

Effective July 1, 2005, Senate Bill 370, governed by Title 19, Chapter 7, Part 301, MCA, provided membership for county detention officers in the SRS. All detention officers hired after July 1, 2005, will be in the SRS. Existing detention officers may elect to remain in the PERS or elect to become a member of the SRS.

Actuarial Status:. 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 19.6 years. This amortization period does not reflect the sunset provision for the additional contributions under House Bill 131; 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 31.4 years. At June 20, 2006, the plan did not amortize over the next 30 years.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

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 11.3 years. This amortization period does not reflect the reduced guaranteed annual benefit adjustment under House Bill 131. As of June 30, 2006, the amortization period for the unfunded actuarial liability was 32.4 years.

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 medical expenses for 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 28.6 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 retirement system's funded status was also helped by a market rate of return of 17.64%. The plan's actuary has determined that as of July 1, 2007, the current employer contribution rate of 7.47% plus the General Fund contribution of 2.11% of members' salaries are sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of $768.9 million is included in the retirement plan's financial statements in the schedules of funding progress.

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

Schedule of Contribution Rates
Fiscal Year 2007

Plan	Member	Employer	State
PERS-DBRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA] **7.035%** on or after 7/1/2007 (1)	**0.1%** of local government payroll - paid from the General Fund [19-3-319, MCA] **0.235%** of school district on or after 7/1/2007 (1)
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]	**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]	**9.535%** [19-7-404, MCA] **9.825%** on or after 7/1/2007 (1)	
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 driver license fees [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 by the General Fund [19-17-301, MCA]
PERS-DCRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA] **7.035%** on, or after 7/1 2007 (1)	**0.1%** of local government payroll - paid from the General Fund [19-3-319, MCA]
TRS	**7.15%** [19-20-602, MCA]	**7.47%** [19-20-605, MCA] **9.47%** on or after 7/1/2007 (1)	**0.11%** of members' salaries [19-20-604, MCA]

(1) The employer contribution will increase on July 1, 2007, for PERS (DBRP, DCRP), SRS, and TRS.

Pension Plan Information
Schedules of Funding Progress
(in thousands)
Single Employer Systems

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)
HPORS						
6/30/2007	95,758	128,306	32,548	74.63%	9,858	330.17%
JRS						
6/30/2007	57,778	36,863	(20,915)	156.74%	4,841	(432.04%)
Multiple Employer Systems						
PERS-DBRP						
6/30/2007	3,825,234	4,201,251	376,017	91.05%	907,424	41.44%
MPORS						
6/30/2007	198,310	310,423	112,113	63.88%	29,547	379.44%
FURS						
6/30/2007	188,545	269,399	80,854	69.99%	24,250	333.42%
SRS						
6/30/2007	183,894	189,036	5,142	97.28%	43,611	11.79%
GWPORS						
6/30/2007	68,755	72,992	4,237	94.20%	28,799	14.71%
TRS (1)						
7/1/2007	3,006,200	3,928,500	768,900	79.60%	664,100	115.80%
Nonemployer Contributor						
VFCA						
6/30/2007	25,862	31,599	5,737	81.84%	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.

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

Single Employer Systems

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
HPORS					
	2005	3,307	100.50%	669	100.00%
	2006	2,862	101.50%	277	100.00%
	2007	3,581	101.48%	285	100.00%
JRS					
	2005	143	811.43%		
	2006	113	1,089.03%		
	2007	(230)	(542.23%)		

Multiple Employer Systems

PERS-DBRP					
	2005	71,523	82.06%	421	100.00%
	2006	69,312	91.54%	443	100.00%
	2007	60,253	110.41%	446	100.00%
MPORS					
	2005	3,775	100.41%	7,694	100.14%
	2006	3,983	101.30%	8,119	100.77%
	2007	4,258	100.58%	8,679	100.00%
FURS					
	2005	2,940	100.65%	6,677	100.63%
	2006	3,291	101.14%	7,473	100.80%
	2007	3,482	101.09%	7,908	100.63%
SRS					
	2005	3,475	80.95%		
	2006	3,897	90.42%		
	2007	4,176	105.04%		
GWPORS					
	2005	2,083	98.58%		
	2006	2,337	102.34%		
	2007	2,218	118.94%		
TRS					
	2005	57,150	100.00%		
	2006	158,962 (1)	223.00%		
	2007	112,664 (2)	130.00%		

Nonemployer Contributor

VFCA					
	2005			1,527	100.00%
	2006			1,610	100.00%
	2007			1,661	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 compensation 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 – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – 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 member's contributions and attributable income; 5 years for employer's contributions 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 July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	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.	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 1/3% 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 benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary 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	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

C. 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.

D. 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.

E. Long-term Contracts for Contributions

The Montana Legislature also 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, 2007, 177 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 2007 were $174,002. June 30, 2007, outstanding balances were $42,865.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System (MUS) provide 18 to 36 months optional postemployment health care and dental benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment, and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2007, 64 certificate holders were receiving these benefits from the State of Montana, and 97 from the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits 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). Administratively established retiree medical premiums vary between $144 and $726 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $27.80 and $45.80, and vision premiums vary between $7.64 and $22.26 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2007, there were 3,313 retirees covered for health care benefits.

The State reimburses all validated medical claims net of member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a $10 copay to a $125 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of $21,759,000 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $15,237,000 leaving $6,522,000 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-704, the Montana University System provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS 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.

Administratively established 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% of 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. This plan has a small enrollment (77 enrollees). After the $1,500 annual deductible, the plan pays 75% of the first $8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2007, 1,453 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2007, expenditures of $8,284,071 were recognized for postemployment health care benefits. Of this amount, $6,027,661 was paid by retirees through premiums, and the balance of $2,256,410 was paid by the MUS.

As of July 1, 2007, retirees can now choose a managed care option, if available, in their area. Prior to this option, their only choice was one of the traditional plans. The managed care premiums are lower and there are more first dollar benefits. After an in-network deductible of $300, the plan reimburses 75% for the first $2,000 and 100% thereafter. Managed care has a small enrollment. As of June 30, 2007, retiree enrollment in the managed care plans totaled 30 retiree policyholders.

For the fiscal year ending June 30, 2008, the State and the MUS will implement GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the disclosure of the employer liability for retiree medical subsidies and other postemployment benefits. The annual required contribution (ARC) will be equal to an amount required each year to fully fund the liability over 30 years. The estimated ARC for the State and the MUS has been estimated at $29,892,000 and $21,477,000, respectively. The amount of the estimated OPEB liability at transition was determined in accordance with the Statement, and has been estimated at $306,150,000 for the State and $218,963,000 for the MUS. These estimates were prepared by Buck Consultants based on 2005 data.

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 Montana University System 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 2,559 policies during the 2007 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 $518,781 based on estimated claims through June 30, 2007. 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 administers 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 $6,250,000 as of June 30, 2007, 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 2007, the program ceded $238,020 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 $5,503,000 for estimated claims at June 30, 2007. 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, 2007, the amount of this liability was estimated to be $3,205,877. 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, 2007, approximately 28,499 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, 2007, 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, 2007, $679,209,000 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, 2007, was $3,874,087. For the fiscal year ended June 30, 2007, $774,963 of acquisition costs were 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.

(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, 2007, 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, 2007, $98,232,540 of unpaid claims and claim adjustment expenses were reported at a net present value of $75,063,078, discounted at a 5.0% 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	
	2007	2006	2007	2006	2007	2006
Unpaid claims and claim adjustment expenses at beginning of year	$ 94	$ 191	$ 6,250	$ 4,619	$ 4,538	$ 3,138
Incurred claims and claim adjustment expenses: provision for insured events of the current year	1,206	2,447	54,158	48,163	2,600	2,453
Increase (decrease) in provision for Insured events of prior years	381	(320)	-	1,631	(499)	62
Total incurred claims and claim adjustment expenses	1,587	2,127	54,158	49,794	2,101	2,515
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(687)	(2,033)	(54,158)	(48,163)	(368)	(391)
Claims and claim adjustment expenses attributable to insured events of prior years	(475)	(191)	-	-	(768)	(724)
Total payments	(1,162)	(2,224)	(54,158)	(48,163)	(1,137)	(1,115)
Total unpaid claims and claim adjust. exp. at end of the year	$ 519	$ 94	$ 6,250	$ 6,250	$ 5,503	$ 4,538

	Component Units			
	Montana State Fund (New Fund)		Montana State Fund (Old Fund)	
	2007	2006	2007	2006
Unpaid claims and claim adjustments expenses at beginning of year	$ 590,688	$ 511,557	$ 97,769	$104,852
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	189,203	170,399	-	-
Increase (decrease) in provision for insured events of prior years	34,046	35,439	11,209	3,811
Total incurred claims and claim adjustment expenses	223,249	205,838	11,209	3,811
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(38,677)	(36,132)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(96,051)	(90,575)	(10,745)	(10,894)
Total payments	(134,728)	(126,707)	(10,745)	(10,894)
Total unpaid claims and claim adjust. exp. at end of the year	$ 679,209	$ 590,688	$ 98,233	$ 97,769

(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			
	2007	2006	2005	2004
1. Premiums and investment revenue				
Earned	$4,392	$3,709	$3,048	$2,425
Ceded	(238)	(199)	(197)	(151)
Net earned	$4,154	$3,510	$2,851	$2,274
2. Unallocated expenses including overhead	$ 259	$ 264	$ 280	$ 227
3. Estimated losses and expenses end of accident year				
Incurred	$2,600	$2,453	$2,366	$2,174
Ceded	-	-	-	-
Net incurred	$2,600	$2,453	$2,366	$2,174
4. Net paid (cumulative) as of:				
End of policy year	$ 367	$ 391	$ 382	$ 552
One year later		910	1,002	1,020
Two years later			1,228	1,124
Three years later				1,148
5. Re-estimated ceded losses and expenses	$ -	$ -	$ -	$ -
6. Re-estimated net incurred losses and expense:				
End of policy year	$2,600	$2,453	$2,366	$2,174
One year later		2,267	2,565	2,174
Two years later			2,459	2,037
Three years later				1,830
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ -	$ -	$ 199	$ (137)

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

State Fund (New Fund)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Premiums and investment revenue										
Earned	$110,007	$91,202	$93,441	$110,576	$117,765	$154,769	$162,059	$218,988	$237,782	$272,722
Ceded	303	260	855	2,952	(465)	5,654	6,563	6,788	13,618	14,856
Net earned	$109,704	$90,942	$92,586	$107,624	$118,230	$149,115	$155,496	$212,200	$224,164	$257,867
2. Unallocated expenses including overhead	$ 14,364	$18,992	$22,048	$ 26,698	$ 29,350	$ 32,506	$ 38,872	$ 40,816	$ 43,400	$ 47,680
3. Estimated losses and expenses end of accident year										
Incurred	$ 64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057	$170,652
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057	$170,652
4. Net paid (cumulative) as of:										
End of policy year	$ 12,943	$13,723	$13,177	$ 14,140	$ 16,693	$ 22,982	$ 26,123	$ 25,721	$ 30,977	$ 32,708
One year later	28,222	29,976	29,218	32,888	38,185	48,861	50,888	57,239	66,063	
Two years later	35,753	39,298	37,555	45,218	52,359	63,773	66,140	72,229		
Three years later	41,004	45,748	43,649	55,248	60,029	72,957	74,697			
Four years later	44,478	49,984	48,322	61,846	64,922	79,060				
Five years later	47,584	54,212	52,027	66,031	68,343					
Six years later	50,188	56,974	54,473	69,553						
Seven years later	52,240	59,935	57,077							
Eight years later	54,004	62,158								
Nine years later	55,639									
5. Re-estimated ceded losses and expenses	$ 609	$ 1,940	$ -	$ -	$ -	$ 8,600	$ -	$ -	$ -	$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	$ 64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057	$170,652
One year later	64,308	64,348	66,421	71,094	86,799	110,532	112,609	136,235	157,711	
Two years later	60,467	66,660	66,662	81,053	91,241	112,443	124,413	138,447		
Three years later	61,989	69,345	70,302	88,157	94,615	117,245	127,827			
Four years later	64,944	72,435	72,492	92,329	99,755	115,414				
Five years later	67,312	73,710	73,423	95,727	100,925					
Six years later	67,772	75,537	76,048	98,124						
Seven years later	68,601	78,046	77,930							
Eight years later	69,764	80,116								
Nine years later	71,099									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ 6,116)	$15,472	$11,973	$29,857	$ 19,365	$ 5,261	$ 7,122	$ 4,157	$ 2,654	$ -

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 PharmaCare 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, 2007, 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, were $12,507,984 based on a formula provided by Mercer Human Resource Consulting, a consulting actuarial firm, of which $10,940,359 is estimated to be paid in fiscal year 2008.

(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 $3.4 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, 1997 through June 30, 2007, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2007 estimated claims liability was $15,120,936.

(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	
	2007	2006	2007	2006
Amount of claims liabilities at the beginning of each fiscal year	$ 12,517	$ 11,675	$16,216	$20,328
Incurred claims:				
Provision for insured events of the current year	90,932	84,473	5,539	5,636
Increases (decreases) in provision for insured events of prior years	(9)	842	(635)	(5,017)
Total incurred claims	90,923	85,315	4,904	619
Payments:				
Claims attributable to insured events of the current year	(77,292)	(71,802)	(653)	(1,061)
Claims attributable to insured events of prior years	(13,640)	(12,671)	(5,346)	(3,670)
Total payments	(90,932)	(84,473)	(5,999)	(4,731)
Total claims liability at end of each fiscal year	$ 12,508	$ 12,517	$15,121	$16,216

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2007, the Department of Transportation had contractual commitments of approximately $168.7 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, 2007, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $28.2 million for capital projects construction. The primary government will fund $21.3 million of these projects, with the remaining $6.9 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 the BOI's policies. As of June 30, 2007, the BOI had committed but not yet purchased $12,042,000 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $40,754,872 for loans as of June 30, 2007.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2007, the BOI had mortgage reservations/commitments totaling $791,491.

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	
Liquor Warehouse	$ 195
Other Enterprise Funds	98
State Lottery	27
Subtotal-enterprise funds	$ 320
Internal service funds	
Info Tech Services Division	$2,140
Buildings and Grounds	329
DEQ Indirect Cost Pool	71
Admin Supply	49
Commerce Central Services	9
FWP Equipment	3
Subtotal-internal service funds	$2,601
Total	$2,921

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, 2007, 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
2008	$ 481	$32	$186	$218
2009	222	25	163	188
2010	141	9	115	124
2011	138	-	31	31
2012	176	-	-	-
Total minimum pmts	1,158	66	495	561
Less: interest	(101)	(8)	(64)	(72)
Present value of minimum payments	$1,057	$58	$431	$489

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2007 totaled $15,473,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2008	$ 15,693	$ 2,728
2009	14,139	2,189
2010	11,824	1,952
2011	10,824	1,357
2012	8,061	1,185
2013-2017	30,179	5,384
2018-2022	12,647	2,164
2023	1,772	-
Total future rental payments	$105,139	$16,959

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 notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2007.

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, 2007, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2007
1994	7,500	$ 6,745
1995	7,500	6,915
1997	10,000	9,605
1998	12,500	12,200
2000	15,000	14,865
2003	15,000	14,755
2004	18,500	18,375
2007	15,000	15,000
Total		$98,460

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$83,620	$15,000	$160	$98,460

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, 2007, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments: Fiscal Year 2008	Principal Payments: In Year of Maturity (2)	Balance June 30, 2007
General obligation bonds						
Long-Range Bldg Program	1997B	$ 12,640	4.5-5.0	$ 945	945 (2008)	$ 945
Wastewater Treatment Works Revolving Fund (3)	1998A	3,510	3.75-5.15	155	260 (2019)	2,450
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,620	2,555 (2018)	5,075
Information Technology	1998C	41,390	4.5-5.0	4,075	4,075 (2008)	4,075
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,235	1,720 (2015)	11,685
Energy Conservation Program (5)	1998E	1,250	3.6-4.6	150	150 (2008)	150
Long-Range Bldg Program	1999C	16,990	4.0-5.0	750	785 (2009)	1,535
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	145	230 (2019)	2,195
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	120	240 (2021)	2,390
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	130	270 (2021)	2,660
Long-Range Bldg Program	2000C	17,195	5.0-5.55	685	800 (2011)	2,965
Long-Range Bldg Program	2001B	11,430	4.1-5.75	450	830 (2021)	8,625
Information Technology	2001C	1,600	3.85-4.2	165	185 (2011)	695
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	125	145 (2011)	540
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	60	105 (2017)	790
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	125	235 (2022)	2,625
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	110	200 (2022)	2,210
Long-Range Bldg Program	2002B	10,475	3.35-4.7	440	730 (2023)	8,860
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	90	200 (2023)	2,185
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,365	1,685 (2014)	10,595
Long-Range Bldg Program	2003A	9,730	2.37-4.0	410	655 (2024)	8,605
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	120	145 (2014)	915
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	60	90 (2019)	865
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	160	190 (2014)	1,225
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	100	115 (2014)	745
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,035	2,310 (2017)	20,535
Information Technology Refunding	2003H	8,725	2.0-4.0	2,080	2,225 (2010)	6,455
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	150	230 (2020)	2,390
Long-Range Bldg Program	2004B	3,125	3.0-4.75	165	170 (2025)	2,835
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	35	1,205 (2019)	14,910
Long-Range Bldg Program	2005B	1,670	3.25-4.3	60	120 (2026)	1,625
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	225	290 (2016)	2,300
CERCLA Program (6)	2005D	2,000	3.25-4.3	75	140 (2026)	1,945
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	200	350 (2021)	3,715
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	110	190 (2021)	2,020
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,890
Long-Range Bldg Program	2006A	31,350	4.0-5.0	990	1,930 (2027)	31,350
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	150	330 (2022)	3,750
CERCLA Program (6)	2006C	1,000	4.0	75	120 (2017)	1,000
Renewable Resource Program (4)	2006D	950	5.6-6.0	35	90 (2022)	950
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	-	2,465 (2018)	16,740
Total general obligation bonds		$351,160		$20,220		$208,015
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 920	1,820 (2022)	$ 19,830
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	55	110 (2018)	855

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2008	Principal Payments In Year of Maturity (2)	Balance June 30, 2007
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	125	210 (2018)	1,795
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	330
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	65	150 (2021)	1,435
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	-	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,200	1,795 (2018)	16,085
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	720
Renewable Resource Program (8)	2001F	900	3.3-6.2	35	75 (2022)	760
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	605	970 (2019)	9,270
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	115	215 (2024)	2,665
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	935	905 (2009)	1,635
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	390
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,375	11,315 (2020)	111,705
Total special revenue bonds		$210,145		$10,500		$171,080
Notes payable						
Water Conservation (Little Dry Project) (10)		$ 50	5.0	$ 2	1 (2012)	$ 11
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	20
Middle Creek Dam Project (11)		3,272	8.125	51	208 (2034)	2,742
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	8,982
Total notes payable		$ 14,672		$ 345		$ 11,755
Subtotal governmental activities, before deferred balances						390,850
Deferred amount on refunding						(4,840)
Unamortized discount						(133)
Unamortized premium						10,090
Total governmental activities		$575,977		$31,065		$395,967
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)	$ 390
Conservation Reserve Enhancement Program (CRP Bonds) (15)		2,287	6.0-7.50	617	102 (2016)	2,287
Subtotal economic dev bonds		7,263		662		2,677
MUS Workers Compensation Bonds Payable		2,050	2.8	430	430 (2008)	430
Total business-type activities		$ 9,313		$ 1,092		$ 3,107

(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, 2007, 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
2008	$ 20,220	$ 8,517	$ 10,500	$ 8,181	$ 345	$ 45
2009	16,330	7,729	11,370	7,696	347	44
2010	16,895	7,090	11,120	7,195	349	43
2011	14,820	6,369	11,675	6,692	351	42
2012	15,090	5,783	12,210	6,149	352	41
2013-2017	74,170	19,489	66,845	21,757	1,819	187
2018-2022	37,950	6,369	46,940	5,124	1,911	153
2023-2027	12,540	1,254	420	17	2,018	112
2028-2032	-	-	-	-	2,157	60
2033-2037	-	-	-	-	1,816	7
2038-2042	-	-	-	-	290	-
Total	$208,015	$62,600	$171,080	$62,811	$11,755	$734

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2008	$ 662	$181	$430	$12
2009	486	136	-	-
2010	331	103	-	-
2011	290	80	-	-
2012	222	60	-	-
2013-2016	686	96	-	-
Total	$2,677	$656	$430	$12

Debt service requirements of discretely presented component units at June 30, 2007, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 11,735	$ 45,101	$ 3,788	$ 6,040	$ 6,028	$ 7,075
2009	14,675	44,409	3,579	6,165	5,652	6,887
2010	14,960	43,795	3,914	6,151	5,790	6,667
2011	15,605	43,141	3,796	6,181	5,619	6,430
2012	16,185	42,441	4,028	6,089	5,852	6,216
2013-2017	100,433	199,704	30,805	18,953	33,164	26,830
2018-2022	129,185	172,556	36,784	11,937	41,830	17,784
2023-2027	176,260	134,783	13,235	6,102	34,000	6,174
2028-2032	212,470	84,743	11,790	3,522	9,465	1,352
2033-2037	177,965	31,781	10,025	788	1,095	51
2038-2042	33,505	3,814	-	-	-	-
2043-2047	3,225	145	-	-	-	-
Total	$906,203	$846,413	$121,744	$71,928	$148,495	$85,466

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2007, 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	$230,065	$ 16,740	$ 38,790	$208,015	$21,273	$186,742
Special revenue bonds	181,770	-	10,690	171,080	11,085	159,995
Notes payable	12,099	-	344	11,755	345	11,410
	423,934	16,740	49,824	390,850	32,073	358,147
Deferred amount on refunding	(5,709)	1,000	131	(4,840)	-	(4,840)
Unamortized discount	(145)	12	-	(133)	-	(133)
Unamortized premium	10,458	1,025	1,393	10,090	-	10,090
Total bonds/notes payable	428,538	18,777	51,348	395,967	32,073	363,264
Other liabilities						
Lease/installment purchase payable	2,459	57	1,459	1,057	423	634
Compensated absences payable (1)	79,125	50,913	45,907	84,131	45,897	38,234
Early retirement benefits payable (1)	49	31	32	48	5	43
Arbitrage rebate tax payable (1)	74	381	92	363	96	267
Estimated insurance claims (1)	28,733	95,827	96,931	27,629	14,127	13,502
Total other liabilities	110,440	147,209	144,421	113,228	60,548	52,680
Total governmental activities Long-term liabilities	$538,978	$165,986	$195,769	$509,195	$93,251	$415,944
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 3,086	$ -	$ 409	$ 2,677	$ 662	$ 2,015
MUS Workers Compensation	850	-	420	430	430	-
Total bonds/notes payable	3,936	-	829	3,107	1,092	2,015
Other liabilities						
Compensated absences payable	1,229	780	710	1,299	703	596
Arbitrage rebate tax payable	129	89	159	59	35	24
Estimated insurance claims	13,859	58,075	56,456	15,478	7,901	7,577
Total other liabilities	15,217	58,944	57,325	16,836	8,639	8,197
Total business-type activities Long-term liabilities	$ 19,153	$ 58,944	$ 58,154	$ 19,943	$ 9,731	$ 10,212

(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.

Long-term liability activity of discretely presented component units for the year ended June 30, 2007, 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	$ 803,135	$247,803	$136,084	$ 914,854	$ 11,735	$ 903,119
Montana State University (MSU)	129,237	15,109	16,860	127,486	4,994	122,492
University of Montana (UM)	151,599	268	5,815	146,052	6,028	140,024
Total bonds/notes payable	1,083,971	263,180	158,759	1,188,392	22,757	1,165,635
Other liabilities						
Lease/installment purch pay	696	71	277	490	179	311
Compensated absences pay	46,950	23,525	21,649	48,826	22,704	26,122
Arbitrage rebate tax payable	1,141	276	220	1,197	590	607
Estimated insurance claims	664,424	232,743	142,895	754,272	148,341	605,931
Due to federal government	31,035	359	2	31,392	-	31,392
Other	2,095	-	-	2,095	-	2,095
Total other liabilities	746,341	256,974	165,043	838,272	171,814	666,458
	$1,830,312	$520,154	$323,802	$2,026,664	$194,571	$1,832,093
Long-term liabilities of MSU component units					533	184
Long-term liabilities of UM component units					610	236
Total discretely presented component units Long-term liabilities					$195,714	$1,832,513

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2007, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: $300,000 of Series 1997A Renewable Resource Program, $665,000 of Series GO 1999C, and $189,000 of Series GO 2000A.

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, 2007, $71,185,000 of bonds outstanding were considered defeased.

Discretely Presented Component Units

Current Refundings

The Housing Authority (HA), on September 20, 2006, issued Series 2006C Bonds in the amount of $70,805,000. Of the proceeds, $10,805,000 was used as an advance refunding of the Series 1996A Bonds which were refunded on December 1, 2006. On March 7, 2007, the Housing Authority issued Series 2007A Bonds in the amount of $86,015,000. Of the proceeds, $36,015,000 was used as an advanced refunding of the Series 1997A Bonds which were refunded on June 1, 2007. The refunding of the Series 1996A and 1997A Bonds resulted in an economic gain of $7,750,063 and a difference in cash flow requirements of $4,522,708.

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, 2007, $2,520,000 and $51,481,125 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 industrial revenue bonds to finance

projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2007, industrial revenue bonds outstanding aggregated $195.5 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, 2007, 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, 2007, was as follows: Hershberger Project – issued $129,412, outstanding $109,601; Young Project – issued $223,300, outstanding $203,567.

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, 2007, revenue bonds outstanding aggregated $851 million, and notes payable outstanding aggregated $14 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, 2007, bonds outstanding aggregated $2,344,996.

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, 2007, 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	Land Grant Permanent
Due From Other Funds						
Economic Development Bonds	$ -	$ -	$ -	$ -	$2,608	$ -
Federal Special Revenue	-	-	-	56	3	-
General Fund	6,678	1	429	-	212	-
Internal Service Funds	24	4	1,415	2,199	369	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	9	323	10	-
Nonmajor Governmental Funds	-	-	5	-	-	-
State Special Revenue	147	-	858	6,434	24	7,031
Total	$6,849	$5	$2,716	$9,012	$3,226	$7,031

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds *(continued)*					
Economic Development Bonds	$ -	$ -	$ 2,463	$ -	$ 5,071
Federal Special Revenue	5	4	425	110	603
General Fund	14,042	23	49,801	-	71,186
Internal Service Funds	127	8	1,699	-	5,845
Land Grant Permanent	-	-	431	-	431
Nonmajor Enterprise Funds	3	-	26	-	371
Nonmajor Governmental Funds	-	-	36	-	41
State Special Revenue	106	2,296	-	-	16,896
Total	$14,283	$2,331	$54,881	$110	$100,444

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, 2007, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
Federal Special Revenue	$ -	$ 577	$ -	$ -	$ 147	$ 724
General Fund	18,528	170	-	42	14,977	33,717
Internal Service Funds	44	-	225	-	-	269
State Special Revenue	32,259	900	82	-	-	33,241
Total	$50,831	$1,647	$307	$42	$15,124	$67,951

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, 2007, consisted of the following (in thousands):

	Advances from Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Advances to Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$-	$14,326	$14,326
Economic Development Bonds	-	4,512	-	-	13,534	18,046
General Fund	650	3,300	-	-		3,950
Nonmajor Enterprise Funds	75	-	-	-	-	75
Nonmajor Governmental Funds	-	-	-	-	2,916	2,916
State Special Revenue	1,168	-	14,271	-	-	15,439
Total	$1,893	$7,812	$14,271	$-	$30,776	$54,752

Additional detail for certain advance balances at June 30, 2007, follows (in thousands):

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

Department	Balance
Environmental Quality	$ 489
Justice	13,045
Transportation	4,512
Total	$18,046

Advances from the Coal Severance Tax Permanent Fund

Department	Balance
Justice	$ 2,752
Natural Resources and Conservation	11,574
Total	$14,326

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, 2007, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	$ -	$ -	$32,335	$ -	$ -	$ -
Economic Development Bonds	-	-	-	900	-	-
Federal Special Revenue	-	-	-	9	-	12,884
General Fund	-	-	-	2,061	50	37,657
Internal Service Funds	-	-	-	417	-	-
Land Grant Permanent	-	-	-	-	-	998
Nonmajor Enterprise Funds	-	-	34,352	-	-	-
Nonmajor Governmental Funds	954	-	-	500	-	2,739
State Special Revenue	1,505	1,189	6,153	339	29	20,499
Unemployment Insurance	-	1,066	-	-	-	-
Total	$2,459	$2,255	$72,840	$4,226	$79	$74,777

	State Special Revenue	Total
Transfers Out *(continued)*		
Coal Severance Tax Permanent	$ 9,102	$ 41,437
Economic Development Bonds	-	900
Federal Special Revenue	12,161	25,054
General Fund	31,890	71,658
Internal Service Funds	2	419
Land Grant Permanent	80,094	81,092
Nonmajor Enterprise Funds	4,840	39,192
Nonmajor Governmental Funds	16,447	20,640
State Special Revenue	-	29,714
Unemployment Insurance	-	1,066
Total	$154,536	$311,172

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2007, (in thousands):

Fund Type/Fund	Deficit
Enterprise funds	
Subsequent Injury	$(2,156)
Surplus Property	$ (18)
Internal service funds	
Justice Legal Services	$ (98)

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	$ 37,736
Public Safety/Corrections	193,966
Transportation	73,514
Health/Social Services	64,719
Education/Cultural	6,385
Resource/Recreation/Environment	325,579
Economic Development/Assistance	47,285
Total state special revenue funds	$749,184
Federal Special Revenue funds	
General Government	$ 6,124
Public Safety/Corrections	938
Health/Social Services	3,718
Education/Cultural	15,863
Resource/Recreation/Environment	1,248
Economic Development/Assistance	237
Total federal special revenue funds	$28,128

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	$ 28,034
Coal Severance Tax Bond Fund	9,445
Treasure State Endowment Fund	158,405
Treasure State Endowment Regional Water System Fund	35,850
Coal Severance Tax Permanent Fund	509,108
Coal Severance Tax Income Fund	437
Total	$741,279

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 78.04% of the Regents' outstanding loan volume, $1,391,527,796, 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 2007 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 2007 amounted to $487,952. Additionally, the Montana Guaranteed Student Loan Program (MGSLP) paid $126,754 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, Personnel 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 PMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims are 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.

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, 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, (MAIDS) a class-action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., 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 in the discovery phase. 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 Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided in the Montana WCA (workers compensation act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court

held that Title 39, Chapter 72, Part 405, MCA, is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to $27,027 under the WCA, versus $10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The decision was appealed to the Montana Supreme Court.

The Montana Supreme Court issued its decision on October 6, 2006, and modified the lower court decision holding that a common fund was not created. The court also held that the decision applies retroactively to claims from July 1, 1987. The cost to retroactively pay benefits for claims to July 1, 1987 is estimated at $9.5 million for the Montana State Fund (New Fund, for claims on or after July 1, 1990). The impact on the Old Fund liability for claims that occurred from July 1, 1987 to June 30, 1990 is estimated at $2 million. The case is currently pending before the Workers Compensation Court on matters relating to identification and notification of claimants. Once file reviews and payments are completed, the actual financial impact, as compared to the estimated financial impact, could possibly increase or decrease. The estimated liability is recorded in loss reserves.

In Reesor v. Montana State Fund (MSF), 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to Title 39, Chapter 71, Part 710, MCA, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of Title 39, Chapter 71, Part 710, MCA, on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found Title 39, Chapter 71, Part 710, MCA, to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting Reesor's permanent partial benefit pursuant to Title 39, Chapter 71, Part 710, MCA, violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at $2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of $1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (Title 39, Chapter 71, Part 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 to be unconstitutional as applied to permanent total benefits, Satterlee et al. request payment of lifetime permanent total disability 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 Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. The Workers Compensation Court rendered its decision on December 12, 2005, holding that Title 39, Chapter 71, Part 710, MCA, is constitutional as applied to PTD benefits. This case was appealed to the Supreme Court on December 1, 2006. Should Title 39, Chapter 71, Part 710, MCA, ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact 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 to $116 million. The potential for liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

On December 11, 2007, Montana's Supreme Court issued an order dismissing Satterlee et al. without prejudice, stating "Satterlee appeals an order that falls short of a final judgment, and therefore requires a Rule 54(b) certification. The WCC failed to comply with Rule 54(b); thus, we dismiss Satterlee's appeal without prejudice." It is anticipated that Satterlee et al. will

continue to pursue the matter before the Workers Compensation Court.

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, Part 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.

B. Federal Contingencies

USDA Commodities – In fiscal year 2007, the State distributed $5,931,264 in commodities. The value of the commodities stored in the State's warehouses was 1,967,797 at June 30, 2007, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2007, 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 $186,630,336. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was $98,850,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $87,780,336.

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, 2007, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	$4,507	$1,406	$8,730	$160	$2,019
Oil & gas	2,031	220	-	-	-
Corporation tax	3,433	-	-	-	-
Total	$ 9,971	$1,626	$8,730	$160	$2,019

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, 2007. The corporations have appealed the decision. As of June 30, 2007, these include $8,620,132 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, 2007. As of June 30, 2007, these include $6,385,735 of protested property taxes recorded in the General Fund and $6,385,735 recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

On August 9, 2007, the Housing Authority issued $50,600,000 of Single Family Mortgage Bonds Series 2007 C. The bonds will mature June 1, 2009 through December 1, 2038, with interest rates from 3.875% to 5.75%. Bond proceeds will be used to purchase single family mortgage loans for the Homeownership Program.

On September 12, 2007, the Housing Authority issued $5,100,000 of Multifamily Housing Revenue Bonds Series 2007. Bond proceeds will be used to finance a loan to South Forty Partners, L.P., a Montana limited partnership, for the acquisition, rehabilitation, and equipping of the South Forty Apartments Project, a 101-unit affordable housing development located in Billings, Montana.

Both bond series are not debts 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 July 19, 2007, the State of Montana issued $11,720,000 General Obligation Long-Range Building Program Bonds Series 2007D. This obligation was authorized by legislation, House Bill 540, in 2005.

NOTE 18. SPECIAL SESSION TAX RELIEF

Property Tax Relief

The May 2007 (2009 Biennium) Special Session of the Legislature approved a tax relief program that allows qualified homeowners to request a refund of up to $400 based on primary residence property tax payments made in tax years 2004, 2005, and 2006. These refunds must be requested by calendar year-end 2007. It is estimated that the payments to qualified homeowners will amount to $99.8 million dollars from the General Fund by December 31, 2007. Taxes paid on these refunds should generate an estimated $4 million dollars in additional income tax revenue in fiscal year 2008, for a net decrease in General Fund balance related to these refunds of $95.8 million dollars. As of June 30 2007, these refunds did not represent a liability of the State, and will be reported in the State fiscal year 2008 financial statements.

In addition to the property tax refund, a tax credit was enacted by the Legislature during the May session that provides income tax credits to Montana homeowners who pay property taxes on a primary residence in tax year 2007. These tax credits are triggered by unadjusted General Fund revenues in excess of a threshold of $1.802 billion, as certified by the Montana Department of Administration by August 31, 2008. The Montana Department of Administration certified unadjusted General Fund revenues of $1.838 billion. The resulting tax credits during fiscal year 2008 should be an estimated $36 million from the General Fund.

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BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 139,826	$ 139,826	$ 132,900	$ (6,926)
Taxes:				
Natural resource	105,102	105,102	116,663	11,561
Individual income	793,847	793,847	743,941	(49,906)
Corporate income	161,057	161,057	173,898	12,841
Property	192,084	192,084	190,982	(1,102)
Fuel	-	-	-	-
Other	214,228	214,228	220,369	6,141
Charges for services/fines/forfeits/settlements	33,144	33,144	30,127	(3,017)
Investment earnings	27,484	27,484	34,861	7,377
Sale of documents/merchandise/property	356	356	361	5
Rentals/leases/royalties	45	45	9	(36)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,677	3,677	1,727	(1,950)
Federal	29,024	29,024	28,573	(451)
Federal indirect cost recoveries	111	111	74	(37)
Other revenues	-	-	-	-
Total revenues	1,699,985	1,699,985	1,674,485	(25,500)
EXPENDITURES				
Current:				
General government	249,470	251,506	244,681	6,825
Public safety/corrections	170,160	191,690	186,110	5,580
Transportation	269	299	294	5
Health/social services	316,898	325,001	319,872	5,129
Education/cultural	814,077	815,264	790,403	24,861
Resource/recreation/environment	41,477	61,822	57,634	4,188
Economic development/assistance	29,166	29,141	12,386	16,755
Debt service:				
Principal retirement	2,944	2,950	460	2,490
Interest/fiscal charges	53	53	53	-
Capital outlay	4,934	4,826	2,089	2,737
Total expenditures	1,629,448	1,682,552	1,613,982	68,570
Excess of revenue over (under) expenditures	70,537	17,433	60,503	43,070
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Insurance proceeds	308	308	1,199	891
General capital asset sale proceeds	76	76	49	(27)
Transfers in	69,016	69,016	68,531	(485)
Transfers out	(27,477)	(27,315)	(27,723)	(408)
Total other financing sources (uses)	41,923	42,085	42,056	(29)
Net change in fund balances (Budgetary basis)	112,460	59,518	102,559	43,041
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	2,220	2,220
2. Securities lending costs	-	-	(2,208)	(2,208)
3. Inception of lease/installment contract	-	-	13	13
4. Adjust expenditures for encumbrances	-	-	4,324	4,324
5. Adjustments for nonbudgeted activity	-	-	42,411	42,411
Net change in fund balances (GAAP basis)	112,460	59,518	149,319	89,801
Unreserved fund balances - July 1	408,580	408,580	408,580	-
Prior period adjustments	-	-	(247)	(247)
Decrease (increase):				
Encumbrances reserve	-	-	(4,291)	(4,291)
Long-term loans/notes receivable reserve	-	-	(55)	(55)
Advances to other funds reserve	-	-	(3,881)	(3,881)
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(267)	(267)
Unreserved fund balances - June 30	$ 521,040	$ 468,098	$ 549,158	$ 81,060

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
$ 163,580	$ 163,580	$ 152,261	$ (11,319)	$ -	$ -	$ -	$ -
172,173	172,173	126,515	(45,658)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,802	11,802	12,360	558	-	-	-	-
195,376	195,376	211,228	15,852	-	-	-	-
78,296	78,296	86,936	8,640	-	-	-	-
99,892	99,892	83,367	(16,525)	37,225	37,225	31,062	(6,163)
14,525	14,525	16,449	1,924	775	775	1,057	282
4,169	4,169	2,774	(1,395)	-	-	-	-
485	485	771	286	-	-	-	-
9,000	9,000	8,939	(61)	-	-	-	-
20,940	20,940	16,807	(4,133)	74	74	53	(21)
20,089	20,089	10,781	(9,308)	1,603,004	1,603,004	1,379,912	(223,092)
39,283	39,283	30,991	(8,292)	58,551	58,551	50,761	(7,790)
-	-	4	4	-	-	-	-
829,610	829,610	760,183	(69,427)	1,699,629	1,699,629	1,462,845	(236,784)
181,424	183,813	153,716	30,097	9,919	13,117	1,486	11,631
48,785	50,360	45,852	4,508	80,510	99,413	44,212	55,201
418,074	414,627	267,859	146,768	390,028	390,124	273,935	116,189
107,453	108,174	91,539	16,635	1,022,889	1,031,252	877,320	153,932
73,919	74,771	74,179	592	351,002	210,508	182,291	28,217
147,813	151,410	120,814	30,596	98,281	108,259	63,106	45,153
77,497	83,583	76,837	6,746	103,311	102,623	62,893	39,730
1,391	1,283	383	900	272	243	219	24
703	703	703	-	35	35	35	-
81,721	83,058	35,679	47,379	37,795	42,582	13,604	28,978
1,138,780	1,151,782	867,561	284,221	2,094,042	1,998,156	1,519,101	479,055
(309,170)	(322,172)	(107,378)	214,794	(394,413)	(298,527)	(56,256)	242,271
-	-	480	480	-	-	-	-
30,000	30,000	-	(30,000)	-	-	-	-
4,612	4,612	1,149	(3,463)	46	46	22	(24)
185	185	195	10	-	-	-	-
132,558	132,558	128,596	(3,962)	42,118	42,118	7,835	(34,283)
(14,010)	(14,029)	(11,695)	2,334	(44,669)	(32,843)	(19,613)	13,230
153,345	153,326	118,725	(34,601)	(2,505)	9,321	(11,756)	(21,077)
(155,825)	(168,846)	11,347	180,193	(396,918)	(289,206)	(68,012)	221,194
-	-	1,106	1,106	-	-	1	1
-	-	(1,087)	(1,087)	-	-	(1)	(1)
-	-	8	8	-	-	9	9
-	-	17,567	17,567	-	-	5,881	5,881
-	-	20,648	20,648	-	-	58,155	58,155
(155,825)	(168,846)	49,589	218,435	(396,918)	(289,206)	(4,167)	285,039
(51,697)	(51,697)	(51,697)	-	(1,569)	(1,569)	(1,569)	-
-	-	(563)	(563)	-	-	(465)	(465)
-	-	(7,075)	(7,075)	-	-	578	578
-	-	(6,598)	(6,598)	-	-	(146)	(146)
-	-	(1,070)	(1,070)	-	-	-	-
-	-	(25,023)	(25,023)	-	-	(86)	(86)
-	-	-	-	-	-	-	-
$ (207,522)	$ (220,543)	$ (42,437)	$ 178,106	$ (398,487)	$ (290,775)	$ (5,855)	$ 284,920

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 2007, reverted governmental fund appropriations were as follows: General Fund - $30.5 million, State Special Revenue Fund - $57.1 million, and Federal Special Revenue Fund - $98.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedules of Funding Progress
(in thousands)
Single Employer Systems

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)
HPORS						
6/30/2005	82,050	112,938	30,888	72.65%	9,104	339.28%
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%
JRS						
6/30/2005	47,552	34,525	(13,027)	137.73%	4,462	(291.95%)
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%)
Multiple Employer Systems						
PERS-DBRP						
6/30/2005	3,179,010	3,719,998	540,988	85.46%	847,431	63.84%
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%
MPORS						
6/30/2005	159,417	276,379	116,962	57.68%	26,198	446.45%
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%
FURS						
6/30/2005	151,393	238,157	86,764	63.57%	20,474	423.78%
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%
SRS						
6/30/2005	148,458	159,347	10,889	93.17%	28,423	38.31%
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%
GWPORS						
6/30/2005	50,961	56,414	5,453	90.33%	22,796	24.24%
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%
TRS (1)						
7/1/2005	2,497,500	3,527,000	903,300	73.40%	612,600	147.50%
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%
Nonemployer Contributor						
VFCA						
6/30/2005	21,311	30,773	9,462	69.25%	N/A	N/A
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

(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.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary 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	$3,634	$1,249
Employee	988	339
License and registration fees	284	
Actuarial valuation date	6/30/07	6/30/07
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	19.1 years	30 years (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 (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

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

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
PEACE CORPS		
08.999	Miscellaneous Non-Major Grants	9,340
	TOTAL	$9,340
DEPARTMENT OF AGRICULTURE		
10.001	Agricultural Research-Basic and Applied Research	16,380
10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,218,298
10.028	Wildlife Services	84,385
10.069	Conservation Reserve Program	99,758
10.072	Wetlands Reserve Program	15,000
10.162	Inspection Grading and Standardization	86,926
10.163	Market Protection and Promotion	298,734
10.225	Community Food Projects: From Missoula Food Bank	17,242
10.450	Crop Insurance: From Fort Peck C.C.	35,702
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	393,867
10.500	Cooperative Extension Service	3,609,752
10.500	Cooperative Extension Service: From University of Minnesota	30,395
10.550	Food Donation	2,206,949
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,430,411
10.558	Child and Adult Care Food Program	9,061,954
10.560	State Administrative Expenses for Child Nutrition	941,540
10.565	Commodity Supplemental Food Program	1,580,507
10.567	Food Distribution Program on Indian Reservations	2,952,146
10.570	Nutrition Services Incentive	1,095,184
10.572	WIC Farmers' Market Nutrition Program (FMNP)	92,305
10.574	Team Nutrition Grants	253,104
10.579	Child Nutrition Discretionary Grants Limited Availability	85,660
10.601	Market Access Program: From West. USA Ag. Trade Asc.	2,584
10.652	Forestry Research	82,467
10.664	Cooperative Forestry Assistance	3,440,251
10.670	National Forest Dependent Rural Communities	2,075
10.672	Rural Development, Forestry, and Communities	975,333
10.676	Forest Legacy Program	2,341,062
10.677	Forest Land Enhancement Program	84,474

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

			AMOUNT
10.700	National Agricultural Library		19
10.853	LOCAL Television Loan Guarantee Program		495,383
10.901	Resource Conservation and Development: From Headwater, Bitteroot		92,000
10.902	Soil and Water Conservation		88,042
10.904	Watershed Protection and Flood Prevention		65,061
10.999	Miscellaneous Non-Major Grants		1,038,805
10.999	Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Fndn.		8,739
		TOTAL	**$46,322,494**
CHILD NUTRITION CLUSTER			
10.553	School Breakfast Program		4,565,262
10.555	National School Lunch Program		17,627,999
10.556	Special Milk Program for Children		39,650
10.559	Summer Food Service Program for Children		703,227
		TOTAL	**$22,936,138**
EMERGENCY FOOD ASSISTANCE CLUSTER			
10.568	Emergency Food Assistance Program (Administrative Costs)		193,199
10.569	Emergency Food Assistance Program (Food Commodities)		620,701
		TOTAL	**$813,900**
FOOD STAMP CLUSTER			
10.551	Food Stamps		89,507,579
10.561	State Administrative Matching Grants for Food Stamp Program		8,763,808
		TOTAL	**$98,271,387**
SCHOOLS AND ROADS CLUSTER			
10.665	Schools and Roads: Grants to States		12,937,945
10.666	Schools and Roads - Grants to Counties		44,309
		TOTAL	**$12,982,254**
DEPARTMENT OF COMMERCE			
11.302	Economic Development Support for Planning Organizations		42,747
11.417	Sea Grant Support		23,597
11.550	Public Telecommunication Facilities-Planning and Construction		299,128
		TOTAL	**$365,472**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
PUBLIC WORKS AND E.D. CLUSTER		
11.300	Economic Development: Grants for Public Works and Infrastructure Development: From Bear Paw Development Corp	4,921
11.307	Economic Adjustment Assistance	753
	TOTAL	**$5,674**
DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	28,556
12.400	Military Construction National Guard	4,587,381
12.401	National Guard Military Operations and Maintenance Projects	16,174,231
12.404	National Guard Civilian Youth Opportunities	2,046,115
12.999	Miscellaneous Non-Major Grants	248,174
	TOTAL	**$23,084,457**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	235,536
14.169	Housing Counseling Assistance Program	141,983
14.228	Community Development Block Grant/States Program	10,838,019
14.231	Emergency Shelter Grants Program	383,163
14.235	Supportive Housing Program	67,547
14.238	Shelter Plus Care	4,534
14.239	Home Investment Partnerships Program	5,580,783
14.241	Housing Opportunities for Persons with AIDS	653,912
14.871	Section 8 Housing Choice Vouchers	15,228,041
	TOTAL	**$33,133,518**
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	17,090,614
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,653,188
	TOTAL	**$18,743,802**
DEPARTMENT OF THE INTERIOR		
15.114	Indian Education: Higher Education Grant Program	36,497
15.130	Indian Education: Assistance to Schools	118

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
15.224	Cultural Resource Management	57,736
15.225	Recreation Resource Management	14,664
15.227	Distribution of Receipts to State and Local Governments	134,690
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,457,881
15.231	Fish, Wildlife and Plant Conservation Resource Management	87,913
15.242	National Fire Plan - Rural Fire Assistance	20,000
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	943,896
15.252	Abandoned Mine Land Reclamation (AMLR) Program	2,724,409
15.504	Water Reclamation and Reuse Program	23,476
15.507	Water 2025	154,014
15.608	Fish and Wildlife Management Assistance	43,768
15.608	Fish and Wildlife Management Assistance: From Pacific States Marine	11,953
15.615	Cooperative Endangered Species Conservation Fund	1,202,769
15.623	North American Wetlands Conservation Fund	98,240
15.625	Wildlife Conservation and Restoration	5,079
15.631	National Fire Plan - Rural Fire Assistance	10,998
15.632	Conservation Grants Private Stewardship for Imperiled Species	57,354
15.633	Landowner Incentive	508,133
15.634	State Wildlife Grants	821,009
15.637	Migratory Bird Joint Ventures	34,042
15.642	Challenge Cost Share	6,871
15.647	Migratory Bird Conservation	64,077
15.805	Assistance to State Water Resources Research Institutes	17,743
15.808	U.S. Geological Survey-Research and Data Acquisition	24,932
15.904	Historic Preservation Fund Grants-in-Aid	1,055,328
15.912	National Historic Landmark	18,447
15.914	National Register of Historic Places	40,531
15.916	Outdoor Recreation: Acquisition, Development and Planning	794,661
15.999	Miscellaneous Non-Major Grants	797,832
15.DAK	Wildlife Management: From Nat. Fish & Wild. Fndn.	9,442
	TOTAL	**$11,278,503**
FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	6,881,594

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
15.611	Wildlife Restoration	5,394,049
	TOTAL	**$12,275,643**

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	11,318
16.202	Offender Reentry Program	143,470
16.523	Juvenile Accountability Incentive Block Grants	316,831
16.525	Grants to Reduce Violent Crimes Against Women on Campus	91,533
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities	121,664
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities: From Co. of Dom. & Sex. Viol	45,080
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	756,438
16.548	Title V Delinquency Prevention	56,253
16.550	State Justice Statistics Program For Statistical Analysis Centers	123,979
16.554	National Criminal History Improvement Program (NCHIP)	130,000
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	206,896
16.575	Crime Victim Assistance	1,641,334
16.576	Crime Victim Compensation	144,743
16.579	Byrne Formula Grant Program	161,288
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	767,425
16.588	Violence Against Women Formula Grants	972,121
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	3,044,066
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	125,103
16.593	Residential Substance Abuse Treatment for State Prisoners	252,062
16.609	Community Prosecution and Project Safe Neighborhoods	347,775
16.710	Public Safety Partnership and Community Policing Grants	1,077,856
16.727	Enforcing Underage Drinking Laws Program	698,184
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	13,925
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,040,984
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	438,668
16.999	Miscellaneous Non-Major Grants	222,750
	TOTAL	**$12,951,746**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
DEPARTMENT OF LABOR		
17.002	Labor Force Statistics	736,212
17.005	Compensation and Working Conditions Data	65,816
17.225	Unemployment Insurance	81,710,193
17.235	Senior Community Service Employment Program	505,450
17.245	Trade Adjustment Assistance-Workers	882,984
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	2,689,781
17.266	Work Incentive Grants: From MJTP	568
17.267	Incentive Grants - WIA Section 503	31,050
17.269	Community Based Job Training Grants	20,697
17.271	Work Opportunity Tax Credit Program (WOTC) and Welfare-to-Work Tax Credit (WtWTC	81,165
17.273	Temporary Labor Certification for Foreign Workers	58,022
17.504	Consultation Agreements	428,249
17.600	Mine Health and Safety Grants	125,075
	TOTAL	**$87,335,262**
EMPLOYMENT SERVICES CLUSTER		
17.207	Employment Service	5,467,891
17.207	Employment Service: From North Carolina	5,497
17.801	Disabled Veterans Outreach Program (DVOP)	483,211
17.804	Local Veterans' Employment Representative Program	73,950
	TOTAL	**$6,030,549**
WORKFORCE INVESTMENT ACT CLUSTER		
17.258	WIA Adult Program	2,437,958
17.259	WIA Youth Activities	2,444,660
17.260	WIA Dislocated Workers	2,427,575
	TOTAL	**$7,310,193**
DEPARTMENT OF STATE		
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	46,537
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars: From World Learing	83,479
19.404	Professional Development International Educators/Administrators	102,220

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
	TOTAL	$232,236

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	714,836
20.218	National Motor Carrier Safety	783,148
20.219	Recreational Trails Program	960,447
20.509	Formula Grants for Other Than Urbanized Areas	7,730,105
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	638,972
20.514	Transit Planning and Research	145,684
20.607	Alcohol Open Container Requirements	1,107,740
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	257,524
20.700	Pipeline Safety	18,455
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	86,381
20.999	Miscellaneous Non-Major Grants	68,419
	TOTAL	$12,511,711

FEDERAL TRANSIT CLUSTER

20.500	Federal Transit Capital Improvement Grants	1,831
20.507	Federal Transit - Formula Grants	703,947
	TOTAL	$705,778

HIGHWAY PLAN. AND CONST. CLUSTER

20.205	Highway Planning and Construction	300,778,330
	TOTAL	$300,778,330

HIGHWAY SAFETY CLUSTER

20.600	State and Community Highway Safety	1,397,685
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	1,113,531
20.602	Occupant Protection	324,244
20.604	Safety Incentive Grants for Use of Seatbelts	179,170
20.605	Saftety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	111,267
20.610	State Traffic Safety Information System Improvement Grants	123,600
20.611	Incentive Grant Program to Prohibit Racial Profiling	6,212
	TOTAL	$3,255,709

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

			AMOUNT
DEPARTMENT OF TREASURY			
21.999	Miscellaneous Non-Major Grants		70,938
		TOTAL	**$70,938**
OFFICE OF PERSONNEL MANAGEMENT			
27.001	Federal Civil Service Employment		(2,839)
		TOTAL	**(2,839)**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.002	Employment Discrimination-State and Local Fair Employment Practices		213,609
		TOTAL	**$213,609**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		73,785
39.011	Election Reform Payments		166,735
		TOTAL	**$240,520**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Aerospace Education Services Program		48,244
43.001	Aerospace Education Services Program: From Yellostone Eco. Res.Ctr.		1,769
43.002	Technology Transfer: From Wright Patterson AF Base		41,777
43.999	Miscellaneous Non-Major Grants		222,376
		TOTAL	**$314,166**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES			
45.024	Promotion of the Arts-Grants to Organizations and Individuals		23,470
45.025	Promotion of the Arts-Partnership Agreements		618,876
45.129	Promotion of the Humanities-Federal/State Partnership		15,065
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm Humanities		5,963
45.149	Promotion of the Humanities Division of Preservation and Access		9,850
45.163	Promotion of the Humanities-Seminars and Institutes		21,312
45.167	Promotion of the Humanities-Ext the Reach Grants to Presidentially-Design Minority Inst.		72,400

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
45.310	State Library Program	881,264
45.313	Laura Bush 21st Century Librarian Program	153,926
	TOTAL	**$1,802,126**

NATIONAL SCIENCE FOUNDATION

47.049	Mathematical and Physical Sciences	26,025
47.074	Biological Sciences	197,587
47.075	Social, Behavioral, and Economic Sciences	28,996
47.076	Education and Human Resources	3,064,666
47.076	Education and Human Resources: From Salish Kootenai College	64,635
	TOTAL	**$3,381,909**

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant	19,069
59.005	Internet-Based Technical Assistance	330,169
59.037	Small Business Development Center	504,985
59.037	Small Business Development Center: From TechRanch	16,770
	TOTAL	**$870,993**

DEPARTMENT OF VETERANS AFFAIRS

64.010	Veterans Nursing Home Care	27,870
64.014	Veterans State Domiciliary Care	89,000
64.015	Veterans State Nursing Home Care	3,274,165
64.124	All-Volunteer Force Educational Assistance	112,814
64.203	State Cemetery Grants	52,276
	TOTAL	**$3,556,125**

ENVIRONMENTAL PROTECTION AGENCY

66.433	State Underground Water Source Protection	146,920
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	24,480
66.454	Water Quality Management Planning	100,136
66.458	Capitalization Grants For State Revolving Funds	3,879,571
66.460	Nonpoint Source Implementation Grants	2,700,386
66.461	Regional Wetland Program Development Grants	370,255
66.468	Capitalization Grants for Drinking Water State Revolving Fund	9,694,131

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	218,976
66.474	Water Protection Grants to the States	51,491
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	252,525
66.514	Science To Achieve Results (STAR) Fellowship Program	23,802
66.605	Performance Partnership Grants	6,075,053
66.608	One Stop Reporting	633,573
66.708	Pollution Prevention Grants Program	162,377
66.717	Source Reduction Assistance	24,530
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	2,589,107
66.805	Leaking Underground Storage Tank Trust Fund Program	600,397
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	216,826
66.814	Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements: From Colorado State University	85,141
66.817	State and Tribal Response Program Grants	697,120
66.999	Miscellaneous Non-Major Grants: From Eastern Research Group	2,168
	TOTAL	**$28,548,965**

DEPARTMENT OF ENERGY

81.041	State Energy Program	265,883
81.042	Weatherization Assistance for Low-Income Persons	3,148,534
81.049	Office of Science Financial Assistance Program: From Inland NW Res. All.	484,879
81.086	Conservation Research and Development	2,279,936
81.086	Conservation Research and Development: From Kootenai Tribe	(61)
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	112,111
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	24,395
81.119	State Energy Program Special Projects	85,410
	TOTAL	**$6,401,087**

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	1,458,709
84.010	Title I Grants To Local Education Agencies	42,093,182
84.011	Migrant Education - Basic State Grant Program	1,208,283
84.013	Title I Program for Neglected and Delinquent Children	117,400

State of Montana
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		AMOUNT
84.016	Undergraduate International Studies and Foreign Language	38,555
84.048	Vocational Education - Basic Grants to States	5,547,744
84.069	Leveraging Educational Assistance Partnership	222,510
84.083	Women's Educational Equity Act Program	146,014
84.116	Fund for the Improvement of Postsecondary Education	523,788
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	10,704,756
84.128	Rehabilitation Services-Service Projects	56,082
84.129	Rehabilitation Long-Term Training	189,713
84.133	National Institute on Disability and Rehabilitation Research: From Brain Injury Assoc.	12,512
84.133	National Institute on Disability and Rehabilitation Research: From Or. Health Sci. Univ.	23,771
84.144	Migrant Education - Coordination Program(B)	191,978
84.169	Independent Living-State Grants	338,116
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	240,401
84.181	Special Education-Grants for Infants and Families with Disabilities	2,085,188
84.184	Safe and Drug-Free Schools and Communities - National Programs	105,970
84.184	Safe and Drug-Free Schools and Communities - National Programs: From Hamilton School Dist.	34,347
84.185	Byrd Honors Scholarships	129,475
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,801,757
84.187	Supported Employment Services for Individuals with Severe Disabilities	280,138
84.195	Bilingual Education - Professional Development	16,374
84.196	Education for Homeless Children and Youth	188,124
84.213	Even Start - State Educational Agencies	688,646
84.215	Fund for Improvement of Education	1,037,473
84.215	Fund for Improvement of Education: From Twin Bridges School	170,572
84.224	State Grants for Assistive Technology	802,686
84.224	State Grants for Assistive Technology: From Assist Tech Act Programs	7
84.235	Rehabilitation Services Demonstration and Training Programs	136,399
84.243	Tech-Prep Education	514,574
84.256	Freely Associated States - Education Grant Program: From U of CA-Ntl Writ Prj	1,917
84.264	Rehabilitation Training-Continuing Education	4,957
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service	68,899
84.287	Twenty-First Century Community Learning Centers	4,971,359

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		AMOUNT
84.293	Foreign Language Assistance	118,832
84.298	State Grants for Innovative Programs	593,460
84.299	Indian Education - Special Programs	419,795
84.318	Education Technology State Grants	1,922,964
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	598,024
84.324	Special Education-Research and Innovation to Improve Services and Results for Children	215,799
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Ca. St. Univ - Northridge	19,717
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	848,440
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	147,148
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results: From Ca. St. Univ - Northridge	73,686
84.330	Advanced Placement Program	449,822
84.331	Grants to States for Incarcerated Youth Offenders	2,717
84.332	Comprehensive School Reform Demonstration	503,477
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	3,433,833
84.335	Child Care Access Means Parents in School	48,983
84.346	Vocational Education-Occupational and Employment Information State Grants	1,200
84.357	Reading First State Grants	3,106,054
84.358	Rural Education	438,938
84.360	Dropout Prevention Programs	48,620
84.364	Literacy through School Libraries	82,881
84.365	English Language Acquisition Grants	506,593
84.366	Mathematics and Science Partnerships	954,437
84.366	Mathematics and Science Partnerships: From Libby School District	6,274
84.367	Improving Teacher Quality State Grants	13,955,968
84.369	Grants for State Assessments and Related Activities	4,062,059
84.373	Special Education -Technical Assistance on State Data Collection	133,059
84.938	Hurricane Education Recovery	21,250
84.998	American Printing House for the Blind	2,028
84.999	Miscellaneous Non-Major Grants	108,367
84.999	Miscellaneous Non-Major Grants: From U of CA-Ntl Writ Prj	51,977
	TOTAL	**$109,028,778**

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		AMOUNT
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	33,615,079
84.173	Special Education - Preschool Grants	1,243,860
	TOTAL	**$34,858,939**
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,722,057
84.032	Federal Family Education Loans	2,780,975
84.033	Federal Work - Study Program	2,049,032
84.038	Federal Perkins Loan Program - Federal Capital Contributions	248,982
84.063	Federal Pell Grant Program	29,836,382
84.375	Literacy through School Libraries	622,546
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants	1,069,733
93.364	Nursing Student Loan Program	10,445
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	527,490
	TOTAL	**$38,867,642**
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,484,666
84.044	TRIO-Talent Search	920,136
84.047	TRIO-Upward Bound	1,524,525
84.066	TRIO-Educational Opportunity Centers	631,818
84.217	McNair Post - Baccalaureate Achievement	(6)
	TOTAL	**$4,561,139**
ELECTION ASSISTANCE COMMISSION		
90.401	Help America Vote Act Requirements Payments	1,121,118
	TOTAL	**$1,121,118**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	1,548,861
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	47,439
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	69,400
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	105,929

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		AMOUNT
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	71,254
93.052	Nation Family Caregiver Support Program	744,449
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	165,609
93.104	Comprehensive Community Mental Health Services for Children with Ser Emotl Disturb (SED)	1,310,911
93.110	Maternal and Child Health Federal Consolidated Programs	336,729
93.116	Project Grant and Cooperative for Tuberculosis Control Program	154,346
93.127	Emergency Medical Services for Children	111,732
93.130	Primary Care Services-Resource Coordination and Development	297,354
93.150	Projects for Assistance in Transition from Homelessness (PATH)	291,951
93.157	Centers of Excellence	119,131
93.161	Health Program for Toxic Substances and Disease Registry	374,422
93.184	Disabilities Prevention	256,743
93.217	Family Planning Services	2,216,409
93.230	Consolidated Knowledge Development and Application Program	586,915
93.234	Traumatic Brain Injury-State Demonstration Grant Program	74,768
93.235	Abstinence Education	118,711
93.241	State Rural Hospital Flexibility Program	611,819
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,904,704
93.251	Universal Newborn Hearing Screening	126,763
93.256	State Planning Grant - Health Care Access for the Uninsured	166,765
93.259	Rural Access to Emergency Devices Grant	205,703
93.263	Occupational Safety and Health Training Grant	396
93.268	Immunization Grant	7,248,880
93.279	Drug Abuse Research Programs	29,112
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	12,542,202
93.307	Minority Health and Health Disparities Research	8,437,500
93.361	Nursing Research: From University of Washington	125,535
93.389	National Center for Research Resources	362,572
93.556	Promoting Safe and Stable Families	1,490,718
93.558	Temporary Assistance for Needy Families (TANF)	26,276,886
93.563	Child Support Enforcement	9,518,504
93.566	Refugee and Entrant Assistance-State Administered Programs	142,483

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		AMOUNT
93.568	Low Income Home Energy Assistance	11,566,278
93.569	Community Services Block Grant	2,864,869
93.570	Community Services Block Grant - Discretionary Awards: From Nat. Fish & Wild. Fndn.	19,561
93.586	State Court Improvement Program	122,509
93.590	Community-Based Family Resource and Support Grants	215,170
93.597	Grants to States for Access and Visitation Programs	95,487
93.599	Chafee Education and Training Vouchers Program (ETV)	149,677
93.600	Head Start	134,914
93.617	Voting Access for Individuals with Disabilities - Grants to States	57,000
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	47,553
93.630	Developmental Disabilities Basic Support and Advocacy Grants	476,599
93.632	University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	479,321
93.643	Children's Justice Grants to States	59,199
93.645	Child Welfare Service-State Grant	812,867
93.658	Foster Care Title IV-E	11,391,789
93.659	Adoption Assistance	6,063,526
93.667	Social Services Block Grant	7,423,823
93.669	Child Abuse and Neglect State Grants	146,644
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	908,064
93.674	Chafee Foster Care Independence Program	403,728
93.767	State Children's Insurance Program	18,458,314
93.768	Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	267,924
93.789	Alternatives to Psychiatric Residential Treatment Facilities for Children	108
93.822	Health Careers Opportunities Program	265,813
93.894	Resource and Manpower Development in the Environmental Health Sciences	119,026
93.912	Rural Outreach-Rural Network Developmental Program: From Crit. Illnes & Trauma Fo.	(2,462)
93.913	Grants to States for Operation of Offices of Rural Health	172,731
93.917	HIV Care Formula Grants	858,772
93.938	Cooperative Agreements to Support School Health Programs	247,935
93.940	HIV Prevention Activities-Health Department Based	1,241,791
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	82,135
93.945	Assistance Program for Chronic Disease Prevention	975,532

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		AMOUNT
93.958	Block Grants for Community Mental Health Services	1,261,685
93.959	Block Grants for Prevention and Treatment of Substance Abuse	7,059,032
93.969	Geriatric Education Centers	158,266
93.970	Health Professions Recruitment Program for Indians	457,999
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	337,055
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	690,303
93.991	Preventive Health and Health Services Block Grant	670,982
93.994	Maternal and Child Health Services Block Grant to the States	2,378,401
93.996	Bioterrorism Training and Curriculum Development Program: From St. Vincent Health	139,837
93.999	Miscellaneous Non-Major Grants	156,428
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	23,848
	TOTAL	**$157,653,638**
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,811,451
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,764,759
	TOTAL	**$4,576,210**
CHILD CARE CLUSTER		
93.575	Child Care and Development Block Grant	15,267,014
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	7,626,948
	TOTAL	**$22,893,962**
MEDICAID CLUSTER		
93.775	State Medicaid Fraud Control Units	499,971
93.776	Hurricane Katrina Relief	11,299
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,270,126
93.778	Medical Assistance Program	537,737,282
	TOTAL	**$540,518,678**

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	137,789
94.004	Learn and Serve America-School and Community Based Programs	259,905
94.006	AmeriCorps	2,392,784
94.006	AmeriCorps: From West. Washington Univ.	3,500

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		AMOUNT
94.007	Planning and Program Development Grants	50,475
94.007	Planning and Program Development Grants: From Denver Options, Inc	35,078
94.009	Training and Technical Assistance	76,889
94.013	Volunteers in Service to America	619,131
	TOTAL	**$3,575,551**

SOCIAL SECURITY ADMINISTRATION

96.007	Social Security Research and Demonstration	98,521
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	72,770
	TOTAL	**$171,291**

DISABILITY INSURANCE/SSI CLUSTER

96.001	Social Security - Disability Insurance	5,454,957
	TOTAL	**$5,454,957**

HOMELAND SECURITY

97.005	State and Local Homeland Security Training Program	1,148
97.012	Boating Safety Financial Assistance	458,391
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	534,825
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	171,192
97.029	Flood Mitigation Assistance	8,780
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	611
97.039	Hazard Mitigation Grant	206,808
97.041	National Dam Safety Program	107,660
97.042	Emergency Management Performance Grants	1,559,721
97.043	State Fire Training Systems Grants	27,294
97.044	Assistance to Firefighters Grant	39,030
97.045	Cooperating Technical Partners	548,683
97.070	Map Modernization Management Support	142,711
	TOTAL	**$3,806,854**

HOMELAND SECURITY CLUSTER

97.004	State Domestic Preparedness Equipment Support Program	7,268,216
97.067	Homeland Security Grant Program	4,347,463
	TOTAL	**$11,615,679**

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		AMOUNT
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001	USAID Foreign Assistance for Programs Overseas: From Association Liaison Off	64,190
	TOTAL	**$64,190**
OTHER FEDERAL		
99.999	Other Federal	79,492
99.999	Other Federal: From Academy for Ed. Devel.	261,306
	TOTAL	**$340,798**

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RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

		AMOUNT
10.001	Agricultural Research-Basic and Applied Research	117,610
10.025	Plant and Animal Disease, Pest Control, and Animal Care	194,860
10.028	Wildlife Services: From Utah State University	14,627
10.062	Water Bank Program	47,767
10.156	Federal-State Marketing Improvement Program	78,053
10.200	Grants for Agricultural Research, Special Research Grants	3,827,884
10.200	Grants for Agricultural Research, Special Research Grants: From University of Idaho	66,548
10.200	Grants for Agricultural Research, Special Research Grants: From Kansas State University	40,610
10.200	Grants for Agricultural Research, Special Research Grants: From New Mexico St Univ.	415,813
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota St Univ.	30,201
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	30,363
10.200	Grants for Agricultural Research, Special Research Grants: From S. Dak. State Unv.	138,286
10.200	Grants for Agricultural Research, Special Research Grants: From Unv. of CA. - Davis	328
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State University	108,765
10.200	Grants for Agricultural Research, Special Research Grants: From University of Washington	(2,760)
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State Univ.	16,694
10.202	Cooperative Forestry Research: From University of Tennessee	6,179
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,034,018
10.206	Grants for Agricultural Research-Competitive Research Grants	1,501,040
10.206	Grants for Agricultural Research-Competitive Research Grants: From Colorado State University	(4,317)
10.206	Grants for Agricultural Research-Competitive Research Grants: From Fort Peck C.C.	(2)
10.206	Grants for Agricultural Research-Competitive Research Grants: From University of Minnesota	25,256
10.206	Grants for Agricultural Research-Competitive Research Grants: From Unv. of CA. - Davis	90,307

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		AMOUNT
10.206	Grants for Agricultural Research-Competitive Research Grants: From Utah State University	56,449
10.212	Small Business Innovation Research: From Amazing Grains Co	3,125
10.212	Small Business Innovation Research: From MT Microbial Products	45,862
10.215	Sustainable Agriculture Research and Education	26,705
10.215	Sustainable Agriculture Research and Education: From Utah State University	35,977
10.217	Higher Education Challenge Grants	171,434
10.217	Higher Education Challenge Grants: From University of Nebraska	38,848
10.227	1994 Institutions Research Program: From Fort Belknap College	28,143
10.227	1994 Institutions Research Program: From Fort Peck C.C.	58,106
10.250	Agricultural and Rural Economic Research	350,905
10.250	Agricultural and Rural Economic Research: From University of Arizona	894
10.303	Integrated Programs	235,151
10.303	Integrated Programs: From Colorado State University	64,140
10.303	Integrated Programs: From Unv. of CA. - Davis	61,229
10.304	Homeland Security - Agricultural: From Kansas State University	71,944
10.305	International Science and Education Grants	13,831
10.352	Value-Added Producer Grants: From Agricultural Marketing	8,484
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	87,846
10.455	Community Outreach and Assistance Partnership Program	93,810
10.456	Rural Community Development Initiative	107,000
10.457	Commodity Partnerships for Risk Management Education	43,181
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	6,249
10.500	Cooperative Extension Service	7
10.500	Cooperative Extension Service: From Kansas State University	5,690
10.500	Cooperative Extension Service: From Utah State University	(6)
10.500	Cooperative Extension Service: From Washington State Univ.	19,542
10.500	Cooperative Extension Service: From University of Wyoming	15,215
10.567	Food Distribution Program on Indian Reservations: From Fort Peck C.C.	2,583
10.652	Forestry Research	4,231,424
10.652	Forestry Research: From Nat. Fish & Wild. Fndn.	45,712
10.652	Forestry Research: From Arthur Carhart	65,341
10.652	Forestry Research: From Missoula Tech Dev. Ctr.	25,746

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		AMOUNT
10.652	Forestry Research: From Utah State University	53,668
10.664	Cooperative Forestry Assistance	42,347
10.664	Cooperative Forestry Assistance: From University of Idaho	18,686
10.672	Rural Development, Forestry, and Communities	1,454
10.672	Rural Development, Forestry, and Communities: From Univ. of Idaho	31,826
10.678	Forest Stewardship Program	25,315
10.680	Forest Health Protection	15,286
10.761	Technical Assistance and Training Grants	(2)
10.901	Resource Conservation and Development	251
10.902	Soil and Water Conservation	27,993
10.912	Environmental Quality Incentives Program	167,531
10.961	Scientific Cooperation and Research	3,103
10.999	Miscellaneous Non-Major Grants	7,635
10.R&D	Miscellaneous Research and Development	310,568
10.R&D	Miscellaneous Research and Development: From Fort Belknap Com. Co.	24,972
10.R&D	Miscellaneous Research and Development: From Nat. Fish & Wildlife Fo.	(6,593)
10.R&D	Miscellaneous Research and Development: From Utah State University	43,457
10.R&D	Miscellaneous Research and Development: From Gallatin Co. Cons. Dist.	10,468
	TOTAL	**$15,576,662**

DEPARTMENT OF COMMERCE

11.302	Economic Development Support for Planning Organizations: From Great Northern Develop.	349
11.303	Economic Development-Technical Assistance	99,652
11.427	Fisheries Development & Utilization Research	34,706
11.431	Climate and Atmospheric Research	23,161
11.437	Pacific Fisheries Data Program	22,692
11.439	Marine Mammal Data Program	89,024
11.439	Marine Mammal Data Program: From Marine Mammal Comm	24,934
11.440	Environmental Sciences, Applications, Data, and Education	8,663
11.611	Manufacturing Extension Partnership	511,999
	TOTAL	**$815,180**

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		AMOUNT
DEPARTMENT OF DEFENSE		
12.002	Procurement Technical Assistance For Business Firms	3,460,683
12.002	Procurement Technical Assistance For Business Firms: From Juneau Economic Deve	54,923
12.100	Aquatic Plant Control	(11,171)
12.106	Flood Control Projects	78,104
12.114	Collaborative Research and Development	361,979
12.114	Collaborative Research and Development: From Alion Science	306,786
12.300	Basic and Applied Scientific Research	2,042,620
12.300	Basic and Applied Scientific Research: From Aerodyne Research Inc	6,714
12.300	Basic and Applied Scientific Research: From Center for Innovation Inc	(2,486)
12.300	Basic and Applied Scientific Research: From Concurrent Technology	246,254
12.300	Basic and Applied Scientific Research: From Ligocyte Pharmacy	166,723
12.300	Basic and Applied Scientific Research: From S2 Corp	649,998
12.420	Military Medical Research and Development	1,190,094
12.420	Military Medical Research and Development: From US Army Medical Research	134,243
12.431	Basic Scientific Research	1,619,729
12.431	Basic Scientific Research: From University of Chicago	30,287
12.630	Basic, Applied, and Advanced Research in Science and Engineering	421,647
12.800	Air Force Defense Research Sciences Program	1,216,758
12.800	Air Force Defense Research Sciences Program: From Aerodyne Research Inc	7,889
12.800	Air Force Defense Research Sciences Program: From Alameda Applied Sci	253
12.800	Air Force Defense Research Sciences Program: From Princeton University	138,726
12.800	Air Force Defense Research Sciences Program: From Resonon Inc	25,186
12.800	Air Force Defense Research Sciences Program: From S. Dak. Sch. of Mines	142,250
12.800	Air Force Defense Research Sciences Program: From Universal Technology Corp	80,601
12.901	Mathematical Sciences Grants Program	6,502
12.910	Reseach and Technology Development	376,641
12.910	Reseach and Technology Development: From Alutiiq Security	13,084
12.910	Reseach and Technology Development: From S2 Corp	62,924
12.910	Reseach and Technology Development: From Space & Naval Warfare	125,117
12.999	Miscellaneous Non-Major Grants	8,338

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		AMOUNT
12.999	Miscellaneous Non-Major Grants: From Colarado State Univ.	71,030
12.999	Miscellaneous Non-Major Grants: From Universal Technical Resou	292,007
12.R&D	Miscellaneous Research and Development: From MicroSat Systems Inc	17,235
12.R&D	Miscellaneous Research and Development: From Na Reconnaissance Office	127,566
12.R&D	Miscellaneous Research and Development: From Northrop Grumman	13,298
	TOTAL	**$13,482,532**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.862	Indian Community Development Block Grant Program	(16,059)
	TOTAL	**($16,059)**
DEPARTMENT OF THE INTERIOR		
15.034	Agriculture on Indian Lands	5,192
15.130	Indian Education: Assistance to Schools	(11,248)
15.199	Tongue River Rehabilitation Grant	1,330
15.222	Cooperative Inspection Agreements with States and Tribes	252,060
15.224	Cultural Resource Management	1,029,982
15.225	Recreation Resource Management	1,846
15.228	Wildland Urban Interface Community and Rural Fire Assistance	18,894
15.231	Fish, Wildlife and Plant Conservation Resource Management	116,436
15.252	Abandoned Mine Land Reclamation (AMLR) Program	82,084
15.299	Miscellaneous Non-Major Grants	947,120
15.299	Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Fndn.	(65)
15.504	Water Reclamation and Reuse Program	67,399
15.517	Fish and Wildlife Coordination Act	5,727
15.608	Fish and Wildlife Management Assistance	166,048
15.608	Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Fndn.	14,381
15.611	Wildlife Restoration	13,165
15.615	Cooperative Endangered Species Conservation Fund	98,181
15.617	Wildlife Conservation and Appreciation	(304)
15.634	State Wildlife Grants	22,584
15.699	USDI/Fish & Wildlife Service	62,040
15.699	USDI/Fish & Wildlife Service: From San Diego Fish & Parks	17,900
15.699	USDI/Fish & Wildlife Service: From Nez Pierce Tribe	75,184

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		AMOUNT
15.805	Assistance to State Water Resources Research Institutes	90,113
15.807	Earthquake Hazards Reduction Program	3,142
15.808	U.S. Geological Survey-Research and Data Acquisition	916,337
15.808	U.S. Geological Survey-Research and Data Acquisition: From Auburn University	17,269
15.808	U.S. Geological Survey-Research and Data Acquisition: From America View Inc	111,669
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	5,049
15.810	National Cooperative Geologic Mapping Program	153,240
15.811	Gap Analysis Program	212,212
15.812	Cooperative Research Units Program	1,158,362
15.899	USDI/Geological Survey	354
15.904	Historic Preservation Fund Grants-in-Aid	33,249
15.910	National Natural Landmarks Program	227,274
15.915	Technical Preservation Services	184,214
15.915	Technical Preservation Services: From Univ. of Wyoming -NPS	647
15.916	Outdoor Recreation: Acquisition, Development and Planning	31,671
15.921	Rivers, Trails and Conservation Assistance	43,720
15.923	National Center for Preservation Technology and Training	31,868
15.999	Miscellaneous Non-Major Grants	1,701,486
15.999	Miscellaneous Non-Major Grants: From University of Alaska	24,209
15.999	Miscellaneous Non-Major Grants: From University of Wyoming	229
15.DAS	BLM Cooperative Agreement	13,995
15.R&D	Miscellaneous Research and Development	1,503,007
	TOTAL	**$9,449,252**

DEPARTMENT OF JUSTICE

16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	82,639
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	135,193
16.609	Community Prosecution and Project Safe Neighborhoods	3,394
16.710	Public Safety Partnership and Community Policing Grants	90,366
	TOTAL	**$311,592**

DEPARTMENT OF LABOR

17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	81,695

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

			AMOUNT
17.268	H-1B High Growth Job Training Grants		39,750
		TOTAL	**$121,445**
DEPARTMENT OF STATE			
19.500	Middle East Partnership Initiative (MEPI)		387,896
		TOTAL	**$387,896**
DEPARTMENT OF TRANSPORTATION			
20.106	Airport Improvement Program: From Bert Mooney Airport Autho		130,474
20.108	Aviation Research Grants: From Aerodyne Research Inc		45,000
20.200	Federal Highway Administration		2,548,089
20.200	Federal Highway Administration: From Board of Blaine County Co		26,008
20.200	Federal Highway Administration: From Louis Berger Group Inc		119,827
20.200	Federal Highway Administration: From National Academy of Sci		12,620
20.205	Highway Planning and Construction		235,096
20.205	Highway Planning and Construction: From Utah State University		208
20.215	Highway Training and Education: From Bedford Research LLC		58,685
20.215	Highway Training and Education: From S. Carolina Univ.		31,260
20.600	State and Community Highway Safety		235,009
20.701	University Transportation Centers Program		8,720
20.704	RITA Hydrogen		234,449
20.762	Research Grants		140,319
20.R&D	Miscellanous Non-Major		29,116
20.R&D	Miscellanous Non-Major: From Calf Dept of Transport		65,677
		TOTAL	**$3,920,557**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property: From University of Alaska		8,832
		TOTAL	**$8,832**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Aerospace Education Services Program		4,386,396
43.001	Aerospace Education Services Program: From Portland State Univ.		61,968
43.001	Aerospace Education Services Program: From University of Minnesota		69,634
43.001	Aerospace Education Services Program: From Auburn University		48,533

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
43.001	Aerospace Education Services Program: From Jet Propulsion Lab	2,580
43.001	Aerospace Education Services Program: From Univ. of Calif.- Berkeley	64,776
43.001	Aerospace Education Services Program: From College of Charleston	6,013
43.001	Aerospace Education Services Program: From Calf State - Montery Bay	3,870
43.001	Aerospace Education Services Program: From Goddard Space Fligh	173,412
43.001	Aerospace Education Services Program: From Johns Hopkins University	6,476
43.001	Aerospace Education Services Program: From Lockheed Martin	369,945
43.001	Aerospace Education Services Program: From Salish Kootenai College	26,927
43.001	Aerospace Education Services Program: From Smithsonian Astro Obs.	45,146
43.001	Aerospace Education Services Program: From SouthWest Research Inc	23,643
43.001	Aerospace Education Services Program: From University of Colorado	886
43.001	Aerospace Education Services Program: From University of Washington	17,421
43.002	Technology Transfer	1,579,413
43.002	Technology Transfer: From Carnegie Institution	57,454
43.002	Technology Transfer: From Calf State - Montery Bay	20,426
43.002	Technology Transfer: From Univ. of North Dakota	54,269
43.999	Miscellaneous Non-Major Grants	1,027,512
43.999	Miscellaneous Non-Major Grants: From Colarado State Univ.	33,846
43.999	Miscellaneous Non-Major Grants: From SW Research Institute	95,334
43.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	61,611
43.999	Miscellaneous Non-Major Grants: From Jet Propulsion Lab	40,370
43.999	Miscellaneous Non-Major Grants: From Qualitech Systems	45,620
	TOTAL	**$8,323,481**

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.160	Promotion of the Humanities-Fellowships and Stipends	1,075
45.301	Museums for America	41,539
	TOTAL	**$42,614**

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	503,556
47.041	Engineering Grants: From Purity Systems	48,921
47.041	Engineering Grants: From Univ. of Calif.- Berkeley	29,662
47.041	Engineering Grants: From University of Minnesota	2,903

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
47.041	Engineering Grants: From Resonon Inc	61,985
47.041	Engineering Grants: From Wavelength Electronics	1,189
47.049	Mathematical and Physical Sciences	1,658,353
47.049	Mathematical and Physical Sciences: From University of Missouri	3,780
47.049	Mathematical and Physical Sciences: From Optical Astronomy Observ	59,146
47.049	Mathematical and Physical Sciences: From University of California	99,144
47.050	Geosciences	1,947,999
47.050	Geosciences: From Consort of Univ Adv	25,289
47.050	Geosciences: From Univ. of Oregon	29
47.050	Geosciences: From Inc. Research Institution	(890)
47.070	Computer and Information Science and Engineering	365,149
47.074	Biological Sciences	6,287,540
47.074	Biological Sciences: From Duke University	202,539
47.074	Biological Sciences: From Amer. Inst. of Bio. Sci.	17,010
47.074	Biological Sciences: From Univ. of Calif.- Berkeley	249,504
47.074	Biological Sciences: From Harvard University	35,916
47.074	Biological Sciences: From Unv. of CA. - Davis	21,316
47.074	Biological Sciences: From University of Arkansas	4,764
47.074	Biological Sciences: From Idaho State University	2,449
47.075	Social, Behavioral, and Economic Sciences	311,720
47.075	Social, Behavioral, and Economic Sciences: From US Civilian Research	8,677
47.076	Education and Human Resources	3,173,952
47.076	Education and Human Resources: From Salish Kootenai College	89,655
47.076	Education and Human Resources: From College William & Mary	12,553
47.076	Education and Human Resources: From Ithaca College	1
47.076	Education and Human Resources: From Na Science Teachers Asso	521,943
47.078	Polar Programs	436,139
47.078	Polar Programs: From San Diego St Univ.	68,723
47.078	Polar Programs: From University of Nebraska	14,528
47.079	International Science and Engineering (OISE): From US Civilian Research & De	9,420
47.999	Miscellaneous Non-Major Grants: From Res. Inst. for Seismology	73,069
47.R&D	Miscellaneous Research and Development	38,198

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
47.R&D	Miscellaneous Research and Development: From Ohio State Univ Res	169,027
	TOTAL	**$16,554,858**
SMALL BUSINESS ADMINISTRATION		
59.000	Small Business Administration-Technical Assistance Grant	31,919
59.051	New Markets Venture Capital Program, Operational Assistance (OA) Grants	1,053,607
59.R&D	Miscellaneous Research and Development: From TechRanch	25,353
	TOTAL	**$1,110,879**
ENVIRONMENTAL PROTECTION AGENCY		
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Health Effect Inst.	124,471
66.112	Surveys, Studies, Investigations, Training, Demonstrations, and Special Purpose Grants	22,765
66.419	Water Pollution Control-State and Interstate Program Support	86,036
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	29,442
66.460	Nonpoint Source Implementation Grants: From Stillwater County Conserv	(2,177)
66.460	Nonpoint Source Implementation Grants: From Liberty County Conservati	(3,263)
66.463	Water Quality Cooperative Agreements	18,944
66.500	Environmental Protection: Consolidated Research	38,841
66.500	Environmental Protection: Consolidated Research: From Colorado State University	9,749
66.509	Science To Achieve Results (STAR) Research Program	105,127
66.606	Surveys, Studies, Investigations and Special Purpose Grants	345,093
66.608	One Stop Reporting: From Pacific Northwest Poll	3,249
66.708	Pollution Prevention Grants Program	91,471
66.709	Multi-Media Capacity Building Grants for States and Tribes	13,301
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	38,352
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From CH2M Hill	(809)
66.R&D	Miscellaneous Research and Development	522,330
66.R&D	Miscellaneous Research and Development: From American Waterworks Ass	63,580
	TOTAL	**$1,506,502**
DEPARTMENT OF ENERGY		
81.049	Office of Science Financial Assistance Program	737,514
81.049	Office of Science Financial Assistance Program: From Inland NW Res. All.	81,349

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
81.049	Office of Science Financial Assistance Program: From University of California	39,135
81.049	Office of Science Financial Assistance Program: From UT Battelle, LLC	5,568
81.049	Office of Science Financial Assistance Program: From Aerodyne Research Inc	8,425
81.049	Office of Science Financial Assistance Program: From Michigan State Univ	71,378
81.049	Office of Science Financial Assistance Program: From University of Wyoming	4,296
81.057	University Coal Research	106,706
81.064	Office of Scientific and Technical Information: From Miami University of Ohio	66,437
81.079	Regional Biomass Energy Programs	54,355
81.086	Conservation Research and Development	(5,233)
81.086	Conservation Research and Development: From Pacific State Maries	135,564
81.087	Renewable Energy Research and Development	317,068
81.087	Renewable Energy Research and Development: From Inland NW Res. All.	10,249
81.087	Renewable Energy Research and Development: From Battelle Energy Alliance	144,340
81.087	Renewable Energy Research and Development: From Big Sky Economic Dev	21,190
81.087	Renewable Energy Research and Development: From Consortium for Plant Bio	27,135
81.087	Renewable Energy Research and Development: From Pacific Northwest Lab	2,003,533
81.087	Renewable Energy Research and Development: From Sandia National Lab	123,137
81.087	Renewable Energy Research and Development: From Siemens Power	28,997
81.089	Fossil Energy Research and Development	3,765,655
81.089	Fossil Energy Research and Development: From Inland Northwest Res	46,546
81.089	Fossil Energy Research and Development: From Virginia Polytechnic Inst	79,189
81.104	Office of Environmental Cleanup and Acceleration	94,368
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	191,628
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From West Virg. Univ. Res. Co	40,603
81.119	State Energy Program Special Projects	58,124
81.121	Nuclear Energy Research, Development and Demonstration: From Idaho National Lab	216,498
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	591,226
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis: From Washington State Univ.	22,777
81.123	NNSA Minority Serving Institutions (MSI) Program: From Los Alamos Nat	85,636
81.999	Miscellaneous Non-Major Grants: From Colorado School of Mines	130,444
81.999	Miscellaneous Non-Major Grants: From Los Alamos National Labor	63,697

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
81.R&D	Miscellaneous Research and Development: From Inland Northwest Res	54,825
	TOTAL	**$9,422,359**
DEPARTMENT OF EDUCATION		
84.017	International Research and Studies	90,104
84.019	Overseas Faculty Research Abroad	16,974
84.120	Minority Science and Engineering Improvement	40,221
84.133	National Institute on Disability and Rehabilitation Research	587,879
84.133	National Institute on Disability and Rehabilitation Research: From Or. Health Sci. Univ.	77,206
84.133	National Institute on Disability and Rehabilitation Research: From University of Kansas	1,637
84.215	Fund for Improvement of Education	64,630
84.215	Fund for Improvement of Education: From Bozeman School District	195,700
84.298	State Grants for Innovative Programs	201,883
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Univ of CA Riverside	24,255
84.350	Transition to Teaching	1,154,423
93.647	Social Services Research and Demonstration	27,080
	TOTAL	**$2,481,992**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.051	New Demonstration Grants to States with Respect to Alzheimer's Disease	276,369
93.113	Biological Response to Environmental Health Hazards	1,357,902
93.113	Biological Response to Environmental Health Hazards: From Harvard College	(1,353)
93.121	Oral Diseases and Disorders Research	135,484
93.121	Oral Diseases and Disorders Research: From Ohio State Univ Res	5,478
93.136	Injury Prevention and Control Research and State and Community Based Programs	212,912
93.155	Rural Health Research Centers	94,311
93.172	Human Genome Research: From Stanford Univ.	46,550
93.173	Research Related to Deafness and Communication Disorders	328,618
93.173	Research Related to Deafness and Communication Disorders: From James Madison Univ.	7,827
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer Res	269,108
93.178	Nursing Workforce Diversity	188,793

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
93.184	Disabilities Prevention	366,995
93.187	Undergraduate Scholarship Program for Indiv. from Disabled Backgrounds: From Univ. of Wash -Sch of Med	70,377
93.226	Research on Healthcare Costs, Quality and Outcomes	5,127
93.231	Epidemiology Cooperative Agreements: From RMTEC	5,676
93.242	Mental Health Research Grants	477,662
93.247	Advanced Education Nursing Grant Program	16,036
93.247	Advanced Education Nursing Grant Program: From OR Health Sci Univ.	15,240
93.263	Occupational Safety and Health Training Grant	10,590
93.276	Drug-Free Communities Support Program Grants: From Instit. for Public Strat.	9,770
93.276	Drug-Free Communities Support Program Grants: From Palo Alto Medical Fnd	29,580
93.279	Drug Abuse Research Programs	110,177
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	564,830
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Scripps Institute	309,247
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From University of Washington	96,766
93.301	Small Rural Hospital Improvement Grant Program	446,185
93.310	Trans-NIH Research Support: From Nagy Consulting	81,750
93.310	Trans-NIH Research Support: From Ateris Tech, LLC	13,125
93.358	Advanced Education Nursing Traineeships	28,798
93.361	Nursing Research	351,794
93.361	Nursing Research: From University of Iowa	4,306
93.389	National Center for Research Resources	13,358,223
93.389	National Center for Research Resources: From University of Wyoming	(66)
93.389	National Center for Research Resources: From ZDye Corporation	90,430
93.393	Cancer Cause and Prevention Research	508,137
93.394	Cancer Detection and Diagnosis Research	24,451
93.395	Cancer Treatment Research	262,581
93.395	Cancer Treatment Research: From Vanderbilt University	106,004
93.396	Cancer Biology Research	156,074
93.398	Cancer Research Manpower	7,891
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	713,611

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
93.822	Health Careers Opportunities Program: From University of Washington	60,322
93.824	Basic/Core Area Health Education Centers: From University of Washington	(832)
93.838	Lung Diseases Research	885,765
93.838	Lung Diseases Research: From Trudeau Institute	9,850
93.838	Lung Diseases Research: From University of Rochester	480,188
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	363,248
93.847	Diabetes, Endocrinology and Metabolism Research	236,591
93.848	Digestive Diseases and Nutrition Research	55,050
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1,971,186
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Regents Univ. of CA.	25,084
93.855	Allergy, Immunology and Transplantation Research	3,471,611
93.855	Allergy, Immunology and Transplantation Research: From Univ.of North Carlolina	19,101
93.856	Microbiology and Infectious Diseases Research	3,030,482
93.856	Microbiology and Infectious Diseases Research: From Colarado State Univ.	2,289,182
93.856	Microbiology and Infectious Diseases Research: From Seattle Bio Res. Inst.	(3,198)
93.859	Biomedical Research and Research Training	2,640,279
93.859	Biomedical Research and Research Training: From Case Western Reserve Univ	77,502
93.865	Child Health and Human Development Extramural Research	61,450
93.865	Child Health and Human Development Extramural Research: From Med. College of Georgia	13,014
93.866	Aging Research	80,563
93.867	Vision Research	79,296
93.867	Vision Research: From University of Rochester	8,389
93.996	Bioterrorism Training and Curriculum Development Program	35,895
93.999	Miscellaneous Non-Major Grants	5,842
93.999	Miscellaneous Non-Major Grants: From ORC Macro	5,982
93.R&D	Miscellaneous Research and Development	1,033
93.R&D	Miscellaneous Research and Development: From Colorado State University	2,000
93.R&D	Miscellaneous Research and Development: From Aguila Tech	32,475
	TOTAL	**$37,100,716**

HOMELAND SECURITY

97.086	Homeland Security Outreach, Education, and Technical Assistance	61,464

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2007

		AMOUNT
	TOTAL	$61,464
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.002 Cooperative Development Program (CDP)		118,041
98.005 Institutional Capacity Building (ICB): From University of Hawaii		422,015
	TOTAL	$540,056
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER	$121,202,810
	TOTAL EXPENDITURES OF FEDERAL AWARDS	$1,817,043,929

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Note 1. Basis of Accounting

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

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2007, Montana distributed $320,080 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $5,931,264 in commodities in fiscal year 2007. The value at June 30, 2007 of commodities stored at the state's warehouse is $1,967,796 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

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

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2007. The amount of loans outstanding as of June 30, 2007 in the Water Pollution Control Revolving Fund Program is $ 69,253,762.

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

expended as of June 30, 2007. The amount of loans outstanding for the program as of June 30, 2007 is $43,848,858.

Special Economic Development and Adjustment Assistance Program
The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2007. The amount of loans outstanding as of June 30, 2007 is $384,855.

Temporary Assistance to Needy Families Loan Program
The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2007 is $622,765.

Federal Family Education Loans
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed $ 187,235,162 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2007. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was $ 47,203,878 at June 30, 2007. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during fiscal year 2007 was $ 846,633. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2007 of $17,716,373 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2007. The amount of loans outstanding as of June 30, 2007 is $29,737,991.

Nursing Student Loan Program
The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2007 is $1,825,480.

Nursing Faculty Loan Program
The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.264) as of June 30, 2007 is $40,795.

Childhood Immunization Grants
The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2007. The state used the CDC price list to calculate the value of doses received. During fiscal year 2007, Montana received 195,187 vaccine doses valued at $6,199,885.

Tongue River –Northern Cheyenne Tribal Loan
The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2007. The amount of the loan outstanding as of June 30, 2007 is $ 8,982,057.

Middle Creek Dam Rehabilitation Project Loan
The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is $ 2,990,129 and interest during construction is $ 281,857. The amount, as of June 30, 2007, of loan outstanding is $ 2,526,270 and of interest during construction outstanding is $ 215,539.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed $11,578,117 for the biennial period

Note 3. CFDA #

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

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful

materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

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

CFDA #	Program	FY 07 Amount	Inventory
10.203	Payments to Ag. Exp. Station	$2,297	$138,561
10.500	Cooperative Extension Service	($9,093)	$8,632
10.664	Cooperative Forestry Assistance	$ 184,912	$5,791,064
10.999	Agriculture Misc. Non. Major	($13,693)	$160,738
12.300	Basic and Applied Scientific Research	($93,993)	$0
12.420	Military Medical Research and Dev.t	($25,555)	$0
12.431	Basic Scientific Research	($80,858)	$0
12.800	Air Force Defense Research Sciences	($73,758)	$0
12.910	Research and Technology Development	($54,102)	$0
12.999	Defense Misc. Non. Major	$0	$53,590
43.001	Aerospace Education Services Program	($88,656)	$0
43.999	NASA Misc. Non. Major	$0	$664,050
47.049	Mathematical and Physical Sciences	($1,227)	$0
47.074	Biological Sciences	($1,165)	$0
47.999	NSF Misc. Non. Major	($187,363)	$355,190
81.087	Renewable Energy Research and Dev.	($116,622)	$0
93.855	Allergy, Immun. &Transplant. Research	($6,104)	$0

The state received title for most of the items above that are shown as negative for the column titled "FY 07 Amount".

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2007, was $ 1,362,809. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

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

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

UI Administrative Costs	$ 9,350,267
State UI Benefits	66,501,140
Federal UI Benefits	6,986,408
Total	$ 82,837,815

Note 7. Passthrough Awards to State Agencies

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

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

Note 8. Passthrough Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2007.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.200	Grants for Agricultural Research, Special Research Grants	537,500
10.206	Grants for Agricultural Research & Competitive Research Grants	1,836
10.217	Higher Education Challenge Grants	107,866
10.250	Agricultural and Rural Economic Research	5,000
10.303	Integrated Programs	3,505
10.450	Crop Insurance	10,000
10.455	Community Outreach and Assistance Partnership Program	30,846
10.456	Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers (Farmers)	104,500
10.457	Commodity Partnerships for Risk Management Education	12,022
10.500	Cooperative Extension Service	37,021
10.550	Food Donation	2,211,285
10.553	School Breakfast Program	4,565,262
10.555	National School Lunch Program	17,606,878
10.556	Child and Adult Care Food Program	39,650
10.557	Special Supplemental Nutrition Program for WIC	3,798,188
10.558	Child and Adult Care Food Program	841,954
10.559	Summer Food Program for Children	660,227
10.560	State Administrative Expenses for Child Nutrition	2,289
10.561	State Administrative Matching Grants for Food Stamp Program	1,064,403
10.567	Food Distribution Program on Indian Reservations	1,150,163
10.568	Emergency Food Assistance Program (Administrative Costs)	54,167
10.570	Nutrition Services Incentive	804,206
10.572	WIC Farmers' Market Nutrition Program (FMNP)	42,223
10.574	Team Nutrition Grants	3,500
10.652	Forestry Research	23,242
10.664	Cooperative Forestry Assistance	1,720,665
10.665	Schools and Roads-Grants to States	12,937,945
10.670	National Forest-Dependent Rural Communities	2,075
10.672	Rural Development, Forestry, and Communities	406,570
10.677	Forest Land Enhancement Program	58,999
10.762	Solid Waste Management Grants	(658)
10.902	Soil and Water Conservation	61,146
10.999	Department of Agriculture - Miscellaneous	937,297
11.431	Climate and Atmospheric Research	8,939
12.002	Procurement Technical Assistance For Business Firms	686,063
12.114	Collaborative Research and Development	29,520
12.300	Basic and Applied Scientific Research	385,707
12.420	Military Medical Research and Development	115,549
12.999	Defense - Miscellaneous	21,321
14.228	Community Development Block Grant/State's Program	10,499,625
14.239	Miscellaneous Non-Major Grants	5,141,440
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	100,977
14.871	Section 8 Housing Choice Vouchers	1,192,044
15.222	Cooperative Inspection Agreements with States and Tribes	9,619
15.224	Cultural Resource Management	162,430
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,412,092
15.231	Fish, Wildlife and Plant Conservation Resource Management	7,250
15.242	National Fire Plan - Rural Fire Assistance	20,000
15.299	Miscellaneous Non-Major Grants	51,002
15.904	Historic Preservation Fund Grants-In-Aid	76,876
15.916	Outdoor Recreation-Acquisition, Development and Planning	236,650
15.999	Miscellaneous Department of the Interior	570,880
16.523	Juvenile Accountability Incentive Block Grants	320,342
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	532,983
16.548	Title V Delinquency Prevention Program	46,440
16.575	Crime Victim Assistance	1,562,258
16.580	Crime Victim Assistance	273,503
16.588	Violence Against Women Formula Grant	634,400
16.593	Violence Against Women Formula Grants	110,822
16.727	Enforcing Underage Drinking Laws Program	414,407
16.738	Edward Byrne Memorial Justice Assistance Grant Program	841,424
17.235	Senior Community Service Employment Program	491,630
17.258	Enforcing Underage Drinking Laws Program	847,266
17.259	WIA Youth Activities	2,084,173
17.260	WIA Dislocated Workers	1,201,683
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	91,045
17.267	WIA Incentive Grants -Section 503 Grants to States	252
20.106	Airport Improvement Program	103,269
20.200	Federal-Aid Highways-Emergency Relief	81,196
20.205	Highway Planning and Construction	4,623,680
20.219	Recreational Trails	892,715
20.509	Formula Grants for Other Than Urbanized Areas	4,864,476
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	54,998

CFDA Number	Program Title	Amount Provided To Subrecipient
20.514	Transit Planning and Research	376
20.600	State and Community Highway Safety	1,050,121
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	223,461
20.602	Occupant Protection	182,927
20.604	Safety Incentive Grants for Use of Seatbelts	50,423
20.607	Alcohol Open Container Requirements	484,665
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	257,299
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	14,348
20.704	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	95,211
20.999	Transportation Miscellaneous	330,594
43.001	Aerospace Education Services Program	75,453
43.999	Miscellaneous NASA	130,264
45.025	Promotion of the Arts-Partnership Agreements	338,075
45.310	State Library Program	49,607
47.041	Engineering Grants	5,165
47.049	Mathematical and Physical Sciences	115,793
47.050	Geosciences	479,252
47.074	Biological Sciences	865,946
47.075	Miscellaneous Non-Major Grants	407
47.076	Education and Human Resources	1,233,107
47.078	Polar Programs	14,000
59.005	Internet-Based Technical Assistance	184,400
59.037	Small Business Development Center	400,000
66.999	Miscellaneous Non Major	55,088
81.057	University Coal Research	11,415
81.087	Renewable Energy Research and Development	53,255
81.089	Fossil Energy Research and Development	1,457,088
81.104	Office of Environmental Cleanup and Acceleration	2,000
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	169,482
84.002	Adult Education-State Grant Program	1,223,557
84.010	Miscellaneous Non-Major Grants	40,929,819
84.011	Migrant Education-Basic State Grant Program	1,083,396
84.013	Title I Program for Neglected and Delinquent Children	117,400
84.027	Special Education - Grants to States	31,800,183
84.048	Vocational Education - Basic Grants to States	3,826,465
84.069	Leveraging Educational Assistance Partnership	73,327
84.116	Fund for the Improvement of Postsecondary Education	20,000
84.133	National Institute on Disability and Rehabilitation Research	18,827
84.144	Migrant Education_Coordination Program	191,978
84.173	Special Education - Preschool Grants	1,243,860
84.181	Special Education - Grants for Infants and Families with Disabilities	12,000
84.186	Safe & Drug Free Schools and Communities - State Grants	1,648,247
84.195	Bilingual Education - Professional Development	67
84.196	Education for Homeless Children and Youth	146,665
84.213	Even Start - State Educational Agencies	656,855
84.215	Fund for the Improvement of Education	577,602
84.235	Rehabilitation Services Demonstration and Training Programs	26,627
84.243	Tech-Prep Education	207,335
84.287	Twenty-First Century Community Learning Centers	4,695,106
84.293	Foreign Language Assistance	105,929
84.298	State Grants for Innovative Programs	493,013
84.318	Education Technology State Grants	1,829,524
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	70,807
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilitie	9,285
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	140,276
84.330	Advanced Placement Incentive Program	174,081
84.332	Comprehensive School Reform Demonstration	456,645
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,061,392
84.350	Transition to Teaching	535,354
84.357	Reading First State Grants	2,415,962
84.358	Rural Education	411,606
84.360	Dropout Prevention Programs	32,820
84.365	English Language Acquisition Grants	397,688
84.366	Mathematics and Science Partnerships	895,199
84.367	Improving Teacher Quality State Grants	13,300,031
84.938	Hurricane Education Recovery	21,250
90.401	Help America Vote Act Requirements Payments	425,228
93.003	Public Health and Social Services Emergency Fund	868,393
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	47,439
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	69,400
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	105,929
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,539,914
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,484,785

CFDA Number	Program Title	Amount Provided To Subrecipient
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	51,508
93.052	Nation Family Caregiver Support Program	699,819
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	75,000
93.104	Comprehensive Community Mental Health Services for Children	469,502
93.110	Maternal and Child Health Federal Consolidated Programs	48,714
93.113	Biological Response to Environmental Health Hazards	20,056
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	13,288
93.126	Small Business Innovation Research	53,942
93.130	Primary Care Services Resource Coordination and Development	207,887
93.150	Projects for Assistance in Transition from Homelessness (PATH)	285,750
93.155	Rural Health Research Centers	6,145
93.184	Disabilities Prevention	70,871
93.217	Family Planning Services	1,760,097
93.230	Consolidated Knowledge Development and Application (KD&A) Program	410,295
93.235	Abstinence Education	102,897
93.241	State Rural Hospital Flexibility Program	597,990
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	813,474
93.268	Immunization Grants	314,175
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	6,006,507
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	134,215
93.301	Small Rural Hospital Improvement Grants	423,888
93.389	National Center for Research Resources	2,470,592
93.393	Cancer Cause and Prevention Research	188,527
93.556	Promoting Safe and Stable Families	1,232,860
93.558	Minority Health and Health Disparities Research	2,680,319
93.566	Refugee and Entrant Assistance-State Administered Programs	104,557
93.568	Low-Income Home Energy Assistance	658,581
93.569	Community Services Block Grant	3,500
93.575	Child Care and Development Block Grant	5,164,250
93.590	Community-Based Family Resource and Support Grants	201,656
93.597	Grants to States for Access and Visitation Programs	94,215
93.599	Chafee Education and Training Vouchers Program (ETV)	145,998
93.600	Head Start	129,655
93.617	Voting Access for Individuals with Disabilities-Grants to States	57,000
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	930
93.630	Developmental Disabilities Basic Support and Advocacy Grants	530,735
93.658	Foster Care Title IV-E	2,490,979
93.669	Child Abuse and Neglect State Grants	19,987
93.671	Family Violence Prevention and Services/Grants for Battered Women	900,519
93.674	Chafee Foster Care Independent Living	304,543
93.778	Medical Assistance Program	35,001
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	279,978
93.847	Diabetes, Endocrinology and Metabolism Research	41,060
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	13,974
93.855	Allergy, Immunology and Transplantation Research	1,184,429
93.856	Microbiology and Infectious Diseases Research	80,383
93.859	Biomedical Research and Research Training	225,701
93.917	HIV Care Formula Grants	137,165
93.940	HIV Prevention Activities-Health Department Based	828,634
93.958	Block Grants for Community Mental Health Services	1,220,387
93.959	Block Grants for Prevention and Treatment of Substance Abuse	771,182
93.991	Preventive Health and Health Services Block Grant	290,852
93.994	Maternal and Child Health Services Block Grant to the States	1,229,266
94.004	Learn and Serve America - School and Community Based Program	101,951
94.006	Americorps	2,501,610
94.013	Volunteers in Service to America	20,600
96.007	Social Security Research and Demonstration	8,596
97.004	State Domestic Preparedness Equipment Support Program	844,894
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	167,861
97.039	Hazard Mitigation Grant	202,969
97.042	Emergency Management Performance Grants	1,012,681
97.067	Homeland Security Grant Program	1,253,080
98.001	USAID Foreign Assistance for Programs Overseas	12,500
98.002	Cooperative Development Program (CDP)	19,213
98.005	Institutional Support Assistance (ISA)	171,700
	TOTAL	257,964,297

FY06 Financial Section

FY06 Financial Section

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 21, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards.* The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board manages eight defined benefit retirement systems. The Montana Constitution and state law require these systems be actuarially sound. The actuarial valuation as of June 30, 2006, indicates the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.

2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2006, indicates the Teachers' Retirement System is not actuarially sound.

We also noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

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

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 21, 2006

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2006, 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, which represents 0.07 and 1.48 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.07 and 0.14 percent, respectively, of the 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 11.24 and 6.67 percent, respectively, of the assets and revenues

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of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

At June 30, 2006, the Public Employees' (PERS-DBRP), Game Wardens' and Peace Officers' (GWPORS) and Sheriffs' (SRS) retirement systems were not actuarially sound with Unfunded Actuarially Accrued Liabilities (UAAL) totaling $460.2 million, $5.1 million, and $8.8 million, respectively. The maximum UAAL to comply with an amortization period of 30 years at June 30, 2006, is $269.9 million for PERS-DBRP,

$5.1 million for GWPORS, and $(5) million for SRS. The negative $5 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system. At July 1, 2006, the Teachers' Retirement System was not actuarially sound with an UAAL totaling $863.1 million and a maximum UAAL of $467.6 million to comply with an amortization period of 30 years.

In accordance with *Government Auditing Standards,* we have issued our report dated November 21, 2006, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

November 21, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2006. 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 2006 by $6 billion (reported as net assets) compared with $5.4 billion at the end of fiscal year 2005. Of this amount, $665.7 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $991.8 million compared with $943.3 million at fiscal year 2005.

Fund Highlights
As of the close of fiscal year 2006, the State's governmental funds reported combined ending fund balances of $2.9 billion compared with $2.7 billion at fiscal year 2005. Of this amount, $409.4 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of $2.4 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was $408.6 million compared with $289.7 million in fiscal year 2005, which is an increase of $118.9 million (or 41%).

The State's business-type activity funds reported net assets at the close of fiscal year 2006 in the amount of $296.9 million compared with the fiscal year-end 2005 net assets of $266.9 million. $269.7 million of the business-type activity fund equity was restricted at fiscal year-end 2006 leaving an unrestricted balance of $18.5 million. This represents a $1.8 million (or 10.8%) increase from the fiscal year-end 2005 business-type activity fund unrestricted net asset balance of $16.7 million.

Long-term Debt
The State's total bonds and notes payable for governmental activities increased by $6.9 million, from $421.6 million in fiscal year 2005 to $428.5 million (or 6.9%) in fiscal year 2006.

Business-type activities reported bonds and notes payable of $3.9 million at fiscal year-end 2006. This represents a decrease of $1.3 million (or 25%) over the fiscal year-end 2005 reported amount of $5.2 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). 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:

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:

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session and 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 billion at the end of fiscal year 2006. Net assets of the governmental activities increased $599.8 million (or 11.8%), and business-type activities had a $30 million (or 11.2%) 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 is 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	
	2005	2006	2005	2006	2005	2006
Current and other assets	$3,407,149	$3,562,620	$373,018	$410,309	$3,780,167	$3,972,929
Capital assets	2,805,658	3,240,577	9,670	9,110	2,815,328	3,249,687
Total assets	6,212,807	6,803,197	382,688	419,419	6,595,495	7,222,616
Long-term liabilities	451,012	451,014	7,150	9,766	452,005	460,780
Other liabilities	675,235	659,701	108,682	112,724	783,917	772,425
Total liabilities	1,120,090	1,110,715	115,832	122,490	1,235,922	1,233,205
Invested in capital assets, net of related debt	2,528,808	2,842,708	9,670	8,703	2,538,478	2,851,411
Restricted	2,159,185	2,202,592	240,514	269,687	2,399,699	2,472,279
Unrestricted	404,724	647,182	16,672	18,539	421,396	665,721
Total net assets	$5,092,717	$5,692,482	$266,856	$296,929	$5,359,573	$5,989,411

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:

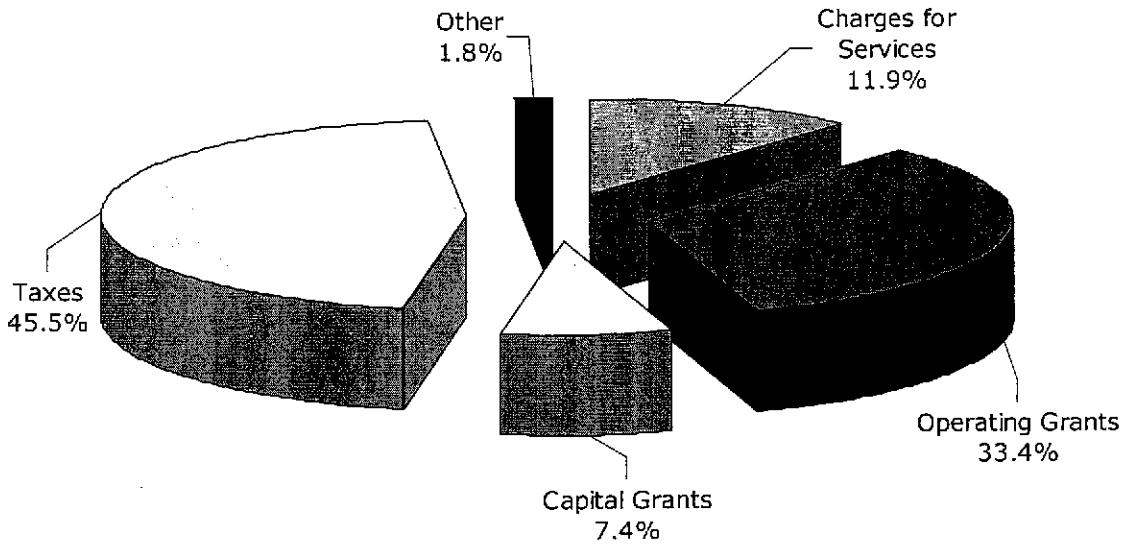
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues						
Charges for services	$ 443,984	$ 487,767	$236,365	$257,729	$ 680,349	$ 745,496
Operating grants	1,391,026	1,371,109	58,433	58,051	1,449,459	1,429,160
Capital grants	319,434	305,345	159	378	319,593	305,723
General revenues						
Taxes	1,657,668	1,871,808	15,624	17,317	1,673,292	1,889,125
Other	85,497	73,388	3,135	5,162	88,630	78,550
Total revenues	3,897,609	4,109,417	313,716	338,637	4,211,323	4,448,054
Expenses:						
General government	305,819	525,981	-	-	305,819	525,981
Public safety/corrections	258,610	245,810	-	-	258,610	245,810
Transportation	281,074	216,942	-	-	281,074	216,942
Health/social services	1,182,281	1,270,056	-	-	1,182,281	1,270,056
Educational/cultural	900,542	976,046	-	-	900,542	976,046
Resource/rec/environ	197,539	142,460	-	-	197,539	142,460
Econ dev/assistance	144,777	150,449	-	-	144,777	150,449
Interest on long-term debt	14,375	19,569	-	-	14,375	19,569
Unemployment Insurance	-	-	75,291	72,661	75,291	72,661
Liquor Stores	-	-	45,503	50,514	45,503	50,514
State Lottery	-	-	27,681	31,020	27,681	31,020
Economic Dev Bonds	-	-	2,630	3,441	2,630	3,441
Hail Insurance	-	-	3,153	4,632	3,153	4,632
Gen Govt Services	-	-	50,329	51,017	50,329	51,017
Prison Funds	-	-	5,268	5,356	5,268	5,356
MUS Group Insurance	-	-	40,524	52,139	40,524	52,139
MUS Workers Comp	-	-	2,842	2,978	2,842	2,978
Total expenses	3,285,017	3,547,313	253,221	273,758	3,538,238	3,821,071
Increase (decrease) in net assets before transfers	612,592	562,104	60,495	64,879	673,085	626,983
Transfers	29,871	34,802	(29,871)	(34,802)	-	-
Change in net assets	642,463	596,906	30,624	30,077	673,085	626,983
Net assets, beg of year (restated)	4,450,254	5,095,576	236,232	266,852	4,686,488	5,362,428
Net assets, end of year	$5,092,717	$5,692,482	$266,856	$296,929	$5,359,573	$5,989,411

Governmental Activities

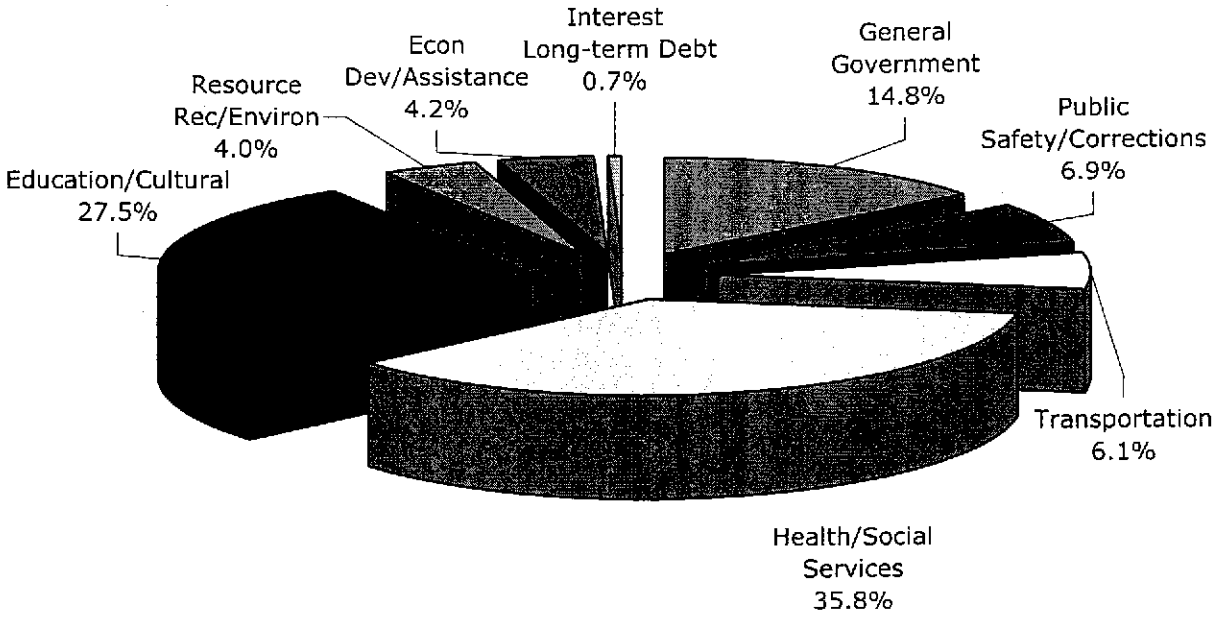
The following chart depicts revenues of the governmental activities for the fiscal year:

Revenues - Governmental Activities
Fiscal Year Ended June 30, 2006

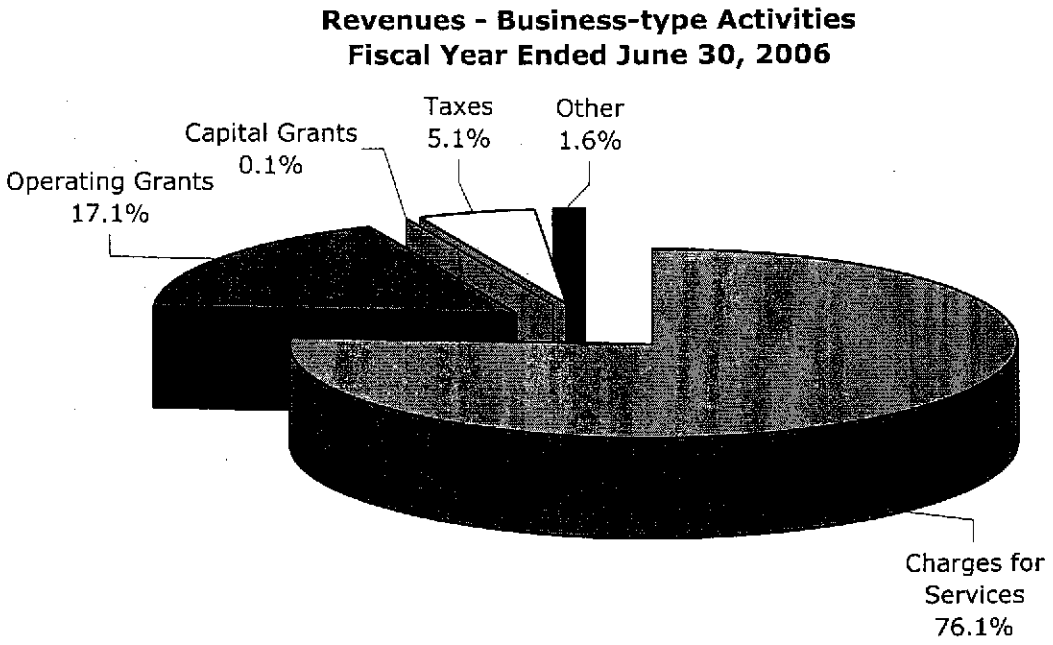


The following chart depicts expenses of the governmental activities for the fiscal year:

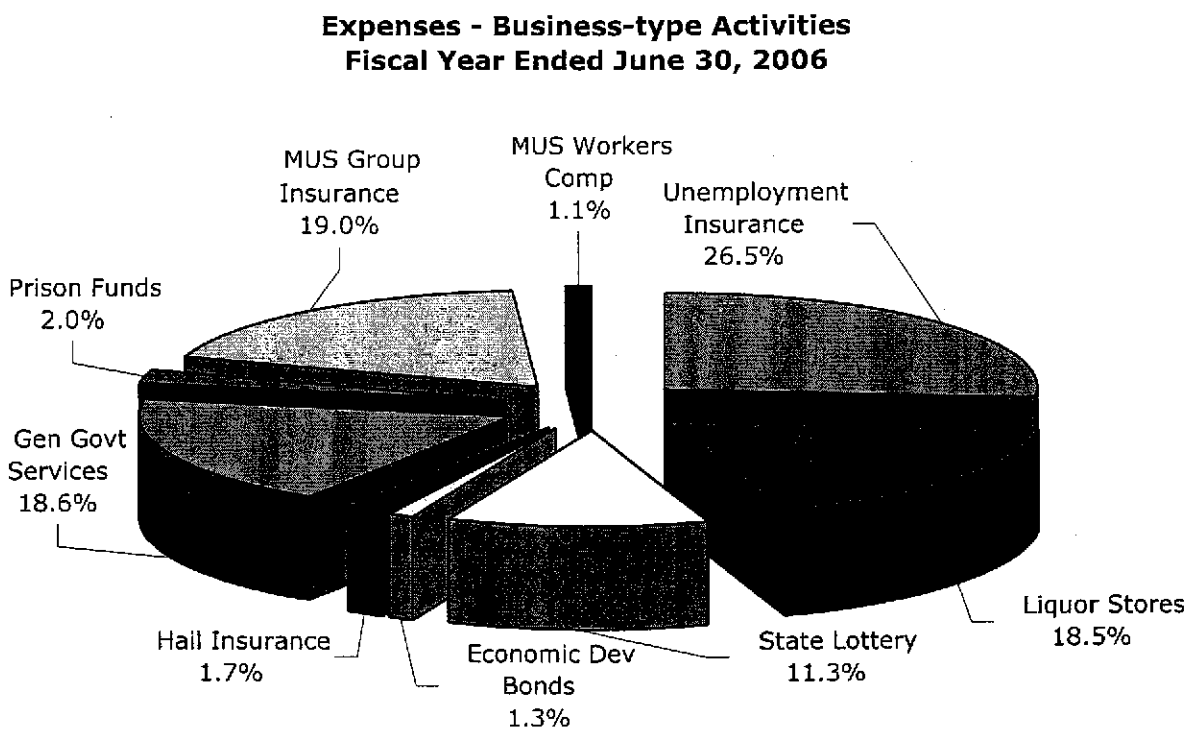
Expenses - Governmental Activities
Fiscal Year Ended June 30, 2006



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 $2.9 billion. Of this total amount, $409.4 million (or 14.1%) 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.

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 $408.6 million. Unreserved fund balance increased during the fiscal year by $118.9 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The ending General Fund unreserved fund balance of $409 million is $181 million higher than the anticipated $228 million; $165 million of this increase is the result of revenue increases as discussed below.

Supplemental Development – General Fund supplementals approved by the Legislature included $10.6 million for the Department of Corrections, $5.06 million for wildfire suppression, $2.8 million for the Department of Public Health and Human Services, and $2.7 million for public defender costs. Additional guarantee account revenue available in the educational special revenue guarantee State Special Revenue sub-fund resulted in a reduction in General Fund expenditures by $17 million.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2006. General Fund revenues were up by $182.8 million (or 12.5%). This represents a $98.5 million (or 6.4%) increase over the revenue projections. The increase was primarily due to the individual and corporate income tax revenue increase of $63.1 and $55.7 million, respectively. Continued economic growth within Montana and the recovery of the investment market contributed to this income tax growth. Higher energy and metals prices led to increased oil, gas, and metals production within the State. This increased activity resulted in a $30.9 million increase in natural resource tax revenues between fiscal years 2005 and 2006.

General Fund Expenditures – General Fund expenditures increased by $214 million (or 16.1%) in 2006. This increase was primarily in General Government with a $125 million contribution to the retirement funds resulting from the special session. Other major increases resulting from the special session and the supplemental process were in the following functions: Education/Cultural, $43.5 million; Health and Social Services, $30.4 million; and Corrections, $16 million.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $936.8 million. Fund balance increased during the fiscal year by $29.5 million (or 3.2%).

In the State Special Revenue Fund, natural resource taxes increased by $40.1million (or 47.4%), other tax revenues by $27.7 million (or 51.2%) as discussed in Note 1, fuel taxes by $21.4 million (or 11.2%), and licenses and permits by $13.1 million (or 11.2%). These increased revenues were offset by a significant decrease in investment income of $12.1 million (or -44%).

Within the State Special Revenue Fund, expenditures increased $42.8 million in the General Government function. This primarily was due to increased oil production tax distributions of $31.3 million to the counties. The Education/Cultural functional expenditures increased by $14.4 million, primarily as a result of an increase in land trust (natural resource tax) distributions to the State's K-12 schools of $11.1 million. Department of Transportation highway expenditures increased by $68.5 million as the result of increased materials costs and internal funding adjustments.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by less than 1%.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2006. Significant changes within the functional categories were caused by (1) Transportation - decreased federal highway construction expenditures of $31.8 million; (2) Public Safety/Corrections - decreased Disaster and Emergency Services funding to the State of $5.3 million; (3) Health and Social Services - increased Medicaid Federal Medical Assistance Percentages (FMAPs) reimbursement of $32.7 million, increased Low-Income Energy Assistance Program

administration of $4.4 million, increased Child Health Insurance Program of $3.9 million, and increased Food Stamp benefits of $3 million.

Coal Severance Tax Permanent Fund
Reserved fund balance in the Coal Severance Tax Permanent Fund decreased by $6.4 million (or .9%). This was primarily caused by decreases in natural resource taxes of $3.2 million (or -16%) and investment income of $34.2 million (or -71%). This was caused by decreases in the taxable valuation on the coal produced in the State and the valuation of the investments held by the fund.

Land Grant Permanent Fund
Reserved fund balance in the Land Grant Permanent Fund decreased by $18.1 million (or 4.1%). This was caused by a decline in investment income of $31.6 million (or 92.1%) due to the fund's lower investment valuation. Rentals and leases and royalties income increased by $19.7 million (or 46.5%). This increase corresponds to higher natural resource production within the State during 2006 as the result of continued high gas, oil, and metals prices.

Unemployment Insurance Enterprise Fund
Net assets restricted for unemployment compensation increased by $24.6 million (or 11.9%). Unemployment premium collections increased by $3.9 million (or 5.3%). Unemployment benefits paid decreased by $1.3 million. Both of these factors contributed to the increase in net assets, and are reflective of Montana's continued strong economy during 2006.

Economic Development Bonds Enterprise Fund
Net assets did not change significantly in this fund during 2006. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions
Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 6.5% from fiscal year 2005 to fiscal year 2006. Revenues from various sources for fiscal year 2006, 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	2006 Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
Licenses/permits	$ 259,073	6.3%	$ 13,829	5.6
Taxes	1,880,838	45.8	252,980	15.5
Chg srv/fines/forfeits/settle	162,520	4.0	17,285	11.9
Investment earnings	62,977	1.5	(80,960)	(56.2)
Securities lending income	7,511	0.2	2,342	45.3
Sales doc/merch/property	21,412	0.5	(1,243)	(5.5)
Rentals/leases/royalties	63,318	1.5	19,595	44.8
Contributions/premiums	8,785	0.2	1,041	13.4
Grants/contracts/donations	25,987	0.6	(1,997)	(7.1)
Federal	1,530,795	37.2	27,856	1.9
Federal indir cost recvy	81,922	2.0	872	1.1
Other revenues	4,693	0.2	353	8.1
Total revenues	$4,109,831	100.0%	$251,953	6.5%

Total expenditures for all governmental functions increased 11% from fiscal year 2005 to fiscal year 2006. Expenditures by function for fiscal year 2006, 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)*	2006 Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
General government	$ 466,886	11.6%	$173,078	58.9%
Public safety/corrections	254,381	6.3	15,452	6.5
Transportation	559,695	13.9	36,673	7.0
Health/social services	1,274,947	31.7	88,485	7.5
Education/cultural	976,446	24.3	71,296	7.9
Resource/recreation/environment	204,413	5.1	(2,490)	(1.2)
Economic development/assistance	151,020	3.8	4,714	3.2
Securities lending	7,663	0.2	2,758	56.2
Debt service	53,291	1.3	11,917	28.8
Capital outlay	69,505	1.8	(1,346)	(1.9)
Total expenditures	$4,018,247	100.0%	$400,537	11.1%

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, 2006, amounts to $5 billion, net of accumulated depreciation of $1.7 billion, leaving a net book value of $3.3 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 17.9% 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 bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from $213.2 million at June 30, 2005, to $230.1 million at June 30, 2006.

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	$230,065	0.85%	$244.69

(1) Personal income is for calendar year 2005.
(2) Based on estimated 2006 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 3.5% in the second quarter of 2006, which is a significant improvement from the rate of 4.4% during the second quarter of 2005. This compares favorably with the nation's average unemployment rate of 4.6% during the same time period.

The 59th Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2007 biennium of $76.0 million. During fiscal year 2006, economic conditions continued to improve with the General Fund balance, as of June 30, 2006, ending at the $408.9 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2006. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In addition, the Sheriffs Retirement System is underfunded. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations.

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, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

STATEMENT OF NET ASSETS

JUNE 30, 2006

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,096,137	$ 302,388	$ 1,398,525	$ 225,030
Receivables (net)	299,478	31,161	330,639	76,881
Due from primary government	-	-	-	4,255
Due from other governments	130,384	264	130,648	21,288
Due from component units	1,542	3,570	5,112	1,028
Internal balances	(7,522)	7,522	-	-
Inventories	30,623	7,756	38,379	4,489
Advances to component units	8,802	5,215	14,017	-
Long-term loans/notes receivable	243,708	38,468	282,176	737,870
Equity in pooled investments (Note 3)	1,303,089	-	1,303,089	21,171
Investments (Note 3)	353,027	9,318	362,345	1,324,285
Securities lending collateral (Note 3)	90,178	1,304	91,482	149,779
Deferred charges	3,786	1,318	5,104	9,420
Capital assets (net) (Note 5)	3,240,577	9,110	3,249,687	517,134
Other assets	9,388	2,025	11,413	26,062
Total assets	6,803,197	419,419	7,222,616	3,118,692
LIABILITIES				
Accounts payable	403,930	7,917	411,847	65,739
Lottery prizes payable	-	2,807	2,807	-
Due to primary government	-	-	-	5,112
Due to other governments	6,133	406	6,539	-
Due to component units	4,255	-	4,255	1,028
Advances from primary government	-	-	-	14,017
Deferred revenue	30,878	6,941	37,819	22,410
Amounts held in custody for others	35,640	86	35,726	28,434
Securities lending liability (Note 3)	90,178	1,304	91,482	149,779
Other liabilities	723	256	979	9,840
Short-term debt (Note 11)	-	83,620	83,620	-
Long-term liabilities (Note 11):				
Due within one year	87,964	9,387	97,351	180,073
Due in more than one year	451,014	9,766	460,780	1,650,436
Total liabilities	1,110,715	122,490	1,233,205	2,126,868

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in capital assets, net of related debt	$ 2,842,708	$ 8,703	$ 2,851,411	$ 295,410
Restricted for:				
Transportation	40,899	-	40,899	-
Fish, wildlife, and parks	71,610	-	71,610	-
Federal grants	26,686	-	26,686	-
Debt service/construction	8,471	-	8,471	33,595
Unemployment compensation	-	231,715	231,715	-
Funds held as permanent investments:				
Nonexpendable	1,373,924	-	1,373,924	192,868
Expendable	3,604	-	3,604	-
Housing authority	-	-	-	139,944
Resource/environment	552,687	-	552,687	-
Other purposes	124,711	37,972	162,683	100,232
Unrestricted	647,182	18,539	665,721	229,775
Total net assets	$ 5,692,482	$ 296,929	$ 5,989,411	$ 991,824

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 525,981	$ 59,166	$ 53,538	$ 4,918	$ (408,359)
Public safety/corrections	245,810	150,787	60,752	-	(34,271)
Transportation	216,942	31,766	35,657	289,785	140,266
Health/social services	1,270,056	30,022	894,787	-	(345,247)
Education/cultural	976,046	107,096	160,526	1,022	(707,402)
Resource/recreation/environment	142,460	77,064	104,298	8,956	47,858
Economic development/assistance	150,449	31,866	61,551	664	(56,368)
Interest on long-term debt	19,569	-	-	-	(19,569)
Total governmental activities	3,547,313	487,767	1,371,109	305,345	(1,383,092)
Business-type activities:					
Unemployment Insurance	72,661	76,754	17,529	-	21,622
Liquor Stores	50,514	58,975	-	-	8,461
State Lottery	31,020	39,923	-	-	8,903
Economic Development Bonds	3,441	7	3,620	-	186
Hail Insurance	4,632	3,057	363	-	(1,212)
General Government Services	51,017	15,589	36,060	378	1,010
Prison Funds	5,356	5,717	-	-	361
MUS Group Insurance	52,139	54,164	410	-	2,435
MUS Workers Compensation	2,978	3,543	69	-	634
Total business-type activities	273,758	257,729	58,051	378	42,400
Total primary government	$ 3,821,071	$ 745,496	$ 1,429,160	$ 305,723	$ (1,340,692)
Component units:					
Housing Authority	$ 44,104	$ 381	$ 45,773	$ -	$ 2,050
Facility Finance Authority	323	444	105	-	226
State Compensation Insurance (New Fund)	240,157	211,953	-	-	(28,204)
State Compensation Insurance (Old Fund)	9,061	-	-	-	(9,061)
Montana Surplus Lines	678	683	-	-	5
Montana State University	394,589	164,664	156,437	5,323	(68,165)
University of Montana	307,395	137,033	109,869	3,064	(57,429)
Total component units	$ 996,307	$ 515,158	$ 312,184	$ 8,387	$ (160,578)

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	$ (1,383,092)	$ 42,400	$ (1,340,692)	$ (160,578)
General revenues:				
Taxes:				
Property	194,617	-	194,617	-
Fuel	212,276	-	212,276	-
Natural resource	260,382	-	260,382	-
Individual income	760,981	-	760,981	-
Corporate income	153,574	-	153,574	-
Other	289,978	17,317	307,295	(10)
Unrestricted grants and contributions	4,158	-	4,158	106
Settlements	28,248	-	28,248	-
Unrestricted investment earnings	36,188	1,016	37,204	45,030
Payment from State of Montana	-	-	-	151,484
Gain on sale of capital assets	53	-	53	-
Miscellaneous	4,741	4,146	8,887	1
Contributions to term and permanent endowments	-	-	-	12,153
Transfers	34,802	(34,802)	-	-
Total general revenues, contributions, and transfers	1,979,998	(12,323)	1,967,675	208,764
Change in net assets	596,906	30,077	626,983	48,186
Total net assets - July 1 - as previously reported	5,092,717	266,856	5,359,573	943,289
Prior period adjustments (Note 2)	2,859	(4)	2,855	349
Total net assets - July 1 - as restated	5,095,576	266,852	5,362,428	943,638
Total net assets - June 30	$ 5,692,482	$ 296,929	$ 5,989,411	$ 991,824

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(amounts expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
ASSETS							
Cash/cash equivalents (Note 3)	$ 394,072	$ 462,598	$ 40,358	$ 66,652	$ 9,051	$ 74,235	$ 1,046,966
Receivables (net) (Note 4)	182,261	82,298	11,243	8,410	5,468	5,069	294,749
Interfund loans receivable (Note 12)	29,044	22,922	906	-	-	-	52,872
Due from other governments	204	567	129,610	-	-	-	130,381
Due from other funds (Note 12)	63,006	11,129	804	-	-	94	75,033
Due from component units	225	732	103	78	-	-	1,138
Inventories	4,563	23,823	-	-	-	-	28,386
Equity in pooled investments (Note 3)	-	219,661	-	460,323	422,820	200,285	1,303,089
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707
Advances to other funds (Note 12)	69	14,369	-	33,477	-	3,110	51,025
Advances to component units	-	-	-	8,802	-	-	8,802
Investments (Note 3)	14,898	142,071	1,894	166,889	-	8,568	334,320
Securities lending collateral (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601
Other assets	2,038	6,364	361	-	-	-	8,763
Total assets	$ 690,523	$ 1,235,176	$ 185,785	$ 767,673	$ 457,554	$ 332,121	$ 3,668,832
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	153,417	114,757	98,195	-	5,344	1,955	373,668
Interfund loans payable (Note 12)	-	6,729	39,235	-	-	1,361	47,325
Due to other governments	105	1,030	4,998	-	-	-	6,133
Due to other funds (Note 12)	6,960	46,772	3,771	6,244	3,621	2,009	69,377
Due to component units	17,332	1,025	1,766	-	-	30	20,153
Advances from other funds (Note 12)	-	48,326	1,752	-	-	12,701	62,779
Deferred revenue	72,346	31,031	7,949	-	-	334	111,660
Amounts held in custody for others	20,250	15,002	297	-	87	-	35,636
Securities lending liability (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601
Other liabilities	-	294	-	-	-	-	294
Total liabilities	270,410	298,235	158,230	29,286	29,267	31,198	816,626
Fund balances:							
Reserved for:							
Encumbrances	6,037	10,912	843	-	-	7	17,799
Inventories	4,563	23,823	-	-	-	-	28,386
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707
Advances to other funds/component units	69	14,369	-	42,279	-	3,110	59,827
Special revenue (Note 14)	-	724,161	28,042	-	-	-	752,203
Debt service	-	-	-	-	-	4,809	4,809
Trust principal (Note 14)	-	-	-	696,108	428,287	210,990	1,335,385
Escheated property	721	-	-	-	-	-	721
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	7,420	7,420
Unreserved, undesignated	408,580	(51,697)	(1,569)	-	-	-	355,314
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(637)	(637)
Capital projects funds	-	-	-	-	-	47,272	47,272
Total fund balances	420,113	936,941	27,555	738,387	428,287	300,923	2,852,206
Total liabilities and fund balances	$ 690,523	$ 1,235,176	$ 185,785	$ 767,673	$ 457,554	$ 332,121	$ 3,668,832

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, 2006
(amounts expressed in thousands)

Total fund balances for governmental funds		$ 2,852,206
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	378,248	
Land improvements	20,364	
Buildings/improvements	382,320	
Equipment	78,221	
Infrastructure	3,417,984	
Other capital assets	155,088	
Construction in progress	312,296	
Intangible assets	15,311	
Less accumulated depreciation	(1,607,758)	
Total capital assets		3,152,074
Certain revenues are earned, but not available and therefore deferred in the funds.		81,796
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.		113,160
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.		3,786
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	(5,481)	
Lease/installment purchase payable	(1,721)	
Bonds/notes payable (net)	(428,538)	
Compensated absences payable	(74,248)	
Early retirement benefits payable	(49)	
Arbitrage rebate tax payable	(74)	
Other liabilities	(429)	
Total long-term liabilities		(510,540)
Net assets of governmental activities		$ 5,692,482

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, 2006
(amounts expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
REVENUES							
Licenses/permits	$ 128,716	$ 129,769	$ -	$ -	$ 176	$ 412	$ 259,073
Taxes:							
Natural resource	111,413	126,355	-	16,933	-	5,217	259,918
Individual income	767,352	-	-	-	-	-	767,352
Corporate income	153,646	-	-	-	-	-	153,646
Property	180,447	14,170	-	-	-	-	194,617
Fuel	-	212,261	-	-	-	13	212,274
Other (Note 1)	209,241	81,800	-	-	-	1,990	293,031
Charges for services/fines/forfeits/settlements	36,412	84,329	30,478	-	-	11,301	162,520
Investment earnings	19,627	15,449	1,019	13,919	2,724	10,239	62,977
Securities lending income	2,240	1,411	17	1,608	1,466	769	7,511
Sale of documents/merchandise/property	402	4,141	1	-	14,068	2,800	21,412
Rentals/leases/royalties	39	966	-	-	62,153	160	63,318
Contributions/premiums	7	8,778	-	-	-	-	8,785
Grants/contracts/donations	3,286	21,679	899	-	33	90	25,987
Federal	29,103	11,575	1,490,117	-	-	-	1,530,795
Federal indirect cost recoveries	95	31,441	50,386	-	-	-	81,922
Other revenues	1,247	3,231	276	-	-	(61)	4,693
Total revenues	1,643,273	747,355	1,573,193	32,460	80,620	32,930	4,109,831
EXPENDITURES							
Current:							
General government	314,223	138,031	14,632	-	-	-	466,886
Public safety/corrections	157,976	47,393	45,041	-	-	3,971	254,381
Transportation	284	280,748	278,663	-	-	-	559,695
Health/social services	310,939	79,643	884,365	-	-	-	1,274,947
Education/cultural	697,365	92,865	182,439	-	3,767	10	976,446
Resource/recreation/environment	27,661	123,015	53,733	-	-	4	204,413
Economic development/assistance	26,655	65,187	59,178	-	-	-	151,020
Debt service:							
Principal retirement	710	396	251	-	-	31,189	32,546
Interest/fiscal charges	154	2,026	42	-	-	18,523	20,745
Capital outlay	2,339	29,570	26,016	-	-	11,580	69,505
Securities lending	2,197	1,676	17	1,580	1,440	753	7,663
Total expenditures	1,540,503	860,550	1,544,377	1,580	5,207	66,030	4,018,247
Excess of revenue over (under) expenditures	102,770	(113,195)	28,816	30,880	75,413	(33,100)	91,584
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	5,700	-	-	-	31,350	37,050
Bond premium	-	1,323	-	-	-	855	2,178
Inception of lease/installment contract	628	70	178	-	-	-	876
Insurance proceeds	-	327	-	-	-	-	327
General capital asset sale proceeds	44	95	24	-	-	1	164
Transfers in (Note 12)	67,655	155,480	1,845	3,406	-	63,744	292,130
Transfers out (Note 12)	(50,728)	(22,587)	(30,694)	(40,757)	(93,563)	(20,918)	(259,247)
Total other financing sources (uses)	17,599	140,408	(28,647)	(37,351)	(93,563)	75,032	73,478
Net change in fund balances	120,369	27,213	169	(6,471)	(18,150)	41,932	165,062
Fund balances - July 1 - as previously reported	299,793	907,377	27,390	744,858	446,434	258,984	2,684,836
Prior period adjustments (Note 2)	(2,008)	527	(4)	-	3	7	(1,475)
Fund balances - July 1 - as restated	297,785	907,904	27,386	744,858	446,437	258,991	2,683,361
Increase (decrease) in inventories	1,959	1,824	-	-	-	-	3,783
Fund balances - June 30	$ 420,113	$ 936,941	$ 27,555	$ 738,387	$ 428,287	$ 300,923	$ 2,852,206

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, 2006
(amounts expressed in thousands)

Net change in fund balances - total governmental funds		$ 165,062
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	712,675	
Depreciation expense	(138,290)	
Excess of capital outlay over depreciation expense		574,385
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.		(158,530)
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.		3,667
Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.		3,783
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(8,385)
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.		16,662
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:		
Bonds issued	(37,050)	
Bond premium	(2,178)	
Capital lease financing	(876)	
Principal retirement	32,546	
Issuance costs deferral	1,452	
Bond issuance costs amortization	(366)	
Bond discount amortization	(13)	
Bond premium amortization	1,399	
Total long-term debt proceeds/repayment		(5,086)

Some expenditures 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	(233)	
Compensated absences	5,353	
Early retirement benefits	6	
Arbitrage rebate tax	21	
Other liabilities	201	
Total additional expenditures		5,348
Change in net assets of governmental activities		$ 596,906

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(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)	$ 229,404	$ 11,242	$ 61,742	$ 302,388	$ 49,172
Receivables (net) (Note 4)	2,516	9,305	19,301	31,122	4,650
Interfund loans receivable (Note 12)	-	-	4	4	309
Due from other governments	19	-	245	264	2
Due from other funds (Note 12)	-	4,184	239	4,423	6,072
Due from component units	50	1,720	1,844	3,614	484
Inventories	-	-	7,757	7,757	2,237
Short-term investments (Note 3)	-	-	-	-	-
Securities lending collateral (Note 3)	-	3	1,301	1,304	575
Other current assets	-	-	339	339	624
Total current assets	231,989	26,454	92,772	351,215	64,125
Noncurrent assets:					
Advances to other funds (Note 12)	-	16,131	75	16,206	-
Advances to component units	-	6,575	-	6,575	-
Long-term investments (Note 3)	-	6,117	3,201	9,318	18,706
Long-term notes/loans receivable	-	36,840	268	37,108	-
Deferred charges	-	1,299	18	1,317	-
Other long-term assets	-	-	1,686	1,686	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,301	7,301	3,645
Equipment	-	3	5,167	5,170	190,977
Infrastructure	-	-	884	884	-
Construction in progress	-	-	309	309	4,470
Intangible assets	-	-	413	413	769
Less accumulated depreciation	-	(3)	(8,114)	(8,117)	(111,687)
Total capital assets	-	-	9,103	9,103	88,505
Total noncurrent assets	-	66,962	14,351	81,313	107,211
Total assets	231,989	93,416	107,123	432,528	171,336

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(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)	$ 274	$ 1,176	$ 6,468	$ 7,918	$ 8,833
Lottery prizes payable	-	-	1,565	1,565	-
Interfund loans payable (Note 12)	-	-	258	258	5,602
Due to other governments	-	-	406	406	-
Due to other funds (Note 12)	-	4	12,849	12,853	3,298
Due to component units	-	-	-	-	52
Deferred revenue	-	-	6,940	6,940	1,014
Short-term debt (Note 11)	-	83,620	-	83,620	-
Lease/installment purchase payable (Note 10)	-	-	-	-	738
Bonds/notes payable - net (Note 11)	-	939	420	1,359	-
Amounts held in custody for others	-	-	86	86	3
Securities lending liability (Note 3)	-	3	1,301	1,304	575
Estimated insurance claims (Note 8)	-	-	7,387	7,387	12,666
Compensated absences payable (Note 11)	-	17	586	603	2,655
Arbitrage rebate tax payable	-	35	-	35	-
Other current liabilities (Note 11)	-	-	29	29	-
Total current liabilities	274	85,794	38,295	124,363	35,436
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,242	1,242	-
Advances from other funds (Note 12)	-	-	-	-	4,452
Bonds/notes payable - net (Note 11)	-	2,148	430	2,578	-
Estimated insurance claims (Note 8)	-	-	6,472	6,472	16,066
Compensated absences payable (Note 11)	-	25	597	622	2,222
Arbitrage rebate tax payable	-	94	-	94	-
Other long-term liabilities (Note 11)	-	-	227	227	-
Total noncurrent liabilities	-	2,267	8,968	11,235	22,740
Total liabilities	274	88,061	47,263	135,598	58,176
NET ASSETS					
Invested in capital assets, net of related debt	-	-	8,705	8,705	89,225
Restricted for:					
Unemployment Compensation	231,715	-	-	231,715	-
Other Purposes	-	2,922	35,051	37,973	-
Unrestricted	-	2,433	16,104	18,537	23,935
Total net assets	$ 231,715	$ 5,355	$ 59,860	$ 296,930	$ 113,160

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, 2006
(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	$ -	$ 7	$ 110,681	$ 110,688	$ 106,276
Investment earnings	10,296	570	2,182	13,048	2,016
Securities lending income	-	-	57	57	61
Financing income	-	3,050	-	3,050	-
Contributions/premiums	76,754	-	70,019	146,773	112,574
Grants/contracts/donations	7,233	-	35,679	42,912	-
Taxes	-	-	17,317	17,317	-
Other operating revenues	3,493	-	922	4,415	1,986
Total operating revenues	97,776	3,627	236,857	338,260	222,913
Operating expenses:					
Personal services	-	250	10,478	10,728	37,620
Contractual services	-	22	11,261	11,283	19,761
Supplies/materials	-	10	51,488	51,498	21,927
Benefits/claims	70,459	-	95,149	165,608	88,268
Depreciation	-	-	1,222	1,222	11,091
Amortization	-	-	248	248	776
Utilities/rent	-	41	924	965	10,800
Communications	-	6	1,049	1,055	9,153
Travel	-	3	224	227	430
Repair/maintenance	-	1	522	523	8,237
Grants	-	-	1,395	1,395	-
Lottery prize payments	-	-	20,728	20,728	-
Interest expense	-	3,065	46	3,111	374
Securities lending expense	-	-	57	57	60
Arbitrage rebate tax	-	4	-	4	-
Dividend expense	-	-	1,706	1,706	-
Other operating expenses	2,201	38	1,448	3,687	2,941
Total operating expenses	72,660	3,440	197,945	274,045	211,438
Operating income (loss)	25,116	187	38,912	64,215	11,475
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	38
Gain (loss) on sale of capital assets	-	-	-	-	(811)
Federal indirect cost recoveries	-	-	-	-	4,292
Increase (decrease) value of livestock	-	-	284	284	-
Total nonoperating revenues (expenses)	-	-	284	284	3,519
Income (loss) before contributions and transfers	25,116	187	39,196	64,499	14,994
Capital contributions	-	-	385	385	-
Transfers in (Note 12)	-	-	78	78	2,330
Transfers out (Note 12)	(558)	-	(34,326)	(34,884)	(662)
Change in net assets	24,558	187	5,333	30,078	16,662
Total net assets - July 1 - as previously reported	207,157	5,168	54,531	266,856	95,301
Prior period adjustments (Note 2)	-	-	(4)	(4)	1,197
Total net assets - July 1 - as restated	207,157	5,168	54,527	266,852	96,498
Total net assets - June 30	$ 231,715	$ 5,355	$ 59,860	$ 296,930	$ 113,160

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, 2006
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 79,084	$ 7	$ 180,420	$ 259,511	$ 218,409
Payments to suppliers for goods and services	(5,396)	(108)	(100,233)	(105,737)	(71,755)
Payments to employees	-	(249)	(10,282)	(10,531)	(37,699)
Grant receipts	7,164	-	37,223	44,387	4,361
Grant payments	-	-	(1,395)	(1,395)	-
Cash payments for claims	(70,657)	-	(59,829)	(130,486)	(90,565)
Cash payments for prizes	-	-	(20,860)	(20,860)	-
Other operating revenues	5,338	-	1,055	6,393	1,650
Other operating payments	-	-	(1,706)	(1,706)	-
Net cash provided by (used for) operating activities	15,533	(350)	24,393	39,576	24,401
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	17,312	17,312	-
Transfers to other funds	(558)	-	(30,610)	(31,168)	(662)
Transfers from other funds	-	-	61	61	2,330
Proceeds from interfund loans/advances	-	-	(25)	(25)	19,371
Payments of interfund loans/advances	-	-	(4)	(4)	(15,687)
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(5,309)	(445)	(5,754)	(348)
Proceeds from issuance of bonds and notes	-	1,103	-	1,103	-
Net cash provided by (used for) noncapital financing activities	(558)	(4,206)	(13,674)	(18,438)	5,004
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	38
Acquisition of capital assets	-	-	740	740	(14,521)
Proceeds from sale of capital assets	-	-	(1)	(1)	802
Principal and interest payments on bonds and notes	-	-	-	-	(142)
Net cash used for capital and related financing activities	-	-	739	739	(13,823)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(2,146)	(932)	(3,078)	(6,948)
Proceeds from sales or maturities of investments	-	1,794	961	2,755	1,117
Proceeds from securities lending transactions	-	-	52	52	(229)
Interest and dividends on investments	10,296	700	2,113	13,109	2,045
Payment of securities lending costs	-	-	(50)	(50)	229
Collections of principal and interest on loans	-	20,807	-	20,807	-
Cash payment for loans	-	(22,519)	-	(22,519)	-
Arbitrage rebate tax	-	11	-	11	-
Net cash provided by (used for) investing activities	10,296	(1,353)	2,144	11,087	(3,786)
Net increase (decrease) in cash and cash equivalents	25,271	(5,909)	13,602	32,964	11,796
Cash and cash equivalents, July 1	204,133	17,151	48,140	269,424	37,376
Cash and cash equivalents, June 30	$ 229,404	$ 11,242	$ 61,742	$ 302,388	$ 49,172

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)	$ 25,116	$ 186	$ 38,912	$ 64,214	$ 11,475
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	1,221	1,221	11,087
Amortization	-	-	248	248	774
Taxes	-	-	(17,317)	(17,317)	-
Interest expense	-	3,065	46	3,111	374
Securities lending expense	-	-	86	86	60
Investment Earnings	(10,296)	(570)	(2,182)	(13,048)	(2,014)
Securities lending income	-	-	(86)	(86)	(61)
Financing income	-	(3,050)	-	(3,050)	-
Federal indirect cost recoveries	-	-	-	-	4,291
Arbitrage rebate tax	-	4	-	4	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	916	-	(1,477)	(561)	(738)
Decr (incr) in due from other funds	(50)	-	(110)	(160)	(508)
Decr (incr) in due from component units	(19)	-	(1,129)	(1,148)	(29)
Decr (incr) in due from other governments	-	-	59	59	-
Decr (incr) in inventories	-	-	(3,671)	(3,671)	(154)
Decr (incr) in other assets	-	-	2,353	2,353	(87)
Incr (decr) in accounts payable	(69)	14	2,932	2,877	1,943
Incr (decr) in lottery prizes payable	-	-	113	113	-
Incr (decr) in due to other funds	(65)	1	(2,506)	(2,570)	791
Incr (decr) in due to component units	-	-	(1)	(1)	29
Incr (decr) in deferred revenue	-	-	3,715	3,715	49
Incr (decr) in amounts held in custody for others	-	-	(10)	(10)	(27)
Incr (decr) in compensated absences payable	-	-	56	56	415
Incr (decr) in estimated claims	-	-	3,141	3,141	(3,269)
Net cash provided by (used for) operating activities	$ 15,533	$ (350)	$ 24,393	$ 39,576	$ 24,401
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	$ -	$ -	$ -	$ -	$ 738
Incr (decr) in fair value of investments	-	-	-	-	163
Total noncash transactions	$ -	$ -	$ -	$ -	$ 901

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
(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)	$ 189,448	$ 2,597	$ 655,715	$ 5,835
Receivables (net):				
Accounts receivable	16,887	-	832	408
Interest	14,178	-	-	-
Due from primary government	15,953	-	-	-
Due from other PERB plans	418	-	-	-
Long-term loans/notes receivable	135	-	-	-
Total receivables	47,571	-	832	408
Investments at fair value:				
Equity in pooled investments (Note 3)	6,673,208	-	-	-
Other investments (Note 3)	375,862	-	-	-
Total investments	7,049,070	-	-	-
Securities lending collateral (Note 3)	133,607	29	10,741	2
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(271)	-	-	-
Intangible assets	833	-	-	-
Total capital assets	907	-	-	-
Other assets	4	7,847	-	10,592
Total assets	7,420,607	10,473	667,288	16,837
LIABILITIES				
Accounts payable	802	3	832	667
Due to primary government	102	-	-	-
Due to other PERB plans	418	-	-	-
Due to component units	24	-	-	-
Advances from primary government	1,360	-	-	-
Deferred revenue	75	-	-	-
Amounts held in custody for others	-	-	800	16,168
Securities lending liability (Note 3)	133,607	29	10,741	2
Compensated absences payable	394	-	-	-
Total liabilities	136,782	32	12,373	16,837
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 7,283,825	$ 10,441	$ 654,915	$ -

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, 2006
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 143,922	$ -	$ -
Employee	152,872	-	-
Other contributions	17,461	-	1,174,981
Net investment earnings:			
Investment earnings	593,481	68	23,951
Administrative investment expense	(10,337)	-	-
Securities lending income	10,143	1	419
Securities lending expense	(9,908)	(1)	(418)
Grants/contractions/donations	-	527	-
Charges for services	432	-	-
Other additions	272	2,798	-
Payment from State of Montana	125,000	-	-
Transfers in	233	-	-
Total additions	1,023,571	3,393	1,198,933
DEDUCTIONS			
Benefits	379,923	-	-
Refunds	19,806	-	-
Distributions	-	2,480	1,124,365
Administrative expenses:			
Personal services	2,447	-	-
Contractual services	2,409	-	-
Supplies/materials	89	-	-
Depreciation	5	-	-
Amortization	407	-	-
Utilities/rent	257	-	-
Communications	173	-	-
Travel	63	-	-
Repair/maintenance	56	-	-
Grants	-	8	-
Interest expense	58	-	-
Other operating expenses	389	-	-
Local assistance	11	-	-
Transfers to ORP	183	-	-
Transfers to PERS-DCRP	1,064	-	-
Total deductions	407,340	2,488	1,124,365
Change in net assets	616,231	905	74,568
Net assets - July 1 - as previously reported	6,667,193	9,602	580,347
Prior period adjustments (Note 2)	401	(66)	-
Net assets - July 1 - as restated	6,667,594	9,536	580,347
Net assets - June 30	$ 7,283,825	$ 10,441	$ 654,915

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

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006
(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	$ 7,870	$ 1,874	$ 14,919	$ 8,676
Receivables (net)	17,869	318	15,854	680
Due from primary government	7	-	31	-
Due from other governments	-	-	-	-
Due from component units	-	-	575	-
Inventories	-	-	-	-
Long-term loans/notes receivable	710,946	560	35	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	203,654	-	738,858	43,252
Securities lending collateral (Note 3)	42	30	132,439	14,894
Deferred charges	7,758	-	-	-
Capital assets (net) (Note 5)	55	-	6,601	-
Other assets	232	-	17,313	-
Total assets	948,433	2,782	926,625	67,502
LIABILITIES				
Accounts payable	3,959	10	18,557	198
Due to primary government	22	2	1,171	-
Due to component units	-	-	-	575
Advances from primary government	-	-	-	-
Deferred revenue	-	-	2,107	-
Amounts held in custody for others	-	-	22,119	-
Securities lending liability (Note 3)	42	30	132,439	14,894
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	11,011	11	125,258	12,909
Due in more than one year	793,400	19	467,390	60,827
Total liabilities	808,434	72	769,041	89,403
NET ASSETS				
Invested in capital assets, net of related debt	55	-	6,601	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	139,944	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,710	150,983	(21,901)
Total net assets	$ 139,999	$ 2,710	$ 157,584	$ (21,901)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 517	$ 98,208	$ 92,966	$ 225,030
120	18,120	23,920	76,881
-	2,547	1,670	4,255
-	13,484	7,804	21,288
-	24	429	1,028
-	2,729	1,760	4,489
-	16,665	9,664	737,870
-	14,358	6,813	21,171
78	177,358	161,085	1,324,285
-	1,538	836	149,779
-	-	1,662	9,420
-	257,256	253,222	517,134
-	5,729	2,788	26,062
715	608,016	564,619	3,118,692
339	25,275	17,401	65,739
-	3,101	816	5,112
-	429	24	1,028
-	8,551	5,466	14,017
9	7,791	12,503	22,410
-	4,024	2,291	28,434
-	1,538	836	149,779
-	3,785	6,055	9,840
-	16,926	13,958	180,073
-	160,574	168,226	1,650,436
348	231,994	227,576	2,126,868
-	164,232	124,522	295,410
-	18,820	14,775	33,595
-	84,435	108,433	192,868
-	-	-	139,944
275	43,444	56,513	100,232
92	65,091	32,800	229,775
$ 367	$ 376,022	$ 337,043	$ 991,824

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	$ 44,104	$ 323	$ 240,157	$ 9,061
PROGRAM REVENUES:				
Charges for services	381	444	211,953	-
Operating grants and contributions	45,773	105	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	46,154	549	211,953	-
Net (expenses) program revenues	2,050	226	(28,204)	(9,061)
GENERAL REVENUES:				
Other taxes	-	-	-	(10)
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	17,114	2,751
Payment from State of Montana	-	-	-	-
Miscellaneous	1	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	17,114	2,741
Change in net assets	2,051	226	(11,090)	(6,320)
Total net assets - July 1 - as previously reported	137,960	2,484	168,674	(15,581)
Prior period adjustments (Note 2)	(12)	-	-	-
Total net assets - July 1 - as restated	137,948	2,484	168,674	(15,581)
Total net assets - June 30	$ 139,999	$ 2,710	$ 157,584	$ (21,901)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 678	$ 394,589	$ 307,395	$ 996,307
683	164,664	137,033	515,158
-	156,437	109,869	312,184
-	5,323	3,064	8,387
683	326,424	249,966	835,729
5	(68,165)	(57,429)	(160,578)
-	-	-	(10)
-	106	-	106
1	8,147	17,017	45,030
-	87,957	63,527	151,484
-	-	-	1
-	5,553	6,600	12,153
1	101,763	87,144	208,764
6	33,598	29,715	48,186
-	342,424	307,328	943,289
361	-	-	349
361	342,424	307,328	943,638
$ 367	$ 376,022	$ 337,043	$ 991,824

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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 which 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 these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

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

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

Montana Surplus Lines – Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within Montana State 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. The association was audited by Galusha, Higgins & Galusha, PC. The report is issued under separate cover at 840 Helena Avenue, Helena, MT 59601.

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

University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

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 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 is one employer, Great Falls Transit, that contributes 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 only reported on 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. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using 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.

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 both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are 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. A list of the plans is included on page 185.

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 defined above.

The State Special Revenue 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.

The Federal Special Revenue Fund accounts for all 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. (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.

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 GASB Statement 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 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2005, was 1,588 hours. For fiscal year 2006, 1,956 hours were contributed to the sick leave pool and 964 hours were withdrawn, leaving a balance of 2,580 hours in the pool. No liability is reported in the accompanying financial statements because these hours are

nonrefundable to participants 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 $2,472,279 of which $484,411 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	$ 10,548	$14,552	$ -	$ 25,100
Agriculture sales	-	3,540	-	3,540
Cigarette/tobacco	38,894	48,456	1,990	89,340
Fire protection	-	2,444	-	2,444
Insurance premium	58,596	-	-	58,596
Livestock	-	3,367	-	3,367
Other taxes	22,914	6,355	-	29,269
Public Service Commission	-	3,068	-	3,068
Telephone license	20,860	-	-	20,860
Video gaming	57,429	18	-	57,447
Total other taxes	$209,241	$81,800	$1,990	$293,031

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2006, the State implemented GASB Statement 43, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The State did not have any impairment of capital assets to disclose for fiscal year 2006.

GASB Statement 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) was also implemented for the year ended June 30, 2006.

In addition, for the year ended June 30, 2006, the State implemented GASB Statement 47, Accounting for Termination Benefits, which provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. During fiscal year 2006, the State did not recognize a liability and expense for voluntary termination benefits (i.e., early-retirement incentives) or involuntary termination benefits such as severance benefits for its employees.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to various capital asset corrections.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$2,477,151
Equity in pooled investments	$7,997,467
Investments	$2,062,491

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. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. 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, 2006.

(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, municipals,

equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, 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.

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.

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 liquid.

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 currency cash, U.S. government securities, 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 exceed 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	$ 30,186
Uninsured and uncollateralized cash	4,917
Undeposited cash	1,418
Cash in U.S. Treasury	229,469
Cash in MSU component units	5,917
Cash in UM component units	8,334
Less: outstanding warrants	(56,134)
Total cash deposits	$224,107

As of June 30, 2006, the carrying amount of deposits for component units was $92,306,495, 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 Treasurer's Cash Pool, 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	Fund
Commercial paper	$1,421,009	A1	Various
Corporate fixed	293,961	A1+	Various
Corporate variable-rate	224,992	A1+	Various
Municipal variable-rate	248,884	A1+	Various
Repurchase agreement (1)	18,643	NR	Various
Government direct-indirect (2)	205,126	AAA	Various
Money market	65,289	NR	Various
Less: STIP included in pooled investment balance	(224,859)		
Total cash equivalents	$2,253,045		
Securities lending collateral investment pool	$ 36,072		

(1) As of June 30, 2006, a repurchase agreement, per contract, was collateralized at 102% for $19,024,084 by a Federal Home Loan Mortgage Corporation REMIC maturing July 15, 2033.

(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, 2006, local governments invested $654,914,928 in STIP.

As of June 30, 2006, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $393,690,026.

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 have the highest investment grade rating in the short-term category 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, 2006. 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, 2006, 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 Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or $15 million, whichever is higher, to be invested in repurchase agreements." The STIP investments had concentrations of credit risk exposure to the Federal Home Loan Bank of 6.59% as of June 30, 2006.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

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.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2006, Montana was not aware of any legal risks regarding any investments.

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".

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Common Stock Pool	$1,142,029	$1,307,594
Equity Index Funds	1,248,314	1,428,148
DFA Small Cap Subtrust	133,994	213,902
MidCap Equity Index Fund	165,000	191,368
SPIFF	11,533	11,692
TFBP:		
Corporate bonds (rated)	642,663	643,217
Corporate bonds (unrated)	3,756	3,813
Foreign government bonds	9,933	9,700
Municipal government bonds (rated)	1,135	1,168
Municipal government bonds (unrated)	2,656	2,656
U.S. government direct-backed	58,200	58,629
U.S. government indirect-backed	518,980	509,562
Repurchase agreement (rated)	269	269
STIP	85,583	85,583
RFBP:		
Corporate bonds (rated)	932,793	930,858
Corporate bonds (unrated)	14,036	13,929
Foreign government bonds	4,967	4,850
U.S. government direct-backed	54,701	55,508
U.S. government indirect-backed	736,638	722,334
Repurchase agreement (rated)	448	448
STIP	109,117	109,117
MTIP:		
BGI MSCI Europe Index	546,725	768,769
BOI MSCI Pacific Index	40,005	65,943
DFA International Small Company	78,149	93,071
ISPIFF/SPIFF	28,001	30,496
Schroder Investment Management	114,423	139,113
Nomura Asset Management USA	105,769	143,656
MPEP:		
Private equities	321,925	369,684
State Street SPIFF	31,233	31,043
MTRP:		
STIP	30,160	30,160
Total pooled investments	7,173,135	7,976,280
Pool adjustments (net)	21,187	21,187
Total equity in pooled investments	$7,194,322	$7,997,467

At June 30, 2006, the carrying and fair value of the underlying securities on loan was $188,635,282 and $193,032,691, respectively. The collateral provided for the securities on loan totaled $199,919,664.

As of June 30, 2006, component units of the State of Montana had equity in pooled investments with a book value of $4,570,282,809 and a fair value of $6,694,378,176, 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 previous table are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

As of June 30, 2006, Northwest Airlines Inc. presented a higher credit risk to the board. The TFBP held a $9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The book value of this security was $9,255,000 as of June 30, 2006, and is secured by Northwest Airlines Inc.'s corporate headquarters building and land. The RFBP held a $5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The book value of this security was $5,745,000 as of June 30, 2006, and is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2006, Burlington Industries, Inc. presented a legal and higher credit risk to the board. TFBP owns a Burlington Industries, Inc., $4 million par, 7.25% bond maturing September 15, 2005. RFBP owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for these issues were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the TFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $3,739,760 to $1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the TFBP received $969,974 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $169,974. In February 2005 and May 2005, the TFBP received an additional $139,180 and $129,498, respectively, for its unsecured claim. In May 2006, the Board received an additional $105,519. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5,609,640 to $2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received $1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $254,961. In February 2005 and May 2005, the RFBP received an additional $208,771 and $194,247, respectively, for its unsecured claim. In May 2006, the Board received an additional payment of $158,278. Both the TFBP and RFBP are expected to receive the final distribution in September 2006.

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 State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

As of June 30, 2006, MTRP's single investment was in STIP.

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.

According to the TFBP and RFBP investment policies, with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2006, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 7.75%. As of June 30, 2006, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 5.50%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool 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. This information, as provided by our 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.

According to GASB Statement 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7 like pool". Because STIP operates as a 2a-7 like pool, this exclusion applies to MTRP.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling $84,804 at amortized cost as of June 30, 2006. The RFBP portfolio holds REMICs totaling $387,052 in amortized cost as of June 30, 2006. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 carry an amortized cost of $3 as of June 30, 2006.

The TFBP holds one inverse variable-rate corporate $15 million par bond. The RFBP holds one inverse variable-rate corporate $25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2006, 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, 2006
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 643,217	A	4.93
Corporate bonds (unrated)	3,813	NR	1.48
Foreign government bonds	9,700	BBB	5.83
Municipal government bonds (rated)	1,168	AA	2.70
Municipal government bonds (unrated)	2,656	NR	3.94
U.S. government direct-backed	58,629	AAA	7.37
U.S. government indirect-backed	509,562	AAA	4.77
State Street repurchase agreement (rated) (1)	269	AA-	NA
STIP	85,583	NR	NA
Total fixed-income investments	$1,314,597	AA-	4.97
Securities lending collateral investment pool	$ 61,814	NR	NA

(1) At June 30, 2006, the State Street Bank repurchase agreement was collateralized at $269,625 by an AAA-rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2006
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 930,859	A	5.20
Corporate bonds (unrated)	13,929	NR	3.81
Foreign government bonds	4,850	BBB	5.83
U.S. government direct-backed	55,508	AAA	6.87
U.S. government indirect-backed	722,334	AAA	4.73
State Street repurchase agreement (rated) (1)	448	AA-	NA
STIP	109,116	NR	NA
Total fixed-income investments	$1,837,044	AA-	5.05
Securities lending collateral investment pool	$ 84,097	NR	NA

(1) At June 30, 2006, the State Street Bank repurchase agreement was collateralized at $449,375 by an AAA-rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. As provided for in the partnership agreements, currency exposures may be hedged, partially or fully, at the discretion of the manager, to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

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)

	2006	
Cash	Carrying Amount	Fair Value
Australian Dollar	$ 67	$ 68
Hong Kong Dollar	700	699
Japanese Yen	1,305	1,317
South Korean Won	24	24
Malaysian Ringgit	8	8
Philippine Peso	2	3
Singapore Dollar	1,365	1,368
New Taiwan Dollar	168	168
Total cash	$3,639	$3,655

The MTIP, through the funds below, has significant investments in 11 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

MTIP
Investment by Security Type
(in thousands)

	2006	
Security Investment Type	**Carrying Amount**	**Fair Value**
BGI MSCI Europe Index	$546,725	$ 768,769
BGI MSCI Pacific Index	40,005	65,943
DFA International Small Company	78,149	93,071
ISPIFF/SPIFF	28,001	30,496
Schroder Investment Management	114,423	139,113
Nomura Asset Management U.S.A., Inc.	105,769	143,656
Total investments	$913,072	$1,241,048
Securities lending collateral investment pool	$ 31,331	$ 31,331

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:

Long-term Investments

Department	Percent Administered
Board of Investments	68.31%
PERA (Public Employee Retirement Administration)	15.03
Board of Housing	11.32
Montana State University/University of Montana	3.93
Other (1)	1.41
Total	100.00%

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

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	Credit Quality Rating	Effective Duration
Primary government				
Corporate (rated) (1)	$ 96,371	$ 95,454		
U.S. govt direct/indirect (rated) (1)	66,491	65,750		
U.S. govt mortgage-backed (rated) (1)	2,494	2,484		
Govt securities	28,881	28,567		
MUS Workers Compensation	2,016	1,954		
Other equities	166,889	166,889		
Total	$ 363,142	$ 361,098		
Component units/fiduciary funds				
Corporate (rated) (1)	$ 365,828	$ 357,517		
U.S. govt direct/indirect (rated) (1)	327,563	320,864		
U.S. govt mortgage-backed (rated) (1)	21,902	21,599		
Govt securities	272,124	274,811		
Other equities	68,486	83,456		
Deferred compensation	241,774	247,944		
Defined contribution	26,541	30,934		
VEBA	484	482		
Investments of MSU component units	124,653	124,653		
Investments of UM component units	142,631	142,631		
Real estate	16,477	16,693		
Mortgages	80,751	79,809		
Total	$1,689,214	$1,701,393		
Total investments	$2,052,356	$2,062,491		
Securities lending collateral investment pool	$ 372,706	$ 372,706	NR	NA

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

AOF Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2006
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	$ 386,073	A	3.69
U.S. government direct-backed (1)	62,683	AAA	4.55
U.S. government indirect-backed (1)	620,037	AAA	2.39
Total	$1,068,793		2.99

(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 Assoication) investments are made in mutual fund equities and mutual fund fixed-income 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, 2006, 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. The US Bank Municipal Investors Account, 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, 2006, Montana had concentration of credit risk exposure to Federal Home Loan Banks of 6.27% and Federal National Mortgage Association of 9.82%.

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).

Specific Legal and Credit Risk

As of June 30, 2006, Montana was not aware of any specific legal or credit risks regarding any investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2006, 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	$ 6,962	$ 362	$ -	$ -	$ -	$ -
Taxes	174,931	60,974	-	4,526	-	1,220
Charges for services/ fines/forfeitures	199	10,664	1,581	-	-	-
Investment income	1,972	5,593	-	3,932	5,468	3,355
Contributions/premiums	-	-	-	-	-	-
Other	6,532	11,969	11,027	-	-	494
Total receivables	190,596	89,562	12,608	8,458	5,468	5,069
Less: allowance for doubtful accounts	(8,335)	(7,264)	(1,365)	(48)	-	-
Receivables, net	$182,261	$82,298	$11,243	$8,410	$5,468	$5,069

	Proprietary Funds			
Receivables	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$16,000	$ -
Investment income	-	9,305	36	168
Contributions/premiums	8,441	-	3,103	4,133
Other	-	-	290	349
Total receivables	8,441	9,305	19,429	4,650
Less: allowance for doubtful accounts	(5,925)	-	(128)	-
Receivables, net	$ 2,516	$9,305	$19,301	$4,650

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Refunds	$ 95,742	$ -	$ -	$-	$ -	$ -
Tax distributions to other govt	-	48,583	-	-	-	-
Vendors/individuals	43,338	50,997	92,500	-	-	1,932
Payroll	13,780	14,609	5,643	-	-	8
Accrued interest	-	-	3	-	5,344	5
Other	557	568	49	-	-	10
Total	$153,417	$114,757	$98,195	$-	$5,344	$1,955

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	$274	$ 13	$5,885	$6,548
Payroll	-	11	580	2,285
Accrued interest	-	1,153	3	-
Total	$274	$1,177	$6,468	$8,833

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2006, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 354,857	$ 37,421	$ (13,795)	$ 378,483
Construction work in progress	201,936	118,546	(3,715)	316,767
Other (1)	70,033	81,390	(1)	151,422
Total capital assets, not being depreciated	626,826	237,357	(17,511)	846,672
Capital assets, being depreciated				
Infrastructure	3,265,389	405,083	(252,488)	3,417,984
Land improvements	16,396	4,635	(572)	20,459
Buildings/improvements	366,291	25,256	(5,581)	385,966
Equipment	257,137	26,063	(14,003)	269,197
Other	3,548	118	-	3,666
Total capital assets, being depreciated	3,908,761	461,155	(272,644)	4,097,272
Less: accumulated depreciation for:				
Infrastructure	(1,479,468)	(142,193)	243,826	(1,377,835)
Land improvements	(2,143)	(1,006)	19	(3,130)
Buildings/improvements	(160,838)	(11,932)	4,124	(168,646)
Equipment	(156,947)	(18,240)	8,740	(166,447)
Other	(3,182)	(206)	-	(3,388)
Total accumulated depreciation	(1,802,578)	(173,577)	256,709	(1,719,446)
Total capital assets, being depreciated, net	2,106,183	287,578	(15,935)	2,377,826
Intangible assets (1)	72,649	18,762	(75,332)	16,079
Governmental activity capital assets, net	$ 2,805,658	$ 543,696	$(108,777)	$ 3,240,577

(1) Land easements were reclassified from intangible assets to other – nondepreciable assets.

Primary Government *(continued)*

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	867	59	(617)	309
Total capital assets, not being depreciated	1,667	59	(617)	1,109
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	6,098	1,203	-	7,301
Equipment	10,062	448	(5,333)	5,177
Total capital assets, being depreciated	19,387	1,651	(5,333)	15,705
Less: accumulated depreciation for:				
Infrastructure	(505)	(17)	-	(522)
Land improvements	(131)	(107)	-	(238)
Buildings/improvements	(3,754)	(184)	-	(3,938)
Equipment	(7,655)	(1,092)	5,328	(3,419)
Total accumulated depreciation	(12,045)	(1,400)	5,328	(8,117)
Total capital assets, being depreciated, net	7,342	251	(5)	7,588
Intangible assets	661	-	(248)	413
Business-type activity capital assets, net	$ 9,670	$ 310	$ (870)	$ 9,110

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

	Amount
General government	$ 4,634
Public safety/corrections	5,333
Transportation (including depreciation of the highway system maintained by the State)	119,536
Health/social services	2,464
Education/cultural	2,528
Resource/recreation/environment (including depreciation of the State's dams).	3,025
Economic development/assistance	770
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.	11,091
Total depreciation expense – governmental activities	$149,381

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

	Amount
Liquor Stores	$ 97
State Lottery	668
General Government Services	186
Prison Funds	271
Total depreciation expense – business-type activities	$1,222

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	$ 6,508	$ 7,126	$ -	$ 13,634
Construction work in progress	15,997	29,692	376	46,065
Capitalized collections	7,827	15,461	-	23,288
Livestock for educational purposes	3,000	-	-	3,000
Total capital assets, not being depreciated	33,332	52,279	376	85,987
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,606	12,619	-	26,225
Buildings/improvements	306,565	331,305	-	637,870
Equipment	96,214	46,344	3,954	146,512
Other	59,331	49,323	-	108,654
Total capital assets, being depreciated	507,844	439,591	3,954	951,389
Less: accumulated depreciation	(292,438)	(244,101)	(2,399)	(538,938)
Total capital assets, being depreciated, net	215,406	195,490	1,555	412,451
Intangible assets	493	503	4,725	5,721
Capital assets (net) of MSU component units	8,026	-	-	8,026
Capital assets (net) of UM component units	-	4,949	-	4,949
Discretely presented component units Total capital assets, net	$ 257,257	$ 253,221	$ 6,656	$ 517,134

NOTE 6. RETIREMENT PLANS

Defined Contribution Plans

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 discussed in the next section. 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 subfund 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 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF *(in thousands)*
Covered payroll	$145,294
Total payroll	308,615
Employer contributions	$ 7,138
Percent of covered payroll	4.91%
Employee contributions	$ 10,210
Percent of covered payroll	7.03%

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 PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of $1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

For information on the repayment schedules on the loan, please see the separately issued PERS-DCRP financial statements.

The PERS requested an inter-entity loan in the amount of $2,000 from the General Fund to the Municipal Police Officers Retirement System (MPORS) fund at the end of fiscal year 2006. This loan was repaid on August 8, 2006.

Deferred Compensation Plan

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, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2006, the net assets of the plan were $248,226,353.

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.

Defined Benefit 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 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 plan. Separately issued financial statements can be obtained at 100 North Park, 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. 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 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2006, follows:

	Retirement Plan									
	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457	TRS
Employers										
State agencies	36		1	1	1	1	4	29	36	8
Counties	55			56				43	2	
Cities/towns	94	22	16					41		
Colleges/universities	5						3	5	6	5
School districts	239							81	2	366
Other	95							30	2	
Total	524	22	17	57	1	1	7	229	48	379

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 a biennial 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 payroll. 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.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This 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 year 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 2006 was $3,139. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

JRS – Judges Retirement System – This 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.

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

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, 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 actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 1.01% of payroll would be required to fund the current and projected benefits from the Defined Benefit plan in accordance with GASB standards and state law.

MPORS – Municipal Police Officers Retirement System – The plan, 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 covered by 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 five years 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, they will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, 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. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993, and all Montana sheriffs.

Effective July 1, 2005, Senate Bill 370 provided membership for county detention officers in the SRS. All detention officers hired after July 1, 2005, will be in the SRS. Existing detention officers may elect to remain in the PERS or elect to become a member of the SRS.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 1.84% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA,

provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 0.04% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

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 medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective July 1, 2003).

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 not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 7.75% per year. The plan's actuary has determined that as of July 1, 2006, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost. The unfunded actuarial accrued liability of $863.1 million is included in the Schedules of Funding Progress.

A brief summary of contribution rates, eligibility and benefits for each retirement plan is provided in the tables on the following three pages.

Schedule of Contribution Rates
Fiscal Year 2006

Plan	Member	Employer	State
PERS-DBRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government 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]	**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]	**9.535%** [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 driver license fees [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 by the General Fund [19-17-301, MCA]
PERS-DCRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
TRS	**7.15%** [19-20-602, MCA]	**7.47%** [19-20-605, MCA]	**0.11%** of members' salaries [19-20-604, MCA]

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 compensation 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 – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – 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 member's contributions and attributable income; 5 years for employer's contributions 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 by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	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.	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 by a maximum of 3% each January, inclusive of all 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 1/3% 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 benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary 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 by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
VFCA	$7.50 per year of credited service, maximum $150; if greater than 20 years of service (but not more than 30 years), maximum $225		
PERS-DCRP	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

C. 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.

D. 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.

E. Long-term Contracts for Contributions

The Montana Legislature also 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, 2006, 165 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 2006 were $123,784. June 30, 2006, outstanding balances were $49,261.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System (MUS) provide 18 to 36 months optional postemployment health care and dental benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2006, 55 certificate holders were receiving these benefits for the State of Montana, 108 for the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits 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). Administratively established retiree medical premiums vary between $155 and $675 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $27.80 and $45.80, and vision premiums vary between $8.44 and $21.94 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2006, there were 3,318 retirees covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a $10 copay to a $120 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of $21,206,622 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $15,460,535 leaving $5,746,087 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-702, the Montana University System provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS 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.

Administratively established premiums vary between $210 and $603 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 $575 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 80% of the first $2,500 in medical claims and 100% thereafter. After a $400 deductible for Medicare-eligible retirees, the plan reimburses 80% 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. This plan has a small enrollment (77 enrollees). After the $1,500 annual deductible, the plan pays 75% of the first $8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2006, 1,427 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2006, expenditures of $8,678,927 were recognized for postemployment health care benefits. Of this amount, $6,248,223 was paid by retirees through premiums, and the balance of $2,430,704 was paid by the MUS.

As of July 1, 2006, retirees can now choose a managed care option, if available, in their area. The managed care premiums are lower and there are more first dollar benefits. After an in-network deductible of $300, the plan reimburses 75% for the first $2,000 and 100% thereafter. The managed care plans have a small enrollment (30 enrollees) for this first year offering to retirees.

For the fiscal year ending June 30, 2007, the State and the MUS will implement GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the disclosure of the employer liability for retiree medical subsidies and other postemployment benefits. The annual required contribution (ARC) will be equal to an amount required each year to fully fund the liability over 30 years. The estimated ARC for the State and the MUS has been estimated at $29,892,000 and $21,477,000, respectively. The amount of the estimated OPEB liability at transition was determined in accordance with the Statement, and has been estimated at $306,150,000 for the State and $218,963,000 for the MUS. These estimates were prepared by Buck Consultants.

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 Montana University System Workers Compensation funds, and the Subsequent Injury claims-servicing pool. The two component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (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 State Compensation Insurance 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 2,107 policies during the 2006 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 $94,405 based on estimated claims through June 30, 2006. 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, 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 administers 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 Buck Consultants and estimated to be $6,250,000 as of June 30, 2006, 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 elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. 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 2006, the program ceded $198,718 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 $4,538,528 for estimated claims at June 30, 2006. 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, 2006, the amount of this liability was estimated to be $2,976,711. 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 Compensation Insurance (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, 2006, approximately 28,410 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, 2006, 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, 2006, $590,688,000 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, 2006, was $569,570. For the fiscal year ended June 30, 2006, $774,963 of acquisition costs were 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.

(6) State Compensation Insurance (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, 2006, 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, 2006, $97,768,808 of unpaid claims and claim adjustment expenses were reported at a net present value of $73,736,659, discounted at a 5.0% 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	
	2006	2005	2006	2005	2006	2005
Unpaid claims and claim adjustment expenses at beginning of year	$ 191	$ 95	$ 4,619	$ 4,663	$ 3,138	$1,622
Incurred claims and claim adjustment expenses: provision for insured events of the current year	2,447	1,978	48,163	37,533	2,453	2,366
Increase (decrease) in provision for Insured events of prior years	(320)	(285)	1,631	(44)	62	-
Total incurred claims and claim adjustment expenses	2,127	1,693	49,794	37,489	2,515	2,366
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(2,033)	(1,502)	(48,163)	(37,533)	(391)	(382)
Claims and claim adjustment expenses attributable to insured events of prior years	(191)	(95)	-	-	(724)	(468)
Total payments	(2,224)	(1,597)	(48,163)	(37,533)	(1,115)	(850)
Total unpaid claims and claim adjust. exp. at end of the year	$ 94	$ 191	$ 6,250	$ 4,619	$ 4,538	$3,138

	Component Units			
	State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2006	2005	2006	2005
Unpaid claims and claim adjustments expenses at beginning of year	$ 511,557	$ 452,115	$104,852	$108,500
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	170,399	149,542	-	-
Increase (decrease) in provision for insured events of prior years	35,439	10,070	3,811	6,691
Total incurred claims and claim adjustment expenses	205,838	159,612	3,811	6,691
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(36,132)	(25,721)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(90,575)	(74,449)	(10,894)	(10,339)
Total payments	(126,707)	(100,170)	(10,894)	(10,339)
Total unpaid claims and claim adjust. exp. at end of the year	$ 590,688	$ 511,557	$ 97,769	$104,852

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (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 Compensation Insurance (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		
	2006	2005	2004
1. Premiums and investment revenue			
Earned	$3,709	$3,048	$2,425
Ceded	(199)	(197)	(151)
Net earned	$3,510	$2,851	$2,274
2. Unallocated expenses including overhead	$ 264	$ 280	$ 227
3. Estimated losses and expenses end of accident year			
Incurred	$2,453	$2,366	$2,174
Ceded	-	-	-
Net incurred	$2,453	$2,366	$2,174
4. Net paid (cumulative) as of:			
End of policy year	$ 391	$ 382	$ 552
One year later		1,002	1,020
Two years later			1,124
5. Re-estimated ceded losses and expenses	$ -	$ -	$ -
6. Re-estimated net incurred losses and expense:			
End of policy year	$2,453	$2,366	$2,174
One year later		2,565	2,174
Two years later			2,037
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ -	$ 199	$ (137)

State Compensation Insurance (New Fund)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Premiums and investment revenue										
Earned	$105,417	$90,808	$82,760	$91,565	$116,548	$129,886	$166,146	$174,388	$222,230	$170,973
Ceded	(348)	(303)	(260)	(855)	(2,952)	465	(5,654)	(6,563)	(6,788)	(13,618)
Net earned	$105,069	$90,505	$82,500	$90,710	$113,596	$130,351	$160,492	$167,825	$215,442	$157,355
2. Unallocated expenses including overhead	$ 12,536	$14,322	$18,923	$22,019	$ 26,670	$ 29,393	$ 32,497	$ 39,057	$ 41,543	$ 45,558
3. Estimated losses and expenses end of accident year										
Incurred	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057
4. Net paid (cumulative) as of:										
End of policy year	$ 12,589	$12,943	$13,723	$13,177	$ 14,140	$ 16,693	$ 22,982	$ 26,123	$ 25,721	$ 30,977
One year later	28,451	28,222	29,976	29,218	32,888	38,185	48,861	50,888	57,239	
Two years later	35,706	35,753	39,298	37,555	45,218	52,359	63,773	66,140		
Three years later	39,860	41,004	45,748	43,649	55,248	60,029	72,957			
Four years later	43,105	44,478	49,984	48,322	61,486	64,922				
Five years later	46,478	47,584	54,212	52,027	66,031					
Six years later	48,505	50,188	56,974	54,473						
Seven years later	50,402	52,240	59,935							
Eight years later	52,285	54,004								
Nine years later	54,204									
5. Re-estimated ceded losses and expenses	$ 6,645	$ 609	$ 1,940	$ -	$ -	$ -	$ 2,901	$ -	$ -	$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290	$155,057
One year later	67,235	64,308	64,348	66,421	71,094	86,799	110,532	112,609	136,235	
Two years later	59,054	60,467	66,660	66,662	81,053	91,241	112,443	124,413		
Three years later	60,811	61,989	69,345	70,302	88,157	94,615	117,245			
Four years later	64,439	64,944	72,435	72,492	92,329	99,755				
Five years later	59,079	67,312	73,710	73,423	95,727					
Six years later	60,528	67,772	75,537	76,048						
Seven years later	60,630	68,601	78,046							
Eight years later	60,774	69,764								
Nine years later	62,446									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ (13,621)	$ 4,781	$13,401	$10,091	$ 27,460	$ 18,195	$ 7,092	$ 3,708	$ 1,945	$ -

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 PharmaCare 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, 2006, 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, were $12,516,577 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which $9,707,398 is estimated to be paid in fiscal year 2007.

(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 $3.2 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, 1995 through June 30, 2006, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2006 estimated claims liability was $16,215,516.

(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	
	2006	2005	2006	2005
Amount of claims liabilities at the beginning of each fiscal year	$ 11,675	$ 11,195	$20,328	$25,558
Incurred claims:				
Provision for insured events of the current year	84,473	76,725	5,636	6,356
Increases (decreases) in provision for insured events of prior years	842	480	(5,017)	(5,535)
Total incurred claims	85,315	77,205	619	821
Payments:				
Claims attributable to insured events of the current year	(71,802)	(70,299)	(1,061)	(819)
Claims attributable to insured events of prior years	(12,671)	(6,426)	(3,670)	(5,232)
Total payments	(84,473)	(76,725)	(4,731)	(6,051)
Total claims liability at end of each fiscal year	$ 12,517	$ 11,675	$16,216	$20,328

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2006, the Department of Transportation had contractual commitments of approximately $207.4 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, 2006, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $42.2 million for capital projects construction. The primary government will fund $16.5 million of these projects, with the remaining $25.7 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2006, the BOI had committed but not yet purchased $76,503,977 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $55,143,007 for loans as of June 30, 2006.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2006, the BOI had mortgage reservations/commitments totaling $1,478,884. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

D. 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	
Liquor Warehouse	$ 99
Historical Society Publications	20
Hail Insurance	3
Subtotal-enterprise funds	$ 122
Internal service funds	
Info Tech Services Division	$1,212
Buildings and Grounds	620
DEQ Indirect Cost Pool	213
FWP Equipment	41
Admin Supply	24
Employee Group Benefits	4
Payroll Processing	2
Subtotal-internal service funds	$2,116
Total	$2,238

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, 2006, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2007	$1,031	$32	$284	$316
2008	567	20	177	197
2009	296	11	154	165
2010	223	7	105	112
2011	320	-	26	26
2012-2016	326	-	-	-
Total minimum pmts	2,763	70	746	816
Less: interest	(304)	(10)	(110)	(120)
Present value of minimum payments	$2,459	$60	$636	$696

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2006 totaled $14,410,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2007	$13,834	$ 1,959
2008	11,191	1,744
2009	10,245	1,518
2010	8,411	1,295
2011	7,574	697
2012-2016	26,050	3,362
2017-2021	8,136	1,339
2022-2026	1,835	-
Total future rental payments	$87,276	$11,914

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 notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2006.

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 $120 million as amended by the 2003 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 repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and 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, 2006, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2006
1994	7,500	$ 6,745
1995	7,500	6,915
1997	10,000	9,605
1998	12,500	12,200
2000	15,000	14,865
2003	15,000	14,815
2004	18,500	18,475
Total		$83,620

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2006 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$84,280	$-	$660	$83,620

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2006, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2007	Principal Payments In Year of Maturity (2)	Balance June 30, 2006
General obligation bonds						
Wastewater Treatment Works Revolving Fund (3)	1996C	$ 2,765	3.75-5.75	$ 1,765	1,765 (2007)	$ 1,765
Renewable Resource Program (4)	1997A	2,000	6.8-8.0	435	435 (2007)	435
Long-Range Bldg Program	1997B	12,640	4.5-5.0	905	945 (2008)	1,850
Wastewater Treatment Works Revolving Fund (3)	1998A	3,510	3.75-5.15	150	260 (2019)	2,600
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,555	2,555 (2018)	24,060
Information Technology	1998C	41,390	4.5-5.0	3,905	4,075 (2008)	7,980
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,210	1,720 (2015)	12,895
Energy Conservation Program (5)	1998E	1,250	3.6-4.6	140	150 (2008)	290
Renewable Resource Program (4)	1999	1,035	6.0-6.5	65	105 (2015)	730
Long-Range Bldg Program	1999C	16,990	4.0-5.0	720	785 (2009)	2,255
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	140	230 (2019)	2,335
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	110	240 (2021)	2,500
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	125	270 (2021)	2,785
Long-Range Bldg Program	2000C	17,195	5.0-5.55	650	800 (2011)	3,615
Long-Range Bldg Program	2001B	11,430	4.1-5.75	435	830 (2021)	9,060
Information Technology	2001C	1,600	3.85-4.2	155	185 (2011)	850
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	120	145 (2011)	660
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	55	105 (2017)	845
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	125	235 (2022)	2,750
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	105	200 (2022)	2,315
Long-Range Bldg Program	2002B	10,475	3.35-4.7	430	730 (2023)	9,290
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	85	200 (2023)	2,270
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,325	1,685 (2014)	11,920
Long-Range Bldg Program	2003A	9,730	2.37-4.0	405	655 (2024)	9,010
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	115	145 (2014)	1,030
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	255	90 (2019)	1,120
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	160	190 (2014)	1,385
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	95	115 (2014)	840
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,000	2,310 (2017)	22,535
Information Technology Refunding	2003H	8,725	2.0-4.0	2,015	2,225 (2010)	8,470
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	150	230 (2020)	2,540
Long-Range Bldg Program	2004B	3,125	3.0-4.75	160	170 (2025)	2,995
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	35	1,205 (2019)	14,945
Long-Range Bldg Program	2005B	1,670	3.25-4.3	45	120 (2026)	1,670
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	200	290 (2016)	2,500
CERCLA Program (6)	2005D	2,000	3.25-4.3	55	140 (2026)	2,000
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	160	350 (2021)	3,875
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	90	190 (2021)	2,110
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,935
Long-Range Bldg Program	2006A	31,350	4.0-5.0	-	1,930 (2027)	31,350
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	-	330 (2022)	3,750
CERCLA Program (6)	2006C	1,000	4.0	-	120 (2017)	1,000
Renewable Resource Program (4)	2006D	950	5.6-6.0	-	90 (2022)	950
Total general obligation bonds		$340,220		$20,695		$230,065

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2007	Principal Payments In Year of Maturity (2)	Balance June 30, 2006
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 880	1,820 (2022)	$ 20,710
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	50	110 (2018)	905
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	115	210 (2018)	1,910
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	345
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	60	150 (2021)	1,495
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	-	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,160	1,795 (2018)	17,245
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	755
Renewable Resource Program (8)	2001F	900	3.3-6.2	30	75 (2022)	790
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	585	970 (2019)	9,855
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	115	215 (2024)	2,780
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	1,290	905 (2009)	3,130
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	410
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,130	11,315 (2020)	117,835
Total special revenue bonds		$210,145		$10,485		$181,770
Notes payable						
Water Conservation (Little Dry Project) (10)		$ 50	5.0	$ 2	1 (2012)	$ 14
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	22
Middle Creek Dam Project (11)		3,272	8.125	49	208 (2034)	2,791
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	9,272
Total notes payable		$ 14,672		$ 343		$ 12,099
Subtotal governmental activities, before deferred balances						423,934
Deferred amount on refunding						(5,709)
Unamortized discount						(145)
Unamortized premium						10,458
Total governmental activities		$565,037		$31,523		$428,538
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	$ 40	70 (2014)	$ 430
Conservation Reserve Enhancement Program (CRP Bonds) (15)		3,028	6.0-7.50	898	108 (2011)	2,656
Subtotal economic dev bonds		8,004		938		3,086
MUS Workers Compensation Bonds Payable		2,050	2.8	420	430 (2008)	850
Total business-type activities		$ 10,054		$ 1,358		$ 3,936

(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 there are not sufficient cost recovery payments.

(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 $220,927 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, 2006, 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
2007	$ 20,695	$ 8,647	$ 10,485	$ 8,569	$ 343	$ 46
2008	20,285	8,561	10,500	8,181	345	45
2009	16,400	7,802	11,575	7,696	347	44
2010	16,970	7,154	11,120	7,194	349	43
2011	14,960	6,539	11,675	6,693	351	42
2012-2016	76,195	23,051	64,550	24,860	1,799	193
2017-2021	47,760	8,412	59,290	8,054	1,893	160
2022-2026	14,870	1,883	2,575	133	1,995	121
2027-2031	1,930	45	-	-	2,127	72
2032-2036	-	-	-	-	1,970	14
2037-2041	-	-	-	-	580	-
Total	$230,065	$72,094	$181,770	$71,380	$12,099	$780

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2007	$ 938	$197	$420	$24
2008	977	138	430	12
2009	533	76	-	-
2010	280	42	-	-
2011	163	24	-	-
2012-2016	195	24	-	-
Total	$3,086	$501	$850	$36

Debt service requirements of discretely presented component units at June 30, 2006, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 10,650	$ 39,975	$ 4,292	$ 4,895	$ 5,492	$ 7,038
2008	12,430	39,620	3,793	5,959	6,033	7,082
2009	13,725	39,094	3,542	6,133	5,919	6,884
2010	14,020	38,510	3,788	6,121	5,790	6,667
2011	14,765	37,883	3,669	6,097	5,619	6,431
2011-2016	89,108	178,175	27,047	21,438	31,873	28,263
2017-2021	112,175	154,295	34,650	13,148	39,715	19,901
2022-2026	151,155	121,333	19,235	6,905	40,990	8,263
2027-2031	189,185	76,593	11,245	3,918	10,690	1,829
2032-2036	154,075	29,019	12,600	1,460	2,140	150
2037-2041	29,900	4,644	-	-	-	-
2042-2046	6,665	419	-	-	-	-
Total	$797,853	$759,560	$123,861	$76,074	$154,261	$92,508

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2006, 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	$213,195	$ 37,050	$ 20,180	$230,065	$20,695	$209,370
Special revenue bonds	192,775	-	11,005	181,770	10,485	171,285
Notes payable	12,439	-	340	12,099	343	11,756
	418,409	37,050	31,525	423,934	31,523	392,411
Deferred amount on refunding	(6,322)	-	(613)	(5,709)	-	(5,709)
Unamortized discount	(158)	-	(13)	(145)	-	(145)
Unamortized premium	9,680	1,126	348	10,458	-	10,458
Total bonds/notes payable	421,609	38,176	31,247	428,538	31,523	397,015
Other liabilities						
Lease/installment purchase payable	2,705	881	1,127	2,459	879	1,580
Compensated absences payable (1)	73,403	48,619	42,897	79,125	42,891	36,234
Early retirement benefits payable (1)	54	-	5	49	6	43
Arbitrage rebate tax payable (1)	53	21	-	74	-	74
Estimated insurance claims (1)	32,003	85,934	89,204	28,733	12,665	16,068
Total other liabilities	108,218	135,455	133,233	110,440	56,441	53,999
Total governmental activities Long-term liabilities	$529,827	$173,631	$164,480	$538,978	$87,964	$451,014
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 3,908	$ 1,103	$ 1,925	$ 3,086	$ 938	$ 2,148
MUS Workers Compensation	1,260	-	410	850	420	430
Total bonds/notes payable	5,168	1,103	2,335	3,936	1,358	2,578
Other liabilities						
Compensated absences payable	1,145	693	609	1,229	607	622
Arbitrage rebate tax payable	114	22	7	129	35	94
Estimated insurance claims	10,613	54,748	51,502	13,859	7,387	6,472
Total other liabilities	11,872	55,463	52,118	15,217	8,029	7,188
Total business-type activities Long-term liabilities	$ 17,040	$ 56,566	$ 54,453	$ 19,153	$ 9,387	$ 9,766

(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.

Long-term liability activity of discretely presented component units for the year ended June 30, 2006, 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	$ 765,214	$154,450	$116,529	$ 803,135	$ 10,650	$ 792,485
Montana State University (MSU)	107,550	26,150	4,463	129,237	4,292	124,945
University of Montana (UM)	136,806	31,431	16,638	151,599	5,492	146,107
Total bonds/notes payable	1,009,570	212,031	137,630	1,083,971	20,434	1,063,537
Other liabilities						
Lease/installment purch pay	540	498	342	696	261	435
Compensated absences pay	44,757	24,385	22,192	46,950	21,077	25,873
Arbitrage rebate tax payable	1,262	300	421	1,141	314	827
Estimated insurance claims	590,666	205,837	132,079	664,424	137,070	527,354
Due to federal government	30,606	429	-	31,035	-	31,035
Total other liabilities	667,831	231,449	155,034	744,246	158,722	585,524
	$1,677,401	$443,480	$292,664	$1,828,217	$179,156	$1,649,061
Long-term liabilities of MSU component units					448	1,130
Long-term liabilities of UM component units					469	245
Total discretely presented component units Long-term liabilities					$180,073	$1,650,436

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2006, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: $440,000 of Series 1997A Renewable Resource Program, $1,045,000 of Series 2003D Water Pollution Control Revolving Fund Program, and $650,000 of Series 2003E Drinking Water Revolving Fund Program.

DNRC also used current available resources to make a $500,000 pre-payment of special revenue bond Series 2004A Renewable Resource Program Refunding.

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, 2006, $58,245,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Current Refundings

The Housing Authority, on November 16, 2005, issued Series 2005RA Single Family Mortgage Bonds in the amount of $30,280,000. $29,120,000 of the proceeds were used for a replacement refunding of the Series 1995B Bonds on December 1, 2005. The refunding resulted in a reduction of debt service to maturity of $3,328,826 and an economic gain of $6,274,029.

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, 2006, $3,415,000 and $54,277,074 of bonds outstanding are 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 industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues

of the borrower are pledged to repay the bonds. At June 30, 2006, industrial revenue bonds outstanding aggregated $200.5 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, 2006, QZAB debt outstanding aggregated $5.8 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, 2006, was as follows: Hershberger Project – issued $129,412, outstanding $118,844; Young Project – issued $223,300, outstanding $209,051.

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, 2006, revenue bonds outstanding aggregated $643 million, and notes payable outstanding aggregated $8 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, 2006, bonds outstanding aggregated $3 million.

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, 2006, 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	Land Grant Permanent
Due From Other Funds						
Economic Development Bonds	$ -	$ -	$ -	$ -	$2,320	$ -
Federal Special Revenue	-	-	-	137	5	-
General Fund	6,070	1	1,471	-	176	-
Internal Service Funds	33	3	1,185	1,884	667	-
Nonmajor Enterprise Funds	-	-	55	138	12	-
Nonmajor Governmental Funds	-	-	7	2	9	-
State Special Revenue	141	-	1,053	4,799	109	3,621
Total	$6,244	$4	$3,771	$6,960	$3,298	$3,621

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Due From Other Funds *(continued)*				
Economic Development Bonds	$ -	$ -	$ 1,864	$4,184
Federal Special Revenue	-	-	662	804
General Fund	12,627	646	42,015	63,006
Internal Service Funds	176	3	2,121	6,072
Nonmajor Enterprise Funds	-	-	34	239
Nonmajor Governmental Funds	-	-	76	94
State Special Revenue	46	1,360	-	11,129
Total	$12,849	$2,009	$46,772	$85,528

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, 2006, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
Federal Special Revenue	$ -	$ 302	$ -	$ -	$ 604	$ 906
General Fund	18,268	3,300	-	1,361	6,115	29,044
Internal Service Funds	74	-	225	-	10	309
Nonmajor Enterprise Funds	4	-	-	-	-	4
State Special Revenue	20,889	2,000	33	-	-	22,922
Total	$39,235	$5,602	$258	$1,361	$6,729	$53,185

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, 2006, consisted of the following (in thousands):

	Advances from Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Advances to Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$-	$33,477	$33,477
Economic Development Bonds	-	4,452	-	-	11,679	16,131
General Fund	9	-	-	-	60	69
Nonmajor Enterprise Funds	75	-	-	-	-	75
Nonmajor Governmental Funds	-	-	-	-	3,110	3,110
State Special Revenue	1,668	-	12,701	-	-	14,369
Total	$1,752	$4,452	$12,701	$-	$48,326	$67,231

Additional detail for certain advance balances at June 30, 2006, follows (in thousands):

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

Department	Balance
Environmental Quality	$ 664
Justice	11,015
Transportation	4,453
Total	$16,132

Advances from the Coal Severance Tax Permanent Fund

Department	Balance
Justice	$ 2,112
Natural Resources and Conservation	31,365
Total	$33,477

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.

For the fiscal year 2006, there was a transfer transaction where one side was reported on the fund financial statements and the other side was reflected on the entitywide financial statements. This occurred because modified accrual and full accrual funds transferred capital assets or long-term liabilities between each other. This caused the transfers to be unbalanced on the fund financial statements by $25,081 in the nonmajor enterprise fund transfers out category; however, the transfers were balanced on the entitywide statements.

Interfund transfers for the year ended June 30, 2006, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	$ -	$ -	$31,106	$ -	$ -	$ 417
Federal Special Revenue	-	-	-	28	-	14,909
General Fund	-	3	-	824	51	32,253
Internal Service Funds	-	-	48	382	-	-
Land Grant Permanent	-	-	-	-	-	1,590
Nonmajor Enterprise Funds	-	-	29,887	-	-	-
Nonmajor Governmental Funds	1,150	-	-	500	-	3,007
State Special Revenue	2,256	1,284	6,614	596	27	11,568
Unemployment Insurance	-	558	-	-	-	-
Total	$3,406	$1,845	$67,655	$2,330	$78	$63,744

	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Transfers Out *(continued)*			
Coal Severance Tax Permanent	$ -	$ 9,234	$ 40,757
Federal Special Revenue	-	15,757	30,694
General Fund	-	17,597	50,728
Internal Service Funds	232	-	662
Land Grant Permanent	-	91,973	93,563
Nonmajor Enterprise Funds	-	4,416	34,303
Nonmajor Governmental Funds	-	16,261	20,918
State Special Revenue	-	242	22,587
Unemployment Insurance	-	-	558
Total	$232	$155,480	$294,770

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2006, (in thousands):

Fund Type/Fund	Deficit
Enterprise funds	
Subsequent Injury	$(1,442)
State Nursery	$ (12)
Internal service funds	
Justice Legal Services	$ (40)

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	$ 32,970
Public Safety/Corrections	184,340
Transportation	119,235
Health/Social Services	52,153
Education/Cultural	5,725
Resource/Recreation/Environment	289,746
Economic Development/Assistance	39,992
Total state special revenue funds	$724,161
Federal Special Revenue funds	
General Government	$ 7,107
Public Safety/Corrections	292
Health/Social Services	2,451
Education/Cultural	14,237
Resource/Recreation/Environment	3,591
Economic Development/Assistance	364
Total federal special revenue funds	$28,042

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	$ 22,510
Coal Severance Tax Bond Fund	10,374
Treasure State Endowment Fund	143,843
Treasure State Endowment Regional Water System Fund	29,872
Coal Severance Tax Permanent Fund	490,220
Coal Severance Tax Income Fund	(711)
Total	$696,108

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of 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 Board of Regents and MHESAC have three common board members. Approximately 75.74% of the Regents' outstanding loan volume, or $1,241,985,089 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 2006 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 2006 amounted to $417,406.

A staff member in the Department of Administration, Personnel Division, serves as 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 have moved to compel arbitration of the question, which motion is pending in the court. 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. At this time, the State of Montana would not have an additional payment in relation to the NPM adjustment case, but more potential NPM adjustment issues may arise.

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 have 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 has issued an order that the school funding system violates the Montana Constitution, and has upheld the District order that the State had until October 2005 to address this issue. The State and the plaintiffs have settled the plaintiffs' attorney fee in the amount of $499,732. The parties have agreed to submit that claim for funding by the Montana legislature. Significant additional expenditures on K-12 education may be required in future years, and further litigation in this case is 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, 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 Independent Disability Service, Inc., et al., filed in Montana First Judicial Court, Lewis and Clark County, Cause No. BDV 2002-558, (MAIDS) a class action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., a consortium of community-based private facilities serving the developmentally disabled population. The plaintiffs allege that the named defendants, Judy Martz, Gail Gray, and Joe Matthews 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 that 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 Medicare covered services, the right to enjoy life, liberty, safety, health and happiness (Article II Section 3, Montana State Constitution), to dignity and equal protection (Article II Section 4, Montana State 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 Court has scheduled a five-week bench trial for May 15, 2007. The fiscal impact on the State should the plaintiffs prevail, and the amount of any potential award for attorney fees and costs is not determinable at this time. An adverse determination in this case is reasonably possible.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided

in the Montana WCA (workers compensation act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court held that Title 39, Chapter 72, Part 405, MCA, is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to $27,027 under the WCA, versus $10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The cost of retroactively paying benefits for claims in the period of June 3, 1999 through May 21, 2001 was estimated at $2.2 million and was recorded in the loss reserves of the financial statements. There is no impact on the Old Fund liability with this ruling. This decision was appealed to the Montana Supreme Court.

The Montana Supreme Court issued their decision on the appeal on October 6, 2006, holding that a common fund was not created. The court also held that the decision applies retroactively to claims from July 1, 1987. The cost to retroactively pay claims to July 1, 1987, was estimated at $14 to $19 million for the Montana State Fund (New Fund – for claims on or after July 1, 1990). The impact on the Old Fund liability for claims that occurred from July 1, 1987 to June 30, 1990 was estimated at $5 to $7 million. As the Supreme Court held that claims closed by either court order or settlement are excluded, and the cost estimates above included these claims, the estimates will be reduced. Revised cost estimates have not yet been completed. Actual cost impact is unknown.

In Reesor v. Montana State Fund, 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to Title 39, Chapter 71, Part 710, MCA, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of Title 39, Chapter 71, Part 710, MCA, on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found Title 39, Chapter 71, Part 710, MCA, to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting Reesor's permanent partial benefit pursuant to Title 39, Chapter 71, Part 710, MCA, violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at $2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of $1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact should the decision be applied retroactively is unknown.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (Title 39, Chapter 71, Part 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 to be unconstitutional as applied to permanent total benefits, Satterlee, et al. request payment of lifetime permanent total disability 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 Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. The Workers Compensation Court rendered its decision on December 12, 2005, holding that Title 39, Chapter 71, Part 710, MCA, is constitutional as applied on PTD benefits. This case was appealed to the Supreme Court on December 1, 2006. Should Title 39, Chapter 71, Part 710, MCA, ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at $135 million 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. The potential for liability for MSF and the

State of Montana is reasonably possible. Actual cost impact is unknown.

B. Federal Contingencies

USDA Commodities – In fiscal year 2006, the State distributed $4,456,233 in commodities. The value of the commodities stored in the State's warehouses was $1,767,147 at June 30, 2006, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2006, 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 $131,280,309. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was $84,050,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $47,230,309.

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, 2006, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	$ 563	$ 176	$1,091	$20	$252
Oil & gas	11,103	1,204	-	-	-
Corporation tax	5,621	-	-	-	-
Total	$17,287	$1,380	$1,091	$20	$252

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, 2006. The corporations have appealed the decision. As of June 30, 2006, these include $20,131,109 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, 2006. As of June 30, 2006, these include $4,683,535 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

In July 2006, Montana State University issued its Series K refunding debt in the principal amount of $13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt.

On July 13, 2006, the Montana Facility Finance Authority issued a bond in the amount of $7,920,000 for Alternatives, Inc. Proceeds were used to purchase a Howard Johnson Express Inn and remodel it into a women's prerelease facility plus other program services.

On August 9, 2006, the Montana Facility Finance Authority issued two bonds in the amount of $14,335,000 to finance the construction of methamphetamine treatment facilities

On August 17, 2006, the Montana Facility Finance Authority issued a bond in the amount of $30,410,000 for St. John's Lutheran Ministries.

On September 20, 2006, the Montana Housing Authority issued $70,805,000 of Single Family Mortgage Bonds Series 2006C to finance the purchase of eligible single family mortgage loans.

On September 26, 2006, the Department of Natural Resources and Conservation issued $1,800,000 of General Obligation Taxable Bonds Series 2006E for its private loan program.

A loan in the amount of $6,100,000 was made from the Montana Facility Finance Authority Variable Rate Program to Bozeman Deaconess Health Services on October 5, 2006, to finance the purchase of equipment.

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, 2006, there were four retirement plans not in compliance: the Teachers Retirement System (TRS), the Public Employees Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 128,669	$ 128,669	$ 130,230	$ 1,561
Taxes:				
Natural resource	113,112	113,112	109,692	(3,420)
Individual income	677,815	677,815	698,686	20,871
Corporate income	91,427	91,427	150,802	59,375
Property	177,311	177,311	181,722	4,411
Fuel	-	-	-	-
Other	210,076	210,076	210,346	270
Charges for services/fines/forfeits/settlements	39,645	39,645	40,465	820
Investment earnings	13,909	13,909	19,494	5,585
Sale of documents/merchandise/property	396	396	374	(22)
Rentals/leases/royalties	57	57	22	(35)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,560	3,560	2,875	(685)
Federal	26,919	26,919	30,968	4,049
Federal indirect cost recoveries	120	120	78	(42)
Other revenues	-	-	1,186	1,186
Total revenues	1,483,016	1,483,016	1,576,940	93,924
EXPENDITURES				
Current:				
General government	321,636	323,664	313,178	10,486
Public safety/corrections	149,417	159,560	157,609	1,951
Transportation	276	286	281	5
Health/social services	311,586	314,338	310,535	3,803
Education/cultural	721,412	722,914	697,274	25,640
Resource/recreation/environment	23,666	28,845	28,419	426
Economic development/assistance	26,580	26,646	25,526	1,120
Debt service:				
Principal retirement	2,756	2,867	700	2,167
Interest/fiscal charges	149	149	149	-
Capital outlay	5,153	5,270	1,714	3,556
Total expenditures	1,562,631	1,584,539	1,535,385	49,154
Excess of revenue over (under) expenditures	(79,615)	(101,523)	41,555	143,078
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Insurance proceeds	628	628	72	(556)
General capital asset sale proceeds	71	71	44	(27)
Transfers in	73,866	73,866	63,428	(10,438)
Transfers out	(22,089)	(26,076)	(25,230)	846
Total other financing sources (uses)	52,476	48,489	38,314	(10,175)
Net change in fund balances (Budgetary basis)	(27,139)	(53,034)	79,869	132,903
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	2,240	2,240
2. Securities lending costs	-	-	(2,197)	(2,197)
3. Inception of lease/installment contract	-	-	597	597
4. Adjust expenditures for encumbrances	-	-	(654)	(654)
5. Adjustments for nonbudgeted activity	-	-	40,514	40,514
Net change in fund balances (GAAP basis)	(27,139)	(53,034)	120,369	173,403
Unreserved fund balances - July 1	289,675	289,675	289,675	-
Prior period adjustments	-	-	(2,008)	(2,008)
Decrease (increase):				
Encumbrances reserve	-	-	681	681
Long-term loans/notes receivable reserve	-	-	(113)	(113)
Advances to other funds reserve	-	-	31	31
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(55)	(55)
Unreserved fund balances - June 30	$ 262,536	$ 236,641	$ 408,580	$ 171,939

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
$ 129,800	$ 129,800	$ 130,000	$ 200	$ -	$ -	$ -	$ -
130,277	130,277	123,050	(7,227)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,589	11,589	11,797	208	-	-	-	-
198,445	198,445	207,259	8,814	-	-	-	-
77,611	77,611	82,019	4,408	-	-	-	-
96,808	96,808	78,924	(17,884)	54,176	54,176	30,463	(23,713)
8,554	8,554	10,716	2,162	311	311	1,008	697
5,326	5,326	3,996	(1,330)	-	-	-	-
596	596	924	328	-	-	-	-
8,425	8,425	8,390	(35)	-	-	-	-
24,018	24,018	16,149	(7,869)	1,069	1,069	817	(252)
28,948	28,948	9,970	(18,978)	1,569,113	1,569,113	1,379,581	(189,532)
39,398	39,398	31,418	(7,980)	52,620	52,620	50,077	(2,543)
-	-	3,160	3,160	-	-	260	260
759,795	759,795	717,772	(42,023)	1,677,289	1,677,289	1,462,206	(215,083)
168,048	170,441	135,383	35,058	14,103	17,612	11,439	6,173
45,453	46,715	40,050	6,665	81,421	98,555	44,655	53,900
385,002	421,983	278,476	143,507	316,041	323,001	247,524	75,477
95,791	96,275	77,390	18,885	955,203	969,061	879,480	89,581
91,611	92,604	91,554	1,050	189,577	335,587	182,480	153,107
134,120	150,500	106,464	44,036	89,858	100,024	54,242	45,782
75,796	82,301	58,886	23,415	76,489	104,960	62,793	42,167
2,536	2,456	390	2,066	275	278	251	27
526	526	526	-	42	42	42	-
74,906	72,274	27,278	44,996	39,101	56,668	22,411	34,257
1,073,789	1,136,075	816,397	319,678	1,762,110	2,005,788	1,505,317	500,471
(313,994)	(376,280)	(98,625)	277,655	(84,821)	(328,499)	(43,111)	285,388
480	480	-	(480)	-	-	-	-
65,700	65,700	5,700	(60,000)	-	-	-	-
3,653	3,653	(753)	(4,406)	27	27	(242)	(269)
126	126	95	(31)	-	-	20	20
150,107	150,107	130,058	(20,049)	37,640	37,640	4,137	(33,503)
(18,734)	(15,749)	(4,853)	10,896	(48,364)	(48,189)	(18,400)	29,789
201,332	204,317	130,247	(74,070)	(10,697)	(10,522)	(14,485)	(3,963)
(112,662)	(171,963)	31,622	203,585	(95,518)	(339,021)	(57,596)	281,425
-	-	1,411	1,411	-	-	17	17
-	-	(1,676)	(1,676)	-	-	(17)	(17)
-	-	70	70	-	-	178	178
-	-	(9,057)	(9,057)	-	-	(1,067)	(1,067)
-	-	4,843	4,843	-	-	58,654	58,654
(112,662)	(171,963)	27,213	199,176	(95,518)	(339,021)	169	339,190
(49,508)	(49,508)	(49,508)	-	(1,502)	(1,502)	(1,502)	-
-	-	527	527	-	-	(4)	(4)
-	-	2,151	2,151	-	-	457	457
-	-	(27,606)	(27,606)	-	-	58	58
-	-	137	137	-	-	-	-
-	-	(4,611)	(4,611)	-	-	(747)	(747)
-	-	-	-	-	-	-	-
$ (162,170)	$ (221,471)	$ (51,697)	$ 169,774	$ (97,020)	$ (340,523)	$ (1,569)	$ 338,954

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 utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted 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 along with other information 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 2006, reverted governmental fund appropriations were as follows: General Fund - $19.2 million, State Special Revenue Fund - $147.5 million, and Federal Special Revenue Fund - $201.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Single Employer Systems
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)
HPORS						
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
06/30/05	82,050	112,938	30,888	72.65%	9,104	339.28%
06/30/06	87,189	112,002	24,813	77.85%	7,878	314.97%
JRS						
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%
06/30/05	47,552	34,525	(13,027)	137.73%	4,462	(291.95)%
06/30/06	51,808	37,159	(14,649)	139.43%	4,762	(307.62)%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary 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	$2,905	$1,229
Employee	847	333
License and registration fees	277	
Actuarial valuation date	6/30/06	6/30/06
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	18 years	30 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
PEACE CORPS		
08.999	Miscellaneous Non-Major Grants	9,495
	TOTAL	**$9,495**
DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	90,028
10.069	Conservation Reserve Program	83,535
10.162	Inspection Grading and Standardization	54,407
10.163	Market Protection and Promotion	399,428
10.225	Community Food Projects: From Missoula Food Bank	17,608
10.303	Integrated Programs: From Univ. of Calif. Davis	1,024
10.450	Crop Insurance: From Fork Peck Com. College	19,707
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	2,191,225
10.500	Cooperative Extension Service	3,497,955
10.500	Cooperative Extension Service: From Univ. of Minnesota	10,043
10.550	Food Donation	1,907,018
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	12,852,443
10.558	Child and Adult Care Food Program	9,032,803
10.560	State Administrative Expenses for Child Nutrition	874,813
10.565	Commodity Supplemental Food Program	1,728,279
10.567	Food Distribution Program on Indian Reservations	3,440,725
10.570	Nutrition Services Incentive	959,766
10.572	WIC Farmers' Market Nutrition Program (FMNP)	86,197
10.574	Team Nutrition Grants	188,965
10.579	Child Nutrition Discretionary Grants Limited Availability	59,720
10.601	Market Access Program: From US. Livestock Gen. Exp.	4,760
10.601	Market Access Program: From West. US Ag Trd Assoc.	1,372
10.652	Forestry Research	60,432
10.652	Forestry Research: From A Carhart	(10,187)
10.664	Cooperative Forestry Assistance	4,391,848
10.670	National Forest Dependent Rural Communities	17,393
10.672	Rural Development, Forestry, and Communities	157,767
10.676	Forest Legacy Program	9,222,393
10.677	Forest Land Enhancement Program	54,400

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

			AMOUNT
10.700	National Agricultural Library		1,276
10.853	LOCAL Television Loan Guarantee Program		58,183
10.901	Resource Conservation and Development		74,000
10.902	Soil and Water Conservation		202,529
10.904	Watershed Protection and Flood Prevention		69,207
10.920	Grassland Reserve Program		3,541
10.999	Miscellaneous Non-Major Grants		124,309
10.999	Miscellaneous Non-Major Grants: From National Fish & Wildlife Fd.		53,333
10.999	Miscellaneous Non-Major Grants: From Fort Belknap Com. Council		20,757
		TOTAL	**$52,003,002**
CHILD NUTRITION CLUSTER			
10.553	School Breakfast Program		4,323,290
10.555	National School Lunch Program		17,026,439
10.556	Special Milk Program for Children		37,567
10.559	Summer Food Service Program for Children		837,211
		TOTAL	**$22,224,507**
EMERGENCY FOOD ASSISTANCE CLUSTER			
10.568	Emergency Food Assistance Program (Administrative Costs)		181,745
10.569	Emergency Food Assistance Program (Food Commodities)		776,644
		TOTAL	**$958,389**
FOOD STAMP CLUSTER			
10.551	Food Stamps		89,998,309
10.561	State Administrative Matching Grants for Food Stamp Program		8,242,812
		TOTAL	**$98,241,121**
SCHOOLS AND ROADS CLUSTER			
10.665	Schools and Roads: Grants to States		12,801,169
10.666	Schools and Roads - Grants to Counties		105,286
		TOTAL	**$12,906,455**
DEPARTMENT OF COMMERCE			
11.302	Economic Development Support for Planning Organizations		85,074
11.417	Sea Grant Support		16,169
11.550	Public Telecommunication Facilities-Planning and Construction		120,000

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
11.999	Miscellaneous Non-Major Grants	367,877
	TOTAL	**$589,120**
PUBLIC WORKS AND E.D. CLUSTER		
11.300	Economic Development: Grants for Public Works and Infrastructure Development: From Bear Paw Development	113,494
11.307	Economic Adjustment Assistance	(34,425)
	TOTAL	**$79,069**
DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	34,222
12.400	Military Construction National Guard	12,959,637
12.401	National Guard Military Operations and Maintenance Projects	14,570,405
12.404	National Guard Civilian Youth Opportunities	1,777,108
12.999	Miscellaneous Non-Major Grants	987,953
	TOTAL	**$30,329,325**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	236,604
14.169	Housing Counseling Assistance Program	266,744
14.228	Community Development Block Grant/States Program	10,447,508
14.231	Emergency Shelter Grants Program	398,638
14.235	Supportive Housing Program	27,014
14.238	Shelter Plus Care	0
14.239	Home Investment Partnerships Program	5,809,218
14.241	Housing Opportunities for Persons with AIDS	487,155
14.246	Community Development Block Grants/Economic Development Initiative	17,964
14.871	Section 8 Housing Choice Vouchers	16,437,158
14.999	Miscellaneous Non-Major Grants	297,400
	TOTAL	**$34,425,403**
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	16,922,043
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,787,333
	TOTAL	**$18,709,376**

State of Montana
Schedule of Expenditures of Federal Awards
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DEPARTMENT OF THE INTERIOR

		AMOUNT
15.043	Indian Child and Family Education	1,882
15.114	Indian Education: Higher Education Grant Program	57,396
15.130	Indian Education: Assistance to Schools	19,218
15.224	Cultural Resource Management	96,345
15.225	Recreation Resource Management	19,559
15.227	Distribution of Receipts to State and Local Governments	267,418
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,096,900
15.231	Fish, Wildlife and Plant Conservation Resource Management	229,025
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,084,245
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,348,269
15.504	Water Reclamation and Reuse Program	41,284
15.507	Water 2025	14,689
15.608	Fish and Wildlife Management Assistance	123,606
15.608	Fish and Wildlife Management Assistance: From Pacific States Marine	3,047
15.615	Cooperative Endangered Species Conservation Fund	1,021,537
15.623	North American Wetlands Conservation Fund	3,506
15.625	Wildlife Conservation and Restoration	4,793
15.632	Conservation Grants Private Stewardship for Imperiled Species	88,212
15.633	Landowner Incentive	975,865
15.634	State Wildlife Grants	1,350,469
15.637	Migratory Bird Joint Ventures	37,993
15.642	Challenge Cost Share	2,799
15.805	Assistance to State Water Resources Research Institutes	113
15.808	U.S. Geological Survey-Research and Data Acquisition	34,063
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	3,821
15.900	National Archives-NHPRC	103,788
15.904	Historic Preservation Fund Grants-in-Aid	1,004,481
15.912	National Historic Landmark	20,648
15.914	National Register of Historic Places	76,329
15.916	Outdoor Recreation: Acquisition, Development and Planning	402,705
15.999	Miscellaneous Non-Major Grants	729,786
	TOTAL	**$13,263,791**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	7,360,499
15.611	Wildlife Restoration	5,976,436
	TOTAL	**$13,336,935**

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	13,101
16.202	Offender Reentry Program	543,484
16.523	Juvenile Accountability Incentive Block Grants	338,377
16.525	Grants to Reduce Violent Crimes Against Women on Campus	92,170
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities	119,262
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	919,947
16.547	Victims of Child Abuse	24,991
16.548	Title V Delinquency Prevention	100,000
16.550	State Justice Statistics Program For Statistical Analysis Centers	60,022
16.554	National Criminal History Improvement Program (NCHIP)	269,000
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	113,383
16.575	Crime Victim Assistance	1,569,610
16.576	Crime Victim Compensation	270,021
16.579	Byrne Formula Grant Program	332,837
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	1,084,848
16.585	Drug Court Discretionary Grant Program	18,948
16.588	Violence Against Women Formula Grants	959,035
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	3,996
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	186,714
16.593	Residential Substance Abuse Treatment for State Prisoners	7,556
16.609	Community Prosecution and Project Safe Neighborhoods	193,730
16.710	Public Safety Partnership and Community Policing Grants	1,569,697
16.727	Enforcing Underage Drinking Laws Program	352,461
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,613,076
16.999	Miscellaneous Non-Major Grants	10,111
	TOTAL	**$10,766,377**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
DEPARTMENT OF LABOR		
17.002	Labor Force Statistics	745,572
17.005	Compensation and Working Conditions Data	61,093
17.203	Labor Certification for Alien Workers	82,923
17.225	Unemployment Insurance	81,767,101
17.235	Senior Community Service Employment Program	457,616
17.245	Trade Adjustment Assistance-Workers	856,240
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	247,085
17.266	Work Incentive Grants: From MJTP	70,508
17.267	Incentive Grants - WIA Section 503	666,049
17.504	Consultation Agreements	469,080
17.600	Mine Health and Safety Grants	124,688
17.720	Disability Employment Policy Development: From MJTP Inc	116,495
	TOTAL	**$85,664,450**
EMPLOYMENT SERVICES CLUSTER		
17.207	Employment Service	6,105,049
17.801	Disabled Veterans Outreach Program (DVOP)	659,551
17.804	Local Veterans' Employment Representative Program	68,857
	TOTAL	**$6,833,457**
WORKFORCE INVESTMENT ACT CLUSTER		
17.258	WIA Adult Program	2,630,889
17.259	WIA Youth Activities	2,910,528
17.260	WIA Dislocated Workers	3,056,718
	TOTAL	**$8,598,135**
DEPARTMENT OF STATE		
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	55,541
19.404	Professional Development International Educators/Administrators	114,140
19.406	College & University Affiliations Program: From Ghana Basic Ed	31,996
	TOTAL	**$201,677**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program	2,187,246
20.218	National Motor Carrier Safety	978,847
20.219	Recreational Trails Program	1,032,944
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	444,261
20.607	Alcohol Open Container Requirements	4,920,209
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	144,021
20.700	Pipeline Safety	16,430
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	159,031
20.999	Miscellaneous Non-Major Grants	22,039
	TOTAL	**$9,905,028**
FEDERAL TRANSIT CLUSTER		
20.500	Federal Transit Capital Improvement Grants	467,211
20.507	Federal Transit - Formula Grants	1,509,787
	TOTAL	**$1,976,998**
HIGHWAY PLAN. & CONST. CLUSTER		
20.205	Highway Planning and Construction	278,071,628
	TOTAL	**$278,071,628**
HIGHWAY SAFETY CLUSTER		
20.600	State and Community Highway Safety: From Healthy Mother Healty Babys	1,029,140
20.602	Occupant Protection	266,769
20.603	Federal Highway Safety Data Improvements Incentive Grants	1,790
20.604	Safety Incentive Grants for Use of Seatbelts	71,337
20.605	Saftety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	340,842
	TOTAL	**$1,709,878**
DEPARTMENT OF TREASURY		
21.999	Miscellaneous Non-Major Grants	151,934
	TOTAL	**$151,934**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

			AMOUNT
OFFICE OF PERSONNEL MANAGEMENT			
27.001	Federal Civil Service Employment		122,441
		TOTAL	**$122,441**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.002	Employment Discrimination-State and Local Fair Employment Practices		219,365
		TOTAL	**$219,365**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		16,929
39.011	Election Reform Payments		123,452
		TOTAL	**$140,381**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Aerospace Education Services Program		49,629
43.001	Aerospace Education Services Program: From Yellowstone Eco. Res. Ctr		669
43.002	Technology Transfer: From Texas A&M Univ.		58,487
43.002	Technology Transfer: From Wright Patterson AFB		182,006
43.999	Miscellaneous Non-Major Grants		522,265
		TOTAL	**$813,056**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES			
45.024	Promotion of the Arts-Grants to Organizations and Individuals		58,416
45.025	Promotion of the Arts-Partnership Agreements		570,120
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm. Humanties		34,685
45.163	Promotion of the Humanities-Seminars and Institutes		53,629
45.301	Museums for America		854,929
45.313	Laura Bush 21st Century Librarian Program		86,959
45.999	Miscellaneous Non-Major Grants		80,549
		TOTAL	**$1,739,287**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

			AMOUNT
NATIONAL SCIENCE FOUNDATION			
47.074	Biological Sciences		82,258
47.076	Education and Human Resources		3,372,087
47.076	Education and Human Resources: From Assoc. of Amer. Coll.		3,065
47.999	Miscellaneous Non-Major Grants		38,875
		TOTAL	**$3,496,285**
SMALL BUSINESS ADMINISTRATION			
59.037	Small Business Development Center		623,654
59.046	Microloan Program		(271)
59.999	Miscellaneous Non-Major Grants		144,384
		TOTAL	**$767,767**
DEPARTMENT OF VETERANS AFFAIRS			
64.010	Veterans Nursing Home Care		25,807
64.014	Veterans State Domiciliary Care		81,950
64.015	Veterans State Nursing Home Care		3,065,319
64.124	All-Volunteer Force Educational Assistance		101,670
64.203	State Cemetery Grants		138,387
		TOTAL	**$3,413,133**
ENVIRONMENTAL PROTECTION AGENCY			
66.433	State Underground Water Source Protection		85,900
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act		169,112
66.439	Targeted Watersheds Grants		11,884
66.454	Water Quality Management Planning		98,981
66.458	Capitalization Grants For State Revolving Funds		4,317,709
66.460	Nonpoint Source Implementation Grants		2,585,278
66.461	Regional Wetland Program Development Grants		135,368
66.463	Water Quality Cooperative Agreements		5,958
66.467	Wastewater Operator Training Grant Program (Technical Assistance)		12,454
66.468	Capitalization Grants for Drinking Water State Revolving Fund		12,923,771

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	159,629
66.474	Water Protection Grants to the States	42,634
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	153,334
66.514	Science To Achieve Results (STAR) Fellowship Program	10,842
66.605	Performance Partnership Grants	6,248,282
66.608	One Stop Reporting	362,618
66.609	Protection of Children and Older Adults (Elderly) from Environmental Health Risks	8,000
66.708	Pollution Prevention Grants Program	37,848
66.717	Source Reduction Assistance	15,617
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	1,680,708
66.805	Leaking Underground Storage Tank Trust Fund Program	795,017
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	208,530
66.811	Brownfield Pilots Cooperative Agreements	37,213
66.814	Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements: From Colorado School of Mines	40,272
66.817	State and Tribal Response Program Grants	595,723
66.999	Miscellaneous Non-Major Grants	12,391
	TOTAL	**$30,755,073**

DEPARTMENT OF ENERGY

81.041	State Energy Program	398,788
81.042	Weatherization Assistance for Low-Income Persons	3,047,849
81.049	Office of Science Financial Assistance Program: From Inland NW Research Allia.	389,444
81.086	Conservation Research and Development	2,130,262
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	182,563
81.116	Science and Engineering Training to Support Diversity-Related Programs: From Inland NW Research Allia.	82,496
81.119	State Energy Program Special Projects	77,096
	TOTAL	**$6,308,498**

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.547	First Responder Anti-Terrorism Training Assistance: From Butte Silverbow	(124)
	TOTAL	**(124)**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
DEPARTMENT OF EDUCATION		
84.002	Adult Education - State Grant Program	1,446,460
84.010	Title I Grants To Local Education Agencies	40,439,961
84.011	Migrant Education - Basic State Grant Program	967,402
84.013	Title I Program for Neglected and Delinquent Children	113,999
84.016	Undergraduate International Studies and Foreign Language	53,208
84.048	Vocational Education - Basic Grants to States	5,599,844
84.069	Leveraging Educational Assistance Partnership	232,915
84.083	Women's Educational Equity Act Program	174,757
84.116	Fund for the Improvement of Postsecondary Education	707,827
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	10,817,212
84.129	Rehabilitation Long-Term Training	64,528
84.133	National Institute on Disability and Rehabilitation Research	47,435
84.133	National Institute on Disability and Rehabilitation Research: From Brain Injury Assoc.	55,688
84.133	National Institute on Disability and Rehabilitation Research: From OR Healh Sciences Univ.	22,467
84.144	Migrant Education - Coordination Program(B)	273,876
84.153	Business and International Education	23,380
84.169	Independent Living-State Grants	298,853
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	200,015
84.181	Special Education-Grants for Infants and Families with Disabilities	2,134,866
84.184	Safe and Drug-Free Schools and Communities - National Programs: From Hamilton School Dist.	171,348
84.185	Byrd Honors Scholarships	123,350
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,165,935
84.187	Supported Employment Services for Individuals with Severe Disabilities	288,411
84.195	Bilingual Education - Professional Development	29,013
84.196	Education for Homeless Children and Youth	144,788
84.213	Even Start - State Educational Agencies	1,059,772
84.215	Fund for Improvement of Education	881,264
84.215	Fund for Improvement of Education: From Twin Bridges School	94,609
84.215	Fund for Improvement of Education: From Nat Council of Econ. Ed.	1,810
84.224	State Grants for Assistive Technology	544,879

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
84.234	Projects with Industry	21,636
84.235	Rehabilitation Services Demonstration and Training Programs	541,191
84.243	Tech-Prep Education	538,100
84.256	Freely Associated States - Education Grant Program: From Univ. of California	9,368
84.264	Rehabilitation Training-Continuing Education	45,677
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service	64,559
84.287	Twenty-First Century Community Learning Centers	5,009,195
84.293	Foreign Language Assistance	67,247
84.295	Ready-To-Learn Television: From PBS	17,505
84.298	State Grants for Innovative Programs	1,203,297
84.299	Indian Education - Special Programs	202,490
84.318	Education Technology State Grants	2,967,308
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	528,188
84.324	Special Education-Research and Innovation to Improve Services and Results for Children	290,825
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Calf. State Univ.	156,534
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of California	3,069
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	681,776
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	231,250
84.330	Advanced Placement Program	428,628
84.331	Grants to States for Incarcerated Youth Offenders	5,259
84.332	Comprehensive School Reform Demonstration	832,582
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	1,911,877
84.335	Child Care Access Means Parents in School	38,182
84.346	Vocational Education-Occupational and Employment Information State Grants	117,594
84.357	Reading First State Grants	5,164,485
84.358	Rural Education	412,308
84.360	Dropout Prevention Programs	205,864
84.365	English Language Acquisition Grants	655,935
84.366	Mathematics and Science Partnerships	949,042
84.366	Mathematics and Science Partnerships: From Libby School District	19,864
84.367	Improving Teacher Quality State Grants	14,190,976
84.367	Improving Teacher Quality State Grants: From MT Council of Teachers	9,036

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		AMOUNT
84.369	Grants for State Assessments and Related Activities	3,435,240
84.373	Special Education -Technical Assistance on State Data Collection	14,095
84.938	Hurricane Education Recovery	60,750
84.998	American Printing House for the Blind	4,329
84.999	Miscellaneous Non-Major Grants	157,553
84.999	Miscellaneous Non-Major Grants: From Univ. of California	46,759
	TOTAL	**$110,419,445**
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	32,683,264
84.173	Special Education - Preschool Grants	1,300,664
	TOTAL	**$33,983,928**
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,843,430
84.032	Federal Family Education Loans	2,486,835
84.033	Federal Work - Study Program	2,103,700
84.038	Federal Perkins Loan Program - Federal Capital Contributions	359,600
84.063	Federal Pell Grant Program	31,607,454
93.364	Nursing Student Loan Program	15,109
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	530,374
	TOTAL	**$38,946,502**
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,514,522
84.044	TRIO-Talent Search	742,277
84.047	TRIO-Upward Bound	1,592,631
84.066	TRIO-Educational Opportunity Centers	605,537
84.217	McNair Post - Baccalaureate Achievement	124,166
	TOTAL	**$4,579,133**
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	5,811
	TOTAL	**$5,811**

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		AMOUNT
ELECTION ASSISTANCE COMMISSION		
90.401	Help America Vote Act Requirements Payments	8,110,847
	TOTAL	**$8,110,847**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	2,585,409
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	30,436
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	74,719
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	105,929
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	23,945
93.052	Nation Family Caregiver Support Program	746,129
93.104	Comprehensive Community Mental Health Services for Children with Ser Emotl Disturb (SED)	535,827
93.110	Maternal and Child Health Federal Consolidated Programs	203,498
93.116	Project Grant and Cooperative for Tuberculosis Control Program	172,602
93.127	Emergency Medical Services for Children	97,183
93.130	Primary Care Services-Resource Coordination and Development	313,932
93.150	Projects for Assistance in Transition from Homelessness (PATH)	290,063
93.157	Centers of Excellence	177,862
93.161	Health Program for Toxic Substances and Disease Registry	409,319
93.184	Disabilities Prevention	262,049
93.217	Family Planning Services	2,335,638
93.230	Consolidated Knowledge Development and Application Program	707,067
93.234	Traumatic Brain Injury-State Demonstration Grant Program	292,938
93.235	Abstinence Education	71,072
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	6,925
93.241	State Rural Hospital Flexibility Program	593,349
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,132,331
93.251	Universal Newborn Hearing Screening	88,108
93.256	State Planning Grant - Health Care Access for the Uninsured	91,564
93.259	Rural Access to Emergency Devices Grant	190,908
93.263	Occupational Safety and Health Training Grant	59,995

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		AMOUNT
93.264	Nurse Faculty Loan Program (NFLP)	40,093
93.268	Immunization Grant	6,215,317
93.282	Mental Health National Research Service Awards for Research Training	49,947
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	11,328,862
93.307	Minority Health and Health Disparities Research	6,874,000
93.359	Nurse Education, Practice and Retention Grants	6,731
93.361	Nursing Research: From Univ. of Washington	114,488
93.389	National Center for Research Resources	478,036
93.556	Promoting Safe and Stable Families	1,252,952
93.558	Temporary Assistance for Needy Families (TANF)	29,768,340
93.563	Child Support Enforcement	9,179,317
93.566	Refugee and Entrant Assistance-State Administered Programs	141,154
93.568	Low Income Home Energy Assistance	17,186,737
93.569	Community Services Block Grant	3,025,893
93.570	Community Services Block Grant - Discretionary Awards: From Nat. Youth Sports Prg	84,500
93.586	State Court Improvement Program	145,495
93.590	Community-Based Family Resource and Support Grants	210,137
93.597	Grants to States for Access and Visitation Programs	67,444
93.599	Chafee Education and Training Vouchers Program (ETV)	158,668
93.600	Head Start	161,977
93.617	Voting Access for Individuals with Disabilities - Grants to States	68,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	625,645
93.631	Developmental Disabilities Projects of National Significance	30,139
93.632	University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	442,115
93.643	Children's Justice Grants to States	110,274
93.645	Child Welfare Service-State Grant	867,829
93.658	Foster Care Title IV-E	11,994,952
93.659	Adoption Assistance	6,538,959
93.667	Social Services Block Grant	7,492,461
93.669	Child Abuse and Neglect State Grants	126,355
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	737,163
93.674	Chafee Foster Care Independence Program	461,977

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		AMOUNT
93.767	State Children's Insurance Program	16,631,299
93.768	Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	35,247
93.822	Health Careers Opportunities Program	823,046
93.822	Health Careers Opportunities Program: From Univ. of Washington	60,633
93.894	Resource and Manpower Development in the Environmental Health Sciences	111,118
93.912	Rural Outreach-Rural Network Developmental Program: From Critical Illness Found.	159,864
93.913	Grants to States for Operation of Offices of Rural Health	117,829
93.917	HIV Care Formula Grants	825,653
93.938	Cooperative Agreements to Support School Health Programs	287,377
93.940	HIV Prevention Activities-Health Department Based	1,487,897
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	61,609
93.945	Assistance Program for Chronic Disease Prevention	1,070,888
93.958	Block Grants for Community Mental Health Services	1,266,998
93.959	Block Grants for Prevention and Treatment of Substance Abuse	7,020,515
93.969	Geriatric Education Centers	390,576
93.970	Health Professions Recruitment Program for Indians	473,743
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	1,272,639
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	662,079
93.991	Preventive Health and Health Services Block Grant	817,784
93.994	Maternal and Child Health Services Block Grant to the States	2,181,721
93.996	Bioterrorism Training and Curriculum Development Program: From ST Vincents Health	135,361
93.999	Miscellaneous Non-Major Grants	145,539
93.999	Miscellaneous Non-Major Grants: From St. James Healthcare	12,007
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	37,869
93.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	4,000
	TOTAL	**$163,678,045**
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,807,316
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,816,149
	TOTAL	**$4,623,465**

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		AMOUNT
CHILD CARE CLUSTER		
93.575	Child Care and Development Block Grant	11,147,324
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	7,473,769
	TOTAL	**$18,621,093**
MEDICAID CLUSTER		
93.775	State Medicaid Fraud Control Units	536,694
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,166,988
93.778	Medical Assistance Program	562,844,149
	TOTAL	**$565,547,831**
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003	State Commissions	108,161
94.004	Learn and Serve America-School and Community Based Programs: From Corp. for National Service	855,707
94.005	Learn & Serve America-Higher Education	(319)
94.006	AmeriCorps	2,158,662
94.007	Planning and Program Development Grants: From Denver Options	77,153
94.009	Training and Technical Assistance	128,741
94.013	Volunteers in Service to America	527,601
	TOTAL	**$3,855,706**
SOCIAL SECURITY ADMINISTRATION		
96.007	Social Security Research and Demonstration	84,278
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	63,954
	TOTAL	**$148,232**
DISABILITY INSURANCE/SSI CLUSTER		
96.001	Social Security - Disability Insurance	4,997,692
	TOTAL	**$4,997,692**
HOMELAND SECURITY		
97.001	Pilot Demonstration or Earmarked Projects	7,854
97.004	State Domestic Preparedness Equipment Support Program	12,418,827
97.005	State and Local Homeland Security Training Program	24,292
97.012	Boating Safety Financial Assistance	371,089

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		AMOUNT
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	62,809
97.021	Hazardous Materials Assistance Program	2,000
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	82,157
97.029	Flood Mitigation Assistance	1,731
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	118,622
97.039	Hazard Mitigation Grant	33,382
97.041	National Dam Safety Program	121,582
97.042	Emergency Management Performance Grants	1,491,637
97.045	Cooperating Technical Partners	379,514
97.047	Pre-Disaster Mitigation	5,095
97.053	Citizen Corps	17,051
97.070	Map Modernization Management Support	81,906
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	436,021
97.078	Buffer Zone Protection Plan (BZPP)	300,000
97.999	Miscellaneous Non-Major Grants	26,153
	TOTAL	**$15,981,722**
HOMELAND SECURITY CLUSTER		
97.067	Homeland Security Grant Program	1,712,109
	TOTAL	**$1,712,109**
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001	USAID Foreign Assistance for Programs Overseas: From Assoc. Liason Office UCD	10,672
98.999	Miscellaneous Non-Major Grants	196,740
98.999	Miscellaneous Non-Major Grants: From Academy of Ed. Develop.	202,789
	TOTAL	**$410,201**
OTHER FEDERAL		
99.999	Other Federal: From Pacific Power and Light	7,500
	TOTAL	**$7,500**

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		AMOUNT
RESEARCH AND DEVELOPMENT CLUSTER		
DEPARTMENT OF AGRICULTURE		
10.001	Agricultural Research-Basic and Applied Research	115,030
10.025	Plant and Animal Disease, Pest Control, and Animal Care	213,200
10.200	Grants for Agricultural Research, Special Research Grants	4,796,082
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	125,203
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State Univ.	16,008
10.200	Grants for Agricultural Research, Special Research Grants: From Kansas State	220,790
10.200	Grants for Agricultural Research, Special Research Grants: From New Mexico State Univ.	353,623
10.200	Grants for Agricultural Research, Special Research Grants: From N. Dakota State Univ.	14,670
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	15,944
10.200	Grants for Agricultural Research, Special Research Grants: From South Dakota State Univ.	40,217
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calif. Davis	18,360
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	65,534
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State Univ.	15,096
10.202	Cooperative Forestry Research	205
10.202	Cooperative Forestry Research: From Univ. of Tennessee	520
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,063,622
10.206	Grants for Agricultural Research-Competitive Research Grants	1,694,541
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Mississippi	5,078
10.206	Grants for Agricultural Research-Competitive Research Grants: From Colorado State	36,109
10.206	Grants for Agricultural Research-Competitive Research Grants: From Fork Peck Com. College	(2,077)
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Calif. Davis	55,098
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wisconsin	15,708
10.212	Small Business Innovation Research: From Bitteroot Restoration Inc.	353
10.212	Small Business Innovation Research: From MT Microbial Products	12,541

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		AMOUNT
10.215	Sustainable Agriculture Research and Education	24,111
10.217	Higher Education Challenge Grants	291,204
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants: From Dull Knife College	(39)
10.227	1994 Institutions Research Program: From Dull Knife College	(935)
10.227	1994 Institutions Research Program: From Fort Belknap College	3,310
10.250	Agricultural and Rural Economic Research	13,842
10.303	Integrated Programs	80,111
10.303	Integrated Programs: From Colorado State Univ.	81,755
10.303	Integrated Programs: From Univ. of Calif. Davis	50,261
10.304	Homeland Security - Agricultural: From Kansas State	27,076
10.305	International Science and Education Grants	1,084
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	15,759
10.450	Crop Insurance: From Fork Peck Com. College	15
10.455	Community Outreach and Assistance Partnership Program	52,272
10.456	Rural Community Development Initiative	2,834
10.457	Commodity Partnerships for Risk Management Education	79,954
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	20,723
10.500	Cooperative Extension Service	33,884
10.500	Cooperative Extension Service: From MT Grain Growers Assoc.	1,501
10.500	Cooperative Extension Service: From Utah State Univ.	630
10.500	Cooperative Extension Service: From Washington State Univ.	31,864
10.500	Cooperative Extension Service: From Univ. of Wyoming	23,023
10.567	Food Distribution Program on Indian Reservations	26,454
10.652	Forestry Research	3,582,643
10.652	Forestry Research: From A Carhart	60,410
10.652	Forestry Research: From Nat. Fish & Wild. Found.	37,160
10.652	Forestry Research: From Utah State Univ.	53,867
10.664	Cooperative Forestry Assistance	17,685
10.672	Rural Development, Forestry, and Communities: From Univ. of Idaho	25,449
10.677	Forest Land Enhancement Program	(982)
10.678	Forest Stewardship Program	44,882
10.761	Technical Assistance and Training Grants	1,988

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		AMOUNT
10.901	Resource Conservation and Development	10,502
10.902	Soil and Water Conservation	63,695
10.912	Environmental Quality Incentives Program	90,764
10.960	Technical Agricultural Assistance: From Inter. Livestock Res. Inst.	22,759
10.961	Scientific Cooperation and Research	6,718
10.999	Miscellaneous Non-Major Grants	58,841
10.R&D	Miscellaneous Research and Development	240,378
10.R&D	Miscellaneous Research and Development: From Nat. Fish & Wild. Found	90,778
10.R&D	Miscellaneous Research and Development: From Univ. of Calif. Davis	(32)
10.R&D	Miscellaneous Research and Development: From Utah State Univ.	132,333
	TOTAL	**$15,291,986**

DEPARTMENT OF COMMERCE

11.112	Export Promotion Market Development Cooperation	(1,109)
11.303	Economic Development-Technical Assistance	97,415
11.427	Fisheries Development & Utilization Research	52,448
11.431	Climate and Atmospheric Research	110,524
11.437	Pacific Fisheries Data Program	15,337
11.439	Marine Mammal Data Program	69,704
11.440	Environmental Sciences, Applications, Data, and Education	7,216
11.611	Manufacturing Extension Partnership	511,910
	TOTAL	**$863,445**

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	3,339,031
12.100	Aquatic Plant Control	62,998
12.106	Flood Control Projects	24,098
12.114	Collaborative Research and Development	1,543,372
12.300	Basic and Applied Scientific Research	2,945,748
12.300	Basic and Applied Scientific Research: From Center for Innovation Inc.	197,209
12.300	Basic and Applied Scientific Research: From Concurrent Tech. Inc.	207,048
12.300	Basic and Applied Scientific Research: From Ligocyte Pharmaceuticals	202,738
12.300	Basic and Applied Scientific Research: From S2 Corp	947,367
12.420	Military Medical Research and Development	1,385,132

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		AMOUNT
12.431	Basic Scientific Research	1,476,647
12.630	Basic, Applied, and Advanced Research in Science and Engineering	582,704
12.800	Air Force Defense Research Sciences Program	405,291
12.800	Air Force Defense Research Sciences Program: From Alameda Applied Sci. Inst.	29,747
12.800	Air Force Defense Research Sciences Program: From Princeton Univ.	7,753
12.800	Air Force Defense Research Sciences Program: From South Dakota State Univ.	26,979
12.901	Mathematical Sciences Grants Program	8,361
12.910	Reseach and Technology Development	760,448
12.910	Reseach and Technology Development: From Allutiiq Sec. & Tech.	(30,820)
12.910	Reseach and Technology Development: From S2 Corp	59,597
12.999	Miscellaneous Non-Major Grants	585,707
12.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	109,703
12.999	Miscellaneous Non-Major Grants: From Univ. Tech. Res. Services	331,655
12.999	Miscellaneous Non-Major Grants: From Resodyn Corp	4,795
	TOTAL	**$15,213,308**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.862	Indian Community Development Block Grant Program	15,964
14.901	Healthy Homes Demonstration Grants	60,961
	TOTAL	**$76,925**
DEPARTMENT OF THE INTERIOR		
15.034	Agriculture on Indian Lands	7,062
15.222	Cooperative Inspection Agreements with States and Tribes	264,779
15.224	Cultural Resource Management	674,841
15.225	Recreation Resource Management	58,410
15.228	Wildland Urban Interface Community and Rural Fire Assistance	8,532
15.252	Abandoned Mine Land Reclamation (AMLR) Program	38,001
15.299	Miscellaneous Non-Major Grants	128,917
15.504	Water Reclamation and Reuse Program	61,069
15.506	Water Desalination Research and Development Program	14,541
15.608	Fish and Wildlife Management Assistance	252,912
15.608	Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Found	35,344
15.611	Wildlife Restoration	28,019

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		AMOUNT
15.615	Cooperative Endangered Species Conservation Fund	(1,296)
15.617	Wildlife Conservation and Appreciation	4,067
15.634	State Wildlife Grants	33,466
15.699	USDI/Fish & Wildlife Service	185,146
15.699	USDI/Fish & Wildlife Service: From Nez Pierce Tribe	9,701
15.805	Assistance to State Water Resources Research Institutes	14,264
15.808	U.S. Geological Survey-Research and Data Acquisition	905,526
15.808	U.S. Geological Survey-Research and Data Acquisition: From American View Inc.	27,764
15.808	U.S. Geological Survey-Research and Data Acquisition: From Auburn University	17,530
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	4,847
15.810	National Cooperative Geologic Mapping Program	187,327
15.811	Gap Analysis Program	270,884
15.812	Cooperative Research Units Program	614,379
15.900	National Archives-NHPRC	612,883
15.904	Historic Preservation Fund Grants-in-Aid	41,272
15.910	National Natural Landmarks Program	842,322
15.915	Technical Preservation Services	205,155
15.915	Technical Preservation Services: From Univ. of Wyoming NPS Ctr	3,712
15.916	Outdoor Recreation: Acquisition, Development and Planning	56,580
15.921	Rivers, Trails and Conservation Assistance	53,493
15.923	National Center for Preservation Technology and Training	33,869
15.999	Miscellaneous Non-Major Grants	1,691,753
15.R&D	Miscellaneous Research and Development	1,712,335
	TOTAL	**$9,099,406**

DEPARTMENT OF JUSTICE

16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	82,639
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	9,608
16.609	Community Prosecution and Project Safe Neighborhoods	12,950
16.710	Public Safety Partnership and Community Policing Grants	45,943
	TOTAL	**$151,140**

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		AMOUNT
DEPARTMENT OF LABOR		
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	42,195
	TOTAL	**$42,195**
DEPARTMENT OF STATE		
19.432	Overseas Educational Advising	270,813
19.500	Middle East Partnership Initiative (MEPI)	83,448
	TOTAL	**$354,261**
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program: From Bert Mooney Airport	421,576
20.205	Highway Planning and Construction	415,458
20.215	Highway Training and Education: From South Carolina St. Univ.	32,208
20.600	State and Community Highway Safety	130,116
20.760	University Transportation Centers	2,009,960
20.R&D	Miscellanous Non-Major: From Calf. Dept of Transportation	335,401
	TOTAL	**$3,344,719**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	6,637,195
43.001	Aerospace Education Services Program: From Portland State Univ.	49,042
43.001	Aerospace Education Services Program: From Univ. of Minnesota	67,256
43.001	Aerospace Education Services Program: From Auburn University	85,788
43.001	Aerospace Education Services Program: From ADVR Inc	28,270
43.001	Aerospace Education Services Program: From Univ. of Alabama	6,254
43.001	Aerospace Education Services Program: From Univ. of California Davis	187,199
43.001	Aerospace Education Services Program: From Carnnegie Inst. of Wash.	1,954
43.001	Aerospace Education Services Program: From College of Charleston	3,737
43.001	Aerospace Education Services Program: From Calif. State Univ.	17,477
43.001	Aerospace Education Services Program: From Goddard Space Flight Center	105,364
43.001	Aerospace Education Services Program: From Johns Hopkins Univ.	51,125
43.001	Aerospace Education Services Program: From Lockheed Martin	182,703
43.001	Aerospace Education Services Program: From Salish Kootenai College	42,653
43.001	Aerospace Education Services Program: From South Dakota State Univ.	11,766

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		AMOUNT
43.001	Aerospace Education Services Program: From Univ. of Colorado	104
43.001	Aerospace Education Services Program: From Univ. of Washington	34,524
43.002	Technology Transfer	396,005
43.002	Technology Transfer: From Carnnegie Inst. of Wash.	14,335
43.002	Technology Transfer: From Calif. State Univ.	4,241
43.002	Technology Transfer: From Univ. of North Dakota	84,764
43.999	Miscellaneous Non-Major Grants	1,345,750
43.999	Miscellaneous Non-Major Grants: From Calf. Instit. of Tech.	498
43.999	Miscellaneous Non-Major Grants: From NASA Jet Prop. Lab	41,054
43.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	7,417
43.999	Miscellaneous Non-Major Grants: From SW Research Inst.	48,918
43.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	31,254
43.999	Miscellaneous Non-Major Grants: From Sci. Appl. Inter. Corp.	55,791
	TOTAL	**$9,542,438**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.160	Promotion of the Humanities-Fellowships and Stipends	38,039
45.164	Promotion of the Humanities - Public Programs	9,981
	TOTAL	**$48,020**
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	862,658
47.041	Engineering Grants: From PFM Manufacturing	2,781
47.041	Engineering Grants: From ADVR Inc	3,453
47.041	Engineering Grants: From Univ. of California Davis	74,543
47.041	Engineering Grants: From Resonon Inc.	175
47.041	Engineering Grants: From Wavelength Electronics	12,395
47.049	Mathematical and Physical Sciences	2,305,762
47.049	Mathematical and Physical Sciences: From Univ. of Mississippi	271,436
47.049	Mathematical and Physical Sciences: From Center for Adapt. Optics	8,101
47.049	Mathematical and Physical Sciences: From Nat. Optic. Astrom. Obs.	50,669
47.050	Geosciences	1,614,695
47.050	Geosciences: From Ohio State Univ.	113
47.050	Geosciences: From Univ. of Oregon	17,176

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
47.070	Computer and Information Science and Engineering	587,836
47.074	Biological Sciences	6,055,892
47.074	Biological Sciences: From Duke University	27,704
47.074	Biological Sciences: From Amer. Ins. of Bio. Sci.	32,158
47.074	Biological Sciences: From Univ. of California Davis	192,880
47.074	Biological Sciences: From Harvard Univ.	58,369
47.074	Biological Sciences: From Univ. of Idaho	5,868
47.074	Biological Sciences: From Univ. of Arkansas	538
47.074	Biological Sciences: From Idaho State Univ.	43,037
47.075	Social, Behavioral, and Economic Sciences	406,572
47.075	Social, Behavioral, and Economic Sciences: From US Civilian Reseach	7,737
47.075	Social, Behavioral, and Economic Sciences: From National Res. Council	3,664
47.076	Education and Human Resources	3,813,812
47.076	Education and Human Resources: From City Univ. of New York	4,470
47.076	Education and Human Resources: From College of Will. & Mary	35,423
47.076	Education and Human Resources: From Ithaca College	15,882
47.076	Education and Human Resources: From Nat. Science Teach. Assoc.	446,114
47.078	Polar Programs	380,216
47.078	Polar Programs: From San Diego State	121,119
47.078	Polar Programs: From Univ. of Nebraska	47,687
47.079	International Science and Engineering (OISE): From US Civilian Reseach	1,672
47.999	Miscellaneous Non-Major Grants: From IRIS	20,419
47.R&D	Miscellaneous Research and Development: From Ohio State Univ.	161,252
	TOTAL	**$17,694,278**

SMALL BUSINESS ADMINISTRATION

59.051	New Markets Venture Capital Program, Operational Assistance (OA) Grants	300,961
	TOTAL	**$300,961**

ENVIRONMENTAL PROTECTION AGENCY

66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Arizona State	20,000
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	18,578
66.460	Nonpoint Source Implementation Grants: From Sheridan Co. Cons. Dist.	1,066

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
66.460	Nonpoint Source Implementation Grants: From Stillwater Co. Cons. Dist.	99,162
66.460	Nonpoint Source Implementation Grants: From Yellowstone Co. Cons. Dist.	(1,506)
66.460	Nonpoint Source Implementation Grants: From Liberty Co. Cons. Dist.	18,478
66.463	Water Quality Cooperative Agreements	88,759
66.500	Environmental Protection: Consolidated Research	9,746
66.500	Environmental Protection: Consolidated Research: From Colorado School of Mines	32,522
66.509	Science To Achieve Results (STAR) Research Program	32,943
66.600	Environmental Protection Consolidated Grants Program	36,833
66.606	Surveys, Studies, Investigations and Special Purpose Grants	373,375
66.708	Pollution Prevention Grants Program	207,192
66.709	Multi-Media Capacity Building Grants for States and Tribes	374
66.714	Pesticide Environmental Stewardship Regional Grants	(1,061)
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	196,551
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From CDM Corp.	73,824
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From CH2M Hill	34,718
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	1,614
66.808	Solid Waste Management Assistance	39,343
66.R&D	Miscellaneous Research and Development: From American Waterworks Assoc.	680,426
	TOTAL	**$1,962,937**

DEPARTMENT OF ENERGY

81.022	Used Energy-Related Laboratory Equipment Grants: From Center for Innovation Inc.	4,683
81.049	Office of Science Financial Assistance Program	735,559
81.049	Office of Science Financial Assistance Program: From UT-Batelle, LLC	1,409
81.049	Office of Science Financial Assistance Program: From Inland NW Research Allia.	156,151
81.049	Office of Science Financial Assistance Program: From Univ. of California	89,277
81.049	Office of Science Financial Assistance Program: From Univ. of Wyoming	11,718
81.049	Office of Science Financial Assistance Program: From Aerodyne Res. Inc.	36,994
81.049	Office of Science Financial Assistance Program: From Michigan State Univ.	28,056
81.049	Office of Science Financial Assistance Program: From Washington State Univ.	(97)
81.057	University Coal Research	232,277

State of Montana
Schedule of Expenditures of Federal Awards
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		AMOUNT
81.079	Regional Biomass Energy Programs	57,575
81.087	Renewable Energy Research and Development	50,735
81.087	Renewable Energy Research and Development: From Battelle	85,712
81.087	Renewable Energy Research and Development: From Big Sky Econ Dev.	148,276
81.087	Renewable Energy Research and Development: From Cons. for Plant Biotech.	19,998
81.087	Renewable Energy Research and Development: From Fuel Cell Energy Inc.	78,398
81.087	Renewable Energy Research and Development: From Pac. NW National Lab	1,738,487
81.087	Renewable Energy Research and Development: From Sandia National Lab	121,452
81.089	Fossil Energy Research and Development	1,805,178
81.089	Fossil Energy Research and Development: From Virginia PolyTechnic Inst.	98,615
81.089	Fossil Energy Research and Development: From Inland NW Research Allia.	441
81.104	Office of Environmental Cleanup and Acceleration	46,041
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	315,305
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	17,321
81.119	State Energy Program Special Projects	292,558
81.121	Nuclear Energy Research, Development and Demonstration: From Idaho National Lab	316,810
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	89,966
81.999	Miscellaneous Non-Major Grants	2,255
81.999	Miscellaneous Non-Major Grants: From Colorado School of Mines	144,168
81.999	Miscellaneous Non-Major Grants: From Los Alamos Nat. Lab	16,469
81.R&D	Miscellaneous Research and Development: From Inland NW Research Allia.	1,260
81.R&D	Miscellaneous Research and Development: From Washington State Univ.	19,425
	TOTAL	**$6,762,472**

DEPARTMENT OF EDUCATION

84.019	Overseas Faculty Research Abroad	27,114
84.021	International: Overseas-Group Projects Abroad	20,990
84.042	TRIO-Student Support Services	24,919
84.116	Fund for the Improvement of Postsecondary Education	41
84.120	Minority Science and Engineering Improvement	47,554
84.133	National Institute on Disability and Rehabilitation Research	563,655
84.215	Fund for Improvement of Education	82,958

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
84.215	Fund for Improvement of Education: From Golden Triangle	61
84.215	Fund for Improvement of Education: From Bozeman School Dist.	210,168
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of California -Riverside	57,768
84.350	Transition to Teaching	1,655,248
	TOTAL	**$2,690,476**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers: From MT Transporation Prtshp	29,863
93.051	New Demonstration Grants to States with Respect to Alzheimer's Disease	205,725
93.113	Biological Response to Environmental Health Hazards	692,847
93.115	Biometry and Risk Estimation Health Risks from Environmental Exposures	212,812
93.121	Oral Diseases and Disorders Research	301,368
93.136	Injury Prevention and Control Research and State and Community Based Programs	303,828
93.172	Human Genome Research: From Stanford Univ.	48,235
93.173	Research Related to Deafness and Communication Disorders	178,755
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Texas	1,206
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer	252,002
93.178	Nursing Workforce Diversity	128,003
93.184	Disabilities Prevention	243,892
93.211	Telehealth Network Grants	(9)
93.226	Research on Healthcare Costs, Quality and Outcomes	79,319
93.242	Mental Health Research Grants	876,711
93.247	Advanced Education Nursing Grant Program: From OR Health Sciences Univ.	355,462
93.262	Occupational Safety and Health Program: From Univ. of Missouri	43,679
93.263	Occupational Safety and Health Training Grant	66,378
93.273	Alcohol Research Programs	546
93.276	Drug-Free Communities Support Program Grants: From Palo Alto Medical Found.	30,360
93.279	Drug Abuse Research Programs	36,710
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	103,569
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	303,047

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Scripps Inst.	313,070
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Sequoia Inst.	33,842
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Washington	88,278
93.301	Small Rural Hospital Improvement Grant Program	410,000
93.358	Advanced Education Nursing Traineeships	26,439
93.361	Nursing Research	46,197
93.361	Nursing Research: From Univ. of Iowa	25,943
93.389	National Center for Research Resources	14,670,740
93.389	National Center for Research Resources: From Univ. of Wyoming	41,529
93.389	National Center for Research Resources: From ZDye Corp	106,456
93.393	Cancer Cause and Prevention Research	355,097
93.394	Cancer Detection and Diagnosis Research	16,833
93.395	Cancer Treatment Research	341,034
93.396	Cancer Biology Research	219,709
93.398	Cancer Research Manpower	84,146
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	957,829
93.822	Health Careers Opportunities Program: From Univ. of Washington	21,284
93.824	Basic/Core Area Health Education Centers: From Univ. of Washington	59,074
93.837	Heart and Vascular Diseases Research	409,173
93.838	Lung Diseases Research	759,925
93.838	Lung Diseases Research: From Univ. of California	545,817
93.839	Blood Diseases and Resources Research	28,129
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	311,086
93.847	Diabetes, Endocrinology and Metabolism Research	134,737
93.849	Kidney Diseases, Urology and Hematology Research	(6,388)
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	2,023,066
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Univ. of California	25,196
93.855	Allergy, Immunology and Transplantation Research	3,097,530
93.856	Microbiology and Infectious Diseases Research	3,773,188
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	1,228,699

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
93.856	Microbiology and Infectious Diseases Research: From Seattle Bio. Med. Res. Inst.	27,751
93.856	Microbiology and Infectious Diseases Research: From Univ. of Washington	143
93.859	Biomedical Research and Research Training	1,333,802
93.865	Child Health and Human Development Extramural Research	461,299
93.866	Aging Research	107,764
93.867	Vision Research: From Univ. of Rochester	306,120
93.996	Bioterrorism Training and Curriculum Development Program	113,680
93.999	Miscellaneous Non-Major Grants	45,934
93.999	Miscellaneous Non-Major Grants: From ORC Macro	1,388
	TOTAL	**$37,039,847**
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.002	Cooperative Development Program (CDP)	227,639
98.005	Institutional Capacity Building (ICB): From Univ. of Hawaii - Manoa	505,324
	TOTAL	**$732,963**
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER	**$121,211,777**
	TOTAL EXPENDITURES OF FEDERAL AWARDS	**$1,845,571,751**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Note 1. Basis of Accounting

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

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2006, Montana distributed $412,723 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $4,456,233 in commodities in fiscal year 2006. The value at June 30, 2006 of commodities stored at the state's warehouse is $ 1,767,147 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

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

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2006. The amount of loans outstanding as of June 30, 2006 in the Water Pollution Control Revolving Fund Program is $70,911,940.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs expended as of June 30, 2006. The amount of loans outstanding for the program as of June 30, 2006 is $44,254,693.

Special Economic Development and Adjustment Assistance Program
The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2006 is $238,905.

Temporary Assistance to Needy Families Loan Program
The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2006 is $568,363.

Federal Family Education Loans
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed $186,314,325 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2006. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was $50,584,395 at June 30, 2006. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2006 was $1,006,662. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in FY 2006 of $17,003,774 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2006. The amount of loans outstanding as of June 30, 2006 is $30,508,524.

Nursing Student Loan Program
The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2006 is $1,662,282.

Childhood Immunization Grants
The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2006. The state used the CDC price list to calculate the value of doses received. During fiscal year 2006, Montana received 191,241 vaccine doses valued at $4,176,803.

Tongue River –Northern Cheyenne Tribal Loan
The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project.

No expenditures of tribal loan funds were incurred on project costs during FY 2006. The amount of the loan outstanding as of June 30, 2006 is $9,271,795.

Middle Creek Dam Rehabilitation Project Loan
The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is $2,990,129 and interest during construction is $281,857. The amount, as of June 30, 2006, of loan outstanding is $2,570,294 and of interest during construction outstanding is $220,928.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2007 will be issued by March 31, 2008.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2007. The type A program threshold is estimated to be $11,672,457 for the biennial period.

Note 3. CFDA

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

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

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

CFDA #	Program	FY06 Amount	Inventory
10.203	Payments to Ag. Exp. Station	$0	136,264
10.500	Cooperative Extension Service	$0	17,725
10.664	Cooperative Forestry Assistance	$570,510	$5,481,843
10.999	Agriculture Misc. Non. Major	65,979	$172,482
12.300	Basic and Applied Scientific Research	$93,993	$93,993
12.420	Military Medical Research and Dev.t	$25,555	$25,555
12.431	Basic Scientific Research	$80,858	$80,858
12.800	Air Force Defense Research Sciences	$73,758	$73,758
12.910	Research and Technology Development	$54,102	$54,102
12.999	Defense Misc. Non. Major	$0	$53,590
43.001	Aerospace Education Services Program	$88,656	$88,656
43.999	NASA Misc. Non. Major	$0	664,050
47.049	Mathematical and Physical Sciences	$1,227	$1,227
47.074	Biological Sciences	$1,165	$1,165
47.999	NSF Misc. Non. Major	$0	$542,553
81.087	Renewable Energy Research and Dev.	$116,622	$116,622
93.855	Allergy, Immun. &Transplant. Research	$6,104	$6,104

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2006, was $926,424. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

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

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

UI Administrative Costs	$ 9,111,980
State UI Benefits	65,412,510
Federal UI Benefits	7,242,611
Total	$ 81,767,101

Note 7. Subgrants to State Agencies

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

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

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2006.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.025	Plant and Animal Disease, Pest Control, and Animal Care	28,804
10.200	Grants for Agricultural Research, Special Research Grants	1,013,081
10.206	Grants for Agricultural Research & Competitive Research Grants	78,139
10.217	Higher Education Challenge Grants	101,200
10.455	Community Outreach and Assistance Partnership Program	14,892
10.457	Commodity Partnerships for Risk Management Education	31,978
10.500	Cooperative Extension Service	108,367
10.550	Food Donation	1,907,018
10.553	School Breakfast Program	4,323,290
10.555	National School Lunch Program	17,002,562
10.556	Special Milk Program for Children	37,567
10.557	Special Supplemental Nutrition Program for WIC	3,648,762
10.558	Child and Adult Care Food Program	1,006,883
10.559	Child and Adult Care Food Program	801,512
10.560	State Administrative Expenses for Child Nutrition	(14)
10.561	State Administrative Matching Grants for Food Stamp Program	1,196,759
10.567	Food Distribution Program on Indian Reservations	1,320,281
10.568	Emergency Food Assistance Program (Administrative Costs)	43,333
10.570	Nutrition Services Incentive	643,747
10.572	WIC Farmers' Market Nutrition Program (FMNP)	39,450
10.652	Forestry Research	19,741
10.664	Cooperative Forestry Assistance	2,773,243
10.665	Schools and Roads-Grants to States	12,799,829
10.672	Rural Development, Forestry, and Communities	115,165
10.677	Forest Land Enhancement Program	24,794
10.762	Solid Waste Management Grants	658
10.902	Soil and Water Conservation	66,958
10.999	Department of Agriculture - Miscellaneous	122,814
11.303	Economic Development - Technical Assistance	1,750
11.431	Climate and Atmospheric Research	28,891
12.002	Procurement Technical Assistance For Business Firms	740,383
12.114	Collaborative Research and Development	560,880
12.300	Basic and Applied Scientific Research	381,962
12.420	Military Medical Research and Development	112,197
12.999	Defense - Miscellaneous	114,140
14.228	Community Development Block Grant/State's Program	10,133,003
14.239	Home Investment Partnerships Program	5,371,463
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	106,260
14.871	Section 8 Housing Choice Vouchers	1,288,594
14.901	Healthy Homes Demonstration Grants	4,682
15.200	Miscellaneous Non-Major Grants	194,739
15.222	Cooperative Inspection Agreements with States and Tribes	10,358
15.224	Cultural Resource Management	179,300
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,062,713
15.608	Fish and Wildlife Management Assistance	67,511
15.805	Assistance to State Water Resources Research Institutes	2,155
15.900	Miscellaneous	36,667
15.904	Historic Preservation Fund Grants-In-Aid	110,500
15.914	National Register of Historic Places	13,805
15.916	Outdoor Recreation-Acquisition, Development and Planning	210,564
15.999	Miscellaneous Department of the Interior	532,545
16.523	Juvenile Accountability Incentive Block Grants	353,198
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	659,497
16.548	Title V Delinquency Prevention Program	85,000
16.549	Part E State Challenge Activities	6,007
16.554	National Criminal History Improvement Program (NCHIP)	57,214
16.575	Crime Victim Assistance	1,461,595
16.579	Byrne Formula Grant Program	131,748
16.588	Violence Against Women Formula Grants	627,925
16.710	Public Safety Partnership and Community Policing Grants	12,561
16.727	Enforcing Underage Drinking Laws Program	350,115
16.738	Edward Byrne Memorial Justice Assistance Grant Program	864,213
17.235	Enforcing Underage Drinking Laws Program	441,581
17.258	WIA Adult Program	1,475,259
17.259	WIA Youth Activities	2,490,870
17.260	WIA Dislocated Workers	1,460,599
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	86,579
17.267	WIA Incentive Grants -Section 503 Grants to States	269,913
20.106	Airport Improvement Program	367,719
20.205	Highway Planning and Construction	4,759,227
20.218	National Motor Carrier Safety	5,945
20.219	Recreational Trails	955,421
20.500	Federal Transit - Capital Investment Grants	429,070
20.507	Federal Transit - Formula Grants	1,408,054

CFDA Number	Program Title	Amount Provided To Subrecipient
20.514	Transit Planning and Research	2,754
20.600	State and Community Highway Safety	839,472
20.602	Occupant Protection	106,858
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	69,307
20.607	Alcohol Open Container Requirements	388,391
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	131,633
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	5,738
21.999	Treasury Miscellaneous	6,115
39.011	Election Reform Payments	3,935
43.000	NASA	310,160
43.001	Aerospace Education Services Program	136,859
43.002	Technology Transfer	29,980
45.025	Promotion of the Arts-Partnership Agreements	332,175
45.129	Promotion of the Humanities_Federal/State Partnership	6,700
45.310	State Library Program	68,068
47.041	Miscellaneous Non-Major Grants	41,484
47.049	Mathematical and Physical Sciences	98,871
47.050	Geosciences	228,008
47.074	Biological Sciences	986,749
47.075	Social, Behavioral, and Economic Sciences	32,726
47.076	Education and Human Resources	1,503,028
47.078	Polar Programs	14,996
59.037	Small Business Development Center	404,000
66.600	Environmental Protection Consolidated Grants-Program Support	23,331
66.811	Brownfield Pilots Cooperative Agreements	10,749
66.999	Miscellaneous Non Major	10,304
81.057	University Coal Research	5,024
81.087	Miscellaneous Non-Major Grants	7,613
81.089	Fossil Energy Research and Development	536,589
81.104	Office of Environmental Cleanup and Acceleration	37,450
81.119	State Energy Program Special Projects	170,879
84.002	Adult Education-State Grant Program	1,231,693
84.010	Title I Grants to Local Educational Agencies	39,899,790
84.011	Migrant Education-Basic State Grant Program	854,641
84.013	Title I Program for Neglected and Delinquent Children	113,999
84.027	Special Education - Grants to States	31,070,182
84.048	Vocational Education - Basic Grants to States	3,853,254
84.069	Leveraging Educational Assistance Partnership	216,173
84.133	National Institute on Disability and Rehabilitation Research	24,009
84.144	Migrant Education_Coordination Program	273,876
84.173	Special Education - Preschool Grants	1,260,564
84.181	Special Education - Grants for Infants and Families with Disabilities	3,000
84.186	Safe & Drug Free Schools and Communities - State Grants	2,002,063
84.195	Bilingual Education - Professional Development	2,500
84.196	Education for Homeless Children and Youth	104,736
84.213	Even Start - State Educational Agencies	1,001,526
84.215	Fund for the Improvement of Education	546,921
84.235	Rehabilitation Services Demonstration and Training Programs	87,025
84.243	Tech-Prep Education	223,402
84.264	Rehabilitation Training-Continuing Education	14,329
84.287	Twenty-First Century Community Learning Centers	4,780,582
84.293	Foreign Language Assistance	64,314
84.298	State Grants for Innovative Programs	939,617
84.318	Education Technology State Grants	2,835,318
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	28,074
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilities	36,932
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	183,078
84.330	Advanced Placement Incentive Program	200,425
84.332	Comprehensive School Reform Demonstration	796,132
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,003,954
84.350	Transition to Teaching	735,142
84.357	Reading First State Grants	4,512,466
84.358	Rural Education	369,451
84.360	Dropout Prevention Programs	145,746
84.365	English Language Acquisition Grants	561,232
84.366	Mathematics and Science Partnerships	911,504
84.367	Improving Teacher Quality State Grants	13,480,853
84.938	Hurricane Education Recovery	60,750
90.401	Help America Vote Act Requirements Payments	4,605,609
93.003	Public Health and Social Services Emergency Fund	2,000,032
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	30,537
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	74,719
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	105,929
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,537,936

CFDA Number	Program Title	Amount Provided To Subrecipient
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,527,212
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	22,261
93.052	Nation Family Caregiver Support Program	702,456
93.104	Comprehensive Community Mental Health Services for Children	189,278
93.110	Maternal and Child Health Federal Consolidated Programs	38,320
93.113	Biological Response to Environmental Health Hazards	7,661
93.115	Biometry and Risk Estimation-Health Risks from Environmental Exposures	508
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	34,924
93.127	Emergency Medical Services for Children	13,600
93.130	Primary Care Services Resource Coordination and Development	172,887
93.150	Projects for Assistance in Transition from Homelessness (PATH)	285,906
93.184	Disabilities Prevention	79,645
93.217	Family Planning Services	1,857,018
93.230	Consolidated Knowledge Development and Application (KD&A) Program	574,571
93.235	Abstinence Education	9,346
93.241	State Rural Hospital Flexibility Program	539,697
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	353,240
93.268	Immunization Grants	301,052
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	4,821,775
93.301	Small Rural Hospital Improvement Grants	385,833
93.361	Nursing Research	3,415
93.389	Minority Health and Health Disparities Research	2,656,459
93.393	Cancer Cause and Prevention Research	111,779
93.556	Promoting Safe and Stable Families	1,008,221
93.558	Temporary Assistance for Needy Families (TANF)	2,237,158
93.566	Refugee and Entrant Assistance-State Administered Programs	100,794
93.568	Low-Income Home Energy Assistance	567,357
93.569	Community Services Block Grant	11,000
93.575	Child Care and Development Block Grant	4,713,835
93.590	Community-Based Family Resource and Support Grants	192,428
93.597	Grants to States for Access and Visitation Programs	112,368
93.599	Chafee Education and Training Vouchers Program (ETV)	(11,900)
93.600	Head Start	112,704
93.617	Voting Access for Individuals with Disabilities-Grants to States	68,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	625,645
93.658	Foster Care Title IV-E	2,283,451
93.669	Child Abuse and Neglect State Grants	(4,000)
93.671	Family Violence Prevention and Services/Grants for Battered Women	721,182
93.674	Chafee Foster Care Independent Living	337,051
93.778	Medical Assistance Program	35,494
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	356,584
93.822	Health Careers Opportunities Program	348,796
93.837	Heart and Vascular Diseases Research	216,564
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	14,763
93.855	Allergy, Immunology and Transplantation Research	1,031,272
93.856	Microbiology and Infectious Diseases Research	71,502
93.917	HIV Care Formula Grants	178,667
93.940	HIV Prevention Activities-Health Department Based	963,561
93.958	Block Grants for Community Mental Health Services	1,228,489
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,080,649
93.969	Geriatric Education Centers	12,018
93.991	Preventive Health and Health Services Block Grant	241,853
93.994	Maternal and Child Health Services Block Grant to the States	511,020
93.999	General	109,076
94.004	Learn and Serve America - School and Community Based Program	280,542
94.006	Americorps	1,639,748
96.007	Social Security Research and Demonstration	33,492
97.004	State Domestic Preparedness Equipment Support Program	8,562,272
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	1,597
97.039	Hazard Mitigation Grant	11,383
97.042	Emergency Management Performance Grants	665,755
97.047	Pre-Disaster Mitigation	29,494
97.054	Community Emergency Response Teams	4,757
97.067	Homeland Security Grant Program	1,059,758
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	291,997
97.078	Buffer Zone Protection Plan (BZPP)	242,119
98.002	Cooperative Development Program (CDP)	28,882
98.005	Institutional Support Assistance (ISA)	158,829
	Total	**266,804,214**

Auditor's Report & Findings

Auditor's Report & Findings

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LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Legislative Audit Committee
of the Montana State Legislature:

Compliance

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2007. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

As described in Findings 2-1 and 2-43 in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with requirements regarding Activities Allowed or Unallowed and Procurement and Suspension and Debarment that are applicable to its National Guard Military Operations and Maintenance Projects program (CFDA #12.401). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

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As described in Findings 2-17, 2-28 and 2-30 in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with requirements regarding Eligibility, Subrecipient Monitoring and Special Tests and Provisions that are applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2007. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs, Section III, findings: 2-2, 2-3, 2-4, 2-5, 2-6, 2-7, 2-8, 2-9, 2-10, 2-11, 2-12, 2-16, 2-18, 2-19, 2-20, 2-21, 2-25, 2-26, 2-27, 2-29, 2-33, 2-40, 2-41, 2-42, 2-48, and 2-49.

Internal Control Over Compliance

The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2-13, 2-14, 2-15, 2-17, 2-22, 2-23, 2-24, 2-26, 2-28, 2-29, 2-30, 2-31, 2-32, 2-34, 2-35, 2-36, 2-37, 2-38, 2-39, 2-44, 2-45, 2-46, and 2-47.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement

of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 2-17, 2-28 and 2-30, when combined, and 2-47 to be material weaknesses.

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

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

December 28, 2007

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2007

Section I – Summary of Auditor's Results

Basic Financial Statements
For Each of the Two Fiscal Years Ended June 30, 2007

	2006	2007
Type of Auditor's report issued:	Unqualified	Unqualified
Internal control over financial reporting:		
• Material weakness identified?	No	Yes
• Significant deficiencies identified that are not considered to be a material weakness?	No	Yes
Noncompliance material to the financial statements noted?	Yes	No

Federal Awards
For the Two Fiscal Years Ended June 30, 2007

	2006 and 2007
Internal control over major programs:	
• Material weakness identified?	Yes
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified for all major programs except for National Guard Military Operations & Maintenance Projects and Special Supplemental Nutrition Program for Women, Infants, and Children.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 & 10.561	Food Stamp Cluster
10.553, 10.555, 10.556 & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	Child and Adult Care Food Program
10.665 & 10.666	Schools & Roads Cluster
12.400	Military Construction, National Guard
12.401	National Guard Military Operations & Maintenance Projects
14.195 & 14.856	Section 8 Project-Based Cluster
14.228	Community Development Block Grant/State Program

Section I – Summary of Auditor's Results

Identification of major programs *(continued)*:

CFDA Number(s)	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Vouchers
15.605 & 15.611	Fish & Wildlife Cluster
17.207, 17.801 & 17.804	Employment Service Cluster
17.225	Unemployment Insurance
17.258, 17.259 & 17.260	Workforce Investment Act Cluster
20.205	Highway Planning and Construction Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
66.605	Performance Partnerships
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376, 93.364 & 93.925	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster
84.032	Federal Family Education Loans (Guaranty Agency)
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.575 & 93.596	Child Care Cluster
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.775, 93.776, 93.777 & 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.004 & 97.067	Homeland Security Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$11,578,117
Auditee qualified as low-risk auditee?	No

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2007

Section II – Financial Statement Findings

Finding 1-1: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Teachers' Retirement Board (board) policy sets a maximum amortization period of 30 years for the employer and employee contributions and investment earnings to fund current employees' future benefits, and pay the unfunded actuarial accrued liability.

Condition: The board has obtained an actuarial valuation of the Teachers' Retirement System annually for the last three years. The results of the July 1, 2006 actuarial valuation show the system is not funded on an actuarially sound basis. The actuarial valuation dated July 1, 2006, determined the employer contribution rate would need to increase by 3.38 percent starting July 1, 2007, to maintain an amortization of the unfunded actuarial accrued liability over a 30-year period starting July 1, 2006. The 2005 Legislative Special Session authorized a one-time, $100 million infusion into the retirement fund. If this one-time infusion had not been made, the actuary estimated the contribution increase to maintain a 30-year amortization would have been 4.34 percent.

Questioned Costs: No questioned costs identified.

Context: The unfunded actuarial accrued liability grew from $757.8 million at July 1, 2004, to $903.3 million at July 1, 2005, and then dropped to $863.1 million at July 1, 2006. The decrease in 2006 is due primarily to the $100 million infusion into the retirement fund. If this had not been made, the actuary estimated the July 1, 2006 unfunded actuarial accrued liability would have been $966.9 million rather than $863.1 million. The system's net assets were $2.7 billion and $2.5 billion at June 30, 2006 and 2005, respectively. During the 2005 Legislative Session the board sought legislation to increase the funding and no legislation was passed.

Effect: Until contribution rates are statutorily changed, benefits to members are reduced, or additional contributions are made, the system will continue to be actuarially unsound.

Cause: The actuary attributed the growth in the unfunded liability of the system through the July 1, 2005 valuation date to investment returns below the actuarial investment return assumption of 8.0 percent for 2000-2004 and 7.75 percent for 2005 and 2006. The system

experienced an asset gain over the last year; the actuarial assets earned 8.46 percent, which is 0.71 percent above the actuarial assumption of 7.75 percent. According to the actuary, "The actuarial return on assets has under performed the assumption by about 20 percent in the last six years (combined). The root of these losses is the low market returns in the years ending June 30, 2001, and 2002. The recognition of these two years of market losses kept the actuarial return on assets below the investment return assumption until this past year."

Recommendation: We recommend legislation be enacted to provide funding to ensure the Teachers' Retirement System is funded on an actuarially sound basis, as required by the Montana Constitution.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2007

Section II – Financial Statement Findings

Finding 1-2: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. A defined benefit retirement system is defined in section 19-2-409, MCA, as being actuarially sound when its contributions are sufficient to pay the full actuarial cost of the plan over a period of up to 30 years.

Condition: The Public Employee Retirement Board (PERB) obtained an actuarial valuation of the eight defined benefit retirement plans annually for the last three years. The actuarial valuation determined as of June 30, 2006, the employer contribution rate would need to increase by 1.01 percent for the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), 1.84 percent for the Sheriffs' Retirement System (SRS), and 0.04 percent for the Game Wardens' and Peace Officers' Retirement System (GWPORS), to maintain an amortization of the unfunded actuarial accrued liability for each system over a 30-year period.

Questioned Costs: No questioned costs identified.

Context: The unfunded actuarial accrued liability fluctuated between July 1, 2002 and June 30, 2006, as follows: from $1 million to $460 million for PERS-DBRP, from $(17) million to $8.8 million for SRS, and from $0.4 million to $5.4 million for GWPORS. Net assets at June 30, 2005, and 2006, respectively, were $3.2 billion and $3.5 billion for PERS-DBRP, $151.4 million and $165.6 million for SRS, and $51.8 million and $59.4 million for GWPORS. During the 2005 Legislative Session PERB sought legislation to increase the funding and no legislation was passed. During the 2005 Legislative Special Session, $25 million in additional funding was provided to PERS-DBRP.

Effect: Until contribution rates are statutorily changed, member benefits are reduced, or additional contributions are made, the PERS-DBRP, SRS and GWPORS are actuarially unsound.

Cause: The actuary attributed the growth in the unfunded liabilities of the systems primarily to actuarial investment returns below the actuarial investment return assumption of eight percent for all three systems. As a result, the contribution rates established in state law are insufficient to provide for the actuarial soundness of each system.

Recommendation: We recommend legislation be enacted for funding changes to ensure the PERS-DBRP, SRS and GWPORS are funded on an actuarially sound basis, as required by the Montana Constitution and state law.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2007

Section II – Financial Statement Findings

Finding 1-3: Various Federal Agencies
CFDA # Various

Criteria: Section 17-1-102(1), MCA, requires the Department of Administration to establish a system of financial control so that the functioning of the various agencies of the state may be improved. Section 17-1-102(4), MCA, requires all state agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. The Department of Administration is responsible for establishing the system of controls and policies to guide agencies' implementation of these statutes. Governmental Accounting Standards Board Statement No. 34, paragraphs 18 through 29, specify the accounting for capital assets, including infrastructure such as highways and bridges.

Condition: At June 30, 2007, the Department of Transportation (department) did not estimate infrastructure asset values and record infrastructure asset transactions in accordance with state law and accounting policy. The department was required by state law and accounting policy to record completed construction on highways as infrastructure assets on the state of Montana's accounting system. Transactions were also necessary to record land purchased for right of way, excess right of way sold, depreciation expense, construction work in progress for highway construction that was not complete, and to remove the value of old highways that were reconstructed during the fiscal year.

Questioned Costs: No questioned costs identified.

Context: We have noted issues related to the process the department used to record infrastructure assets on the state of Montana's accounting system during the past five years and recommended the department establish controls to ensure the accuracy of the transactions recorded for infrastructure assets. The department continued to make errors in recording infrastructure assets in fiscal year 2006-07.

Effect: Each year, the department records the estimated cost of projects that are 96 percent or less complete at June 30 as construction work in progress and removes the prior year amount from the accounting records. At June 30, 2007, the department estimated and recorded the cost of such projects as the amount expended in fiscal year 2006-07, instead of the amount

expended over the life of those projects. Based on the department's subsequently revised estimate, Construction Work in Progress of $222,106,373 on the accounting records was understated by $93,440,341 at June 30, 2007. Each year, the department also estimates the cost of projects that are over 96 percent complete that have not been previously capitalized and records this increase in costs as infrastructure. At June 30, 2007, the department estimated the cost of these projects as the amount expended in fiscal year 2006-07, instead of the amount expended over the life of the projects. At June 30, 2007, the department included costs for projects that were 96 percent or less complete in its Infrastructure, as well as its Construction Work in Progress estimates. The department also did not reconcile its estimates to the amounts recorded on the accounting records. The net effect of these errors was a $43,682,562 overstatement of the $3,403,152,239 in Infrastructure recorded on the accounting records at June 30, 2007.

Cause: Most of the department's infrastructure transactions are recorded during the fiscal year-end period. Also, the department has not fully documented the process to use in updating the value of Construction Work in Progress, Infrastructure, Land, and other related accounts. This can cause confusion and inconsistencies in approach when there is turnover. Due to turnover in accountants, three different people have recorded these transactions in the past four years. The department did have two people review the year-end transactions for fiscal year 2006-07 related to infrastructure and the support for valuation estimates to prevent errors such as those noted in the past. In addition, department personnel said they analyzed whether the results were consistent with their knowledge of the department's construction activity and past results. However, those reviews were ineffective and did not identify material errors. The Department of Administration worked with department personnel to correct errors related to prior years that had been identified, but did not ensure all errors had been identified and that the transactions to capitalize construction work in process and infrastructure for the current year were properly supported and recorded.

Recommendation: We recommend the Department of Administration establish controls to ensure state agencies, including the Department of Transportation, properly record infrastructure asset balances and related activity on the state of Montana's accounting system.

State of Montana
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Section II – Financial Statement Findings

Finding 1-4: Various Federal Agencies
CFDA # Various

Criteria: Section 17-1-111, MCA, requires the state treasurer to receive and account for all money belonging to the state, unless otherwise directed by law. To be an effective internal control, reconciliations of cash recorded on the accounting records to cash in banks should be performed timely and accurately to facilitate timely identification and correction of errors and irregularities.

Condition: The Department of Administration's (department's) Treasury Unit completed its identification of the differences between cash recorded on the accounting records and cash in banks at June 30, 2007, for the state of Montana on November 16, 2007, over four months after the end of the fiscal year. The department's Accounting Bureau was unable to reconcile $78,558 of those differences by December 4, 2007. The department's reconciliation process was hindered by agencies not complying with state policy requiring one transaction be recorded on the accounting records for each bank deposit made. Changes in operations at state agencies increased the amount of activity that did not comply with this state policy further compounded the department's difficulties in reconciling cash in a timely manner.

Questioned Costs: No questioned costs identified.

Context: The state of Montana had cash deposits of approximately $242,040,000 at June 30, 2007. A similar control issue appeared in the financial-compliance report of the department for the fiscal year ended June 30, 2002. Although the recommendation for that issue was subsequently implemented, this issue indicates the department's cash accountability controls are currently not working as designed.

Effect: The Department's Treasury Unit identified 278 differences between cash on the accounting records and cash in banks at June 30, 2007, totaling $14,637,228.

Cause: Department personnel attributed the increase in differences between cash on the accounting records and in the banks primarily to state agencies' expanded use of interfaces from their systems to the state's accounting system. They said agencies have ignored state policy (such as the policy requiring one line of transaction coding for each deposit), particularly when designing new interfaces.

Recommendation: We recommend the Department of Administration establish control procedures to ensure differences between cash balances on the state's accounting system and the bank records are identified and resolved in a timely manner.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2-1: U.S. Department of Defense
CFDA #12.400, Military Construction, National Guard
CFDA #12.401, National Guard Military Operations and Maintenance (O&M) Projects

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Military Affairs (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. A proper system of internal control should provide for a segregation of duties between authorizing, receiving, invoice approval, and custody of assets. Federal regulation, 32 CFR 33.36, requires the department to follow state procurement policy for the expenditure of federal funds when procuring property or services under a grant. A purchasing agreement between the department and the Department of Administration requires bids for goods and services exceeding $25,000. The department also follows guidance developed by the Department of Administration in the bidding and selection of qualifying professionals for construction projects costing over $500,000.

Condition: In fiscal year 2005-06, we reviewed 22 claims related to construction and operations and maintenance activity. One of those claims was for road materials costing $89,340. The department did not conduct a competitive bid for the materials. We also noted that the same individual authorized the purchase, signed for receipt of the materials, and approved the invoice for payment. We also examined the design phase of another project and found the department did not follow proper procedures in advertising for and the selecting of an architect. Information in the department's files indicated the project cost to be approximately $750,000. In fiscal year 2006-07, the department expended $47,600 for road maintenance materials without the required bid process or contract in place.

Questioned Costs: We question costs of $10,530 charged to CFDA #12.400 for architect services and $89,340 charged to CFDA #12.401 for road materials in fiscal year 2005-06. We question costs of $47,600 for road maintenance materials charged to CFDA #12.401 in fiscal year 2006-07. On July 20, 2007, the U.S. Property and Fiscal Officer (USPFO) for Montana issued a memorandum indicating the fiscal year 2005-06 questioned costs were legitimate and reimbursement from the federal government for those costs was appropriate.

Context: The department expended $12.9 million under CFDA #12.400 in fiscal year 2005-06. It expended $14.5 million under CFDA #12.401 in fiscal year 2005-06 and $16.1 million in fiscal year 2006-07.

Effect: Lack of segregation of duties increases risk of asset misappropriation. In addition, the department is not in compliance with state policy for procurement of services, resulting in questioned costs.

Cause: Department personnel noted the initial work involving the road materials was expected to be under $5,000 but the scope of the project was expanded because of good weather. The program manager said that he is authorized to approve expenditures. Personnel said some of the procedures for advertising and selection of an architect were not followed because they believed the entire cost of the project would be under $500,000 and they wanted to use the same firm that had been selected for another related project. In addition, department personnel considered the road maintenance to be construction expenditures and believed formal bids were not required.

Recommendation: We recommend the Department of Military Affairs:

A. Comply with bidding requirements in accordance with state law.

B. Ensure appropriate segregation of duties exist for asset acquisition.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-2: U.S. Department of Homeland Security
CFDA #97.004, 97.067, Homeland Security Cluster

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Military Affairs (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 2 CFR 225, Appendix A, Section (C)(1)(a), requires costs be necessary and reasonable to be allowable. The January 2006 Financial Management Guide issued by the Office of Grants and Training indicates no additional obligations can be incurred after the end of the grant.

Condition: We reviewed 20 items charged to the Homeland Security Cluster in fiscal year 2005-06 and found unallowable charges totaling $4,597 charged to the award. Of this, $242 was for travel and $4,355 was for relocation costs. We determined these costs were not allowable under the provisions of the grant. In addition, we found the department charged $1,820 of salary expense to a grant period that was closed. We found that the salary charges were not allowable even if they had been incurred prior to the grant being closed.

Questioned Costs: We question $4,597 and $1,820 in payroll, travel and relocation costs charged to CFDA #97.004 and #97.067, respectively, in fiscal year 2005-06. We estimate potential questioned costs exceed $10,000.

Context: The department expended $14.1 million under the Homeland Security Cluster in fiscal year 2005-06.

Effect: The department is not in compliance with federal award requirements, resulting in questioned costs.

Cause: A supervisor approved the salary charges to the grant without verifying that it was for services related to the grant and incurred within the funding period. The grant coordinator said the travel and relocation charges were overlooked when the claim was approved.

Recommendation: We recommend the Department of Military Affairs ensure only allowable costs are charged to federal programs.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2-3: U.S. Department of Defense
CFDA #12.400, Military Construction, National Guard
CFDA #12.401, National Guard Military Operations and Maintenance (O&M) Projects

Criteria: Federal regulations, 32 CFR 33.35, require the Department of Military Affairs (department) to ensure it does not make any award to a party that is suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs.

Condition: In fiscal year 2005-06, we reviewed 22 contracts and noted two instances of services procured where the department did not obtain the required certification from the contractor. We verified the contractors were not suspended or debarred. We also determined the department does not obtain the required certification for contracts under $75,000.

Questioned Costs: No questioned costs identified.

Context: The department expended $12.9 million under CFDA #12.400 and $14.5 million under CFDA #12.401 in fiscal year 2005-06.

Effect: The department is not in compliance with federal suspension and debarment requirements, increasing the risk of awarding federal funds to a suspended or debarred party.

Cause: Personnel stated they do not ensure they have required certification in all cases.

Recommendation: We recommend the Department of Military Affairs ensure they receive certification that contractors are not debarred or suspended in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-4: Various Federal Agencies
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section (C)(1)(i), requires that costs paid with federal funds must be net of all applicable credits to be allowable under federal awards. Federal regulation, 2 CFR 225, Appendix A, Section (C)(4)(a), describes applicable credits as those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to federal awards. Such transactions include purchase discounts and rebates.

Condition: In fiscal year 2005-06, the Department of Administration (department) changed the way the state's purchasing card and statewide fueling network programs were funded. Both of these programs are Internal Service Funds and should be funded with user charges. The programs were funded in fiscal year 2005-06 with volume discount rebates from credit card companies involved in the programs. During the fiscal year, the department received volume discount rebates of $93,492 and $15,165, respectively, in excess of costs in the procurement card and fueling network card programs but did not allocate the rebates back to the paying entity. A portion of the rebates resulted from purchases charged to federal funds. We reported this issue to the department in October 2006. In June 2007 the department remitted a portion of the fiscal year 2005-06 rebates to the U.S. Department of Health and Human Services. The department plans to calculate and remit the federal share of fiscal year rebates in October 2007.

Questioned Costs: In fiscal year 2005-06, operating expenditures from federal funds totaled approximately 30 percent of total state operating expenditures. As a result we question costs of 30 percent of the total excess rebates, or $32,597 paid from all federal programs using the procurement card. In June 2007 the department remitted $19,540 to the U.S. Department of Health and Human Services.

Context: The volume discounts based on card usage generate revenue in excess of the department's costs. The department keeps all rebates even though it is the users of the cards that are enabling the department to receive the rebates. Rebates are earned through transaction volume and prompt payment.

Effect: The department is not in compliance with federal requirements, which resulted in rebates not being allocated back to the paying federal funds and questioned costs.

Cause: Department personnel stated the volume discounts come from the credit card servicers, not the merchants who sold the goods or services to state agencies. As a result, the department believes these payments constitute an incentive payment to induce the department to conduct credit card activity with the servicer rather than a reduction of the good or service purchased. We believe the volume discounts are an applicable credit because the discount is a percentage of total credit card purchases and off-sets the cost of providing the service. Department management further stated that developing and maintaining the data necessary to properly allocate the rebates could be expensive. The department cannot identify the funding source from the credit card statements, and does not have access to data from which to allocate the rebate to federal funding sources.

Recommendation: We recommend the Department of Administration allocate volume discount rebates from credit card companies to federal expenditures as required by federal regulations.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2-5: Various Federal Agencies
CFDA # Various

Criteria: OMB Circular A-133, Section .300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that have a material effect on each of its federal programs. Under provisions of the contract for the preparation, submission, and negotiation of the state's annual Statewide Cost Allocation Plan (SWCAP), the consultant is required to maintain records of the SWCAP and supporting information. Federal regulation, 2 CFR 225, Appendix C, Section (D)(4), requires all cost allocation plans be submitted within six months prior to the beginning of each of the state's fiscal years in which it proposes to claim central service costs. Extensions may be granted on a case-by-case basis.

Condition: The department contracts with an outside party to prepare and submit the state's annual SWCAP. The department does not have adequate controls to ensure the SWCAP is submitted in a timely manner or accurately prepared, according to federal regulations, by the outside party. The Montana Single Audit Report for the two fiscal years ended June 30, 2005, included a recommendation to the department regarding the timeliness and accuracy of the SWCAP. We determined the recommendation had not been implemented as of the end of fiscal year 2006-07. We noted the department had plans to develop specific procedures for the next submitted SWCAP to address the control portion of the recommendation and ensure the SWCAP is accurately completed. However, the department continued using the fiscal year 2002-03 SWCAP through fiscal year 2006-07.

Questioned Costs: No questioned costs identified.

Context: The fiscal year 2005-06 SWCAP was submitted five months after the extension deadline. The fiscal year 2006-07 SWCAP was submitted 16 days after the extension deadline.

Effect: The department is not in compliance with federal regulations regarding the timely submission of the SWCAP. The untimely submission of the annual SWCAP has not affected the review and approval process as the federal government is behind schedule on

their review of SWCAPs. The department received approval of their fiscal year 2003-04 and 2004-05 SWCAPs in fiscal year 2006-07.

Cause: Contractor personnel stated another formal extension was not requested for the 2005-06 SWCAP at the end of October 2005, but they had verbally discussed the current SWCAP with the federal agent.

Recommendation: We recommend the Department of Administration develop adequate controls to ensure the SWCAP is accurately completed and submitted timely in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-6: U.S. Environmental Protection Agency
CFDA #66.458, Capitalization Grants for Clean Water State Revolving Funds
CFDA #66.468, Capitalization Grants for Drinking Water State Revolving Funds

Criteria: Federal regulations, 40 CFR 32.400, require the Department of Environmental Quality (department) to ensure it does not make any award to a party that is suspended or debarred.

Condition: The State Revolving Fund (SRF) Loan Programs did not have procedures in place to prevent contracting with suspended or debarred parties until May 2007. The department has two SRF Loan Programs – one for water pollution control projects (wastewater and nonpoint source projects) and the other for drinking water projects. The department did not determine if the SRF grant recipients are suspended or debarred prior to subgranting drinking water and clean water capitalization state revolving grant funds. We found no instances of debarred or suspended grant recipients during our review of project files.

Questioned Costs: No questioned costs identified.

Context: The two SRF programs combined distributed $5.7 million, $15.6 million and $13.3 million during fiscal years 2004-05, 2005-06 and 2006-07, respectively.

Effect: The department did not have adequate internal control to ensure compliance with federal requirements, which increases the risk the department could loan federal funds to a suspended or debarred party.

Cause: Department management said they primarily grant funds to local governments, municipalities, and water and sewer districts and were not aware the federal requirement applied to those grant recipients.

Recommendation: We recommend the Department of Environmental Quality's State Revolving Fund Loan programs implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended or debarred entities.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-7: U.S. Department of the Interior
CFDA #15.250, Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining
CFDA #15.252, Abandoned Mine Land Reclamation (AMLR) Program

U.S. Environmental Protection Agency
CFDA #66.458, Capitalization Grants for Clean Water State Revolving Funds
CFDA #66.460, Nonpoint Source Implementation Grants
CFDA #66.468, Capitalization Grants for Drinking Water State Revolving Funds
CFDA #66.605, Performance Partnership Grants
CFDA #66.606, Surveys, Studies, Investigations and Special Purpose Grants
CFDA #66.802, Specific Cooperative Agreements
CFDA #66.805, Leaking Underground Storage Tank Trust Fund Program
CFDA #66.817, State and Tribal Response Program Grants

U.S. Department of Energy
CFDA #81.041, State Energy Program

Various Federal Agencies
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section (C)(1)(g) and (C)(1)(i), requires the Department of Environmental Quality (department) to determine its costs in accordance with generally accepted accounting principles, and be net of all applicable credits. Federal regulation, 2 CFR 225, Appendix A, Section (C)(4)(a), states applicable credits refer to those reductions of expenditure-type transactions that offset or reduce expense items to federal awards as direct or indirect costs. Examples include insurance refunds or rebates. State accounting policy defines the workers' compensation discounts as an overpayment that should be recorded as a reduction of the original expenditure on the state's accounting system.

Condition: The department's workers' compensation discounts were not recorded in accordance with state accounting policy or federal requirements. The department recorded its entire workers' compensation volume discount received from its insurer in the Internal Service Fund instead of the various funds that originally paid the workers' compensation premium. In fiscal year 2004-05, the department recorded the workers' compensation discount of $44,166 as a reduction of the insurance and bonds expenditure in the Internal Service Fund. In fiscal year 2005-06, the department recorded the workers' compensation discount of $107,857 as contributions and premiums revenue in the Internal Service Fund. The Internal Service Fund balance is cumulatively overstated by $130,560 at June 30, 2006, of which $54,691 is allocable to the Federal Special Revenue Fund.

Questioned Costs: Since the insurance refunds were not recorded as a reduction of federal expenditures, we question costs charged to the department's federal programs of $54,691 in fiscal years 2004-05 and 2005-06. The table below summarizes the questioned costs exceeding $1,000 for a given CFDA number. The table also shows the questioned costs involving amounts less than $1,000 per CFDA number, which are combined in the CFDA # Various amount.

Insurance Refund Questioned Costs
Fiscal Years 2004-05 and 2005-06

CFDA#	Amount
CFDA #15.250	$ 5,394
CFDA #15.252	3,324
CFDA #66.458	1,517
CFDA #66.468	3,908
CFDA #66.605	20,501
CFDA #66.606	1,010
CFDA #66.460	5,116
CFDA #66.802	2,835
CFDA #66.805	1,356
CFDA #66.817	1,577
CFDA #81.041	1,852
CFDA #Various	6,301
Total	$54,691

Context: The department reported federal expenditures of $27,343,813 and $36,273,779 on its Schedule of Expenditures of Federal Awards in fiscal years 2004-05 and 2005-06, respectively.

Effect: The department is not in compliance with federal requirements, resulting in questioned costs.

Cause: Department management was not sure why the workers' compensation discounts were recorded incorrectly.

Recommendation: We recommend the Department of Environmental Quality:

A. Record the workers' compensation discounts in accordance with state accounting policy.

B. Move $130,560 of workers' compensation discount in the Internal Service Fund to the General Fund, State and Federal Special Revenue Funds.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2-8: Election Assistance Commission (EAC)
CFDA #90.401, Help America Vote Act Requirements Payments

Criteria: The March 2006 OMB Circular A-133 Compliance Supplement, page 3-I-1, requires the grant recipients to use the same state policies and procedures used for procurements from non-federal funds. The March 2007 Compliance Supplement did not modify this requirement. State policy requires the Secretary of State's Office (office), to solicit formal bids, or have sole source documentation, when payments for goods or services exceed $25,000.

Condition: In fiscal year 2004-05, the office published a series of informational advertisements in local newspapers to describe voting procedure changes. The office paid $27,728 to one vendor and $51,182 to a separate vendor for these advertisements. These payments were made with federal funds. The office did not select vendors for the advertisements using a competitive bid process.

Questioned Costs: Since the vendors were not selected using the competitive bid process, we questioned the $78,910 in advertising costs paid for with the Help America Vote Act funds.

Context: Two of 16 contracts for vendor supplies or services using federal funds were not put out for bid.

Effect: The office is not in compliance with federal requirements, resulting in questioned costs.

Cause: Office staff explained that these advertisements were authorized by the prior Secretary of State administration. As of September 20, 2006, the office has worked with the state's Procurement Bureau to solicit and award bids for upcoming advertisements. Prior to fiscal year 2002-03, the office did not administer any large federal grant awards. Unfamiliarity with federal compliance requirements and state policy led to these questioned costs.

Recommendation: We recommend the Secretary of State's Office provide training and develop procedures to properly administer its federal programs.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-9: U.S. Department of Health and Human Services
CFDA #93.617, Voting Access for Individuals with Disabilities

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section (C)(1)(j), requires the Secretary of State's Office (office) to have adequate documentation to support allowable costs under federal awards.

Condition: During fiscal year 2004-05, the office received a $100,000 grant from the Election Assistance for Individuals with Disabilities (EAID) Program, which was used to conduct polling place accessibility surveys for voters with disabilities. In its federal grant application, the office proposed to contract with a local nonprofit organization to provide these services. During our audit, we reviewed $68,000 paid to the nonprofit organization during fiscal year 2005-06. We noted that although the nonprofit invoiced the office for services provided, there was no documentation to support whether the amounts paid were allowable under the grant regulations. Without additional documentation, such as a subgrant document specifying the services to be performed, the office does not have support to demonstrate that the nonprofit conducted its activities in accordance with the representations made to the federal government in the grant application.

Questioned Costs: We question the $68,000 paid to the nonprofit organization with EAID funds.

Context: During fiscal year 2004-05, the office received $100,000 under the EAID award.

Effect: The office is not in compliance with federal allowable cost requirements, resulting in questioned costs.

Cause: Legal counsel for the prior Secretary of State administration did not prepare a contract for the funds received under the 2005-06 grant award. Prior to fiscal year 2002-03, the office did not administer any large federal grant awards. Unfamiliarity with federal compliance requirements led to these questioned costs.

Recommendation: We recommend the Secretary of State's Office provide training and develop procedures to properly administer its federal programs.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-10: Various Federal Agencies
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix B, Section 22(d)(3), indicates contributions to a reserve for self-insurance programs are allowable, but must be based on sound actuarial principles using historical experience and reasonable assumptions. In addition, reserve levels must be analyzed and updated at least biennially for each major risk being insured, taking into account items such as reinsurance and coinsurance. State law requires the Department of Administration (department) to maintain reserves sufficient to liquidate the unrevealed claims liability and other liabilities of state employee group benefit plans. State law also requires fees and charges for services deposited in Internal Service Funds be based on commensurate costs.

Condition: The state employee group benefit plan is not maintaining reserves on an actuarially sound basis. After we notified department personnel of this issue, they requested information from their actuary regarding the reasonableness of their excess reserves. A letter from the actuary dated September 29, 2006, states, in addition to claims that have been incurred but not reported (IBNR), the department could have contingency reserves of 5 to 10 percent of projected annual claims and a reserve for "catastrophic" claims. Although the actuary stated additional reserves may be appropriate, our analysis of the Group Benefits Internal Service Fund indicates reserves are still in excess of the percentages noted by the actuary's letter and what is allowed in state law. Neither the department's 2- to 3-month funding goal nor the actuary's comments on excess reserves are written in the department's rate setting policy. Department personnel indicated they considered several factors in determining reasonable reserves for the group benefit plan, including:

- Estimates of minimally required reserves provided by the actuary.
- Factors not represented in historic claim data, such as benefit and eligibility changes, changes in provider contracts impacting overall payments, and the recent addition of a major insurance company in Montana.
- Past federal actions related to the group benefit plan reserves.

However, the actuary evaluated plan reserves at July 27, 2007, and determined the total reserves required, including IBNR, as of December 31, 2006, to be $31.9 million, meaning the plan potentially had excess reserves of $12.7 million.

Questioned Costs: We believe questioned costs resulting from potential excess reserves exceed $10,000. Questioned costs could be as high as $2,047,240, which represents the portion of premiums paid from various federal awards resulting in the potential excess reserves estimated by the actuary.

Context: The department expended $81 million, $89 million, and $96 million in benefit claims in fiscal years 2004-05, 2005-06, and 2006-07. At the end of fiscal years 2004-05, 2005-06, and 2006-07, the department had an ending fund balance of $21 million, $26 million, and $33 million, respectively. These amounts are net of unrevealed claims of approximately $10 million recorded on the state's accounting records in fiscal years 2004-05 and 2005-06, and $11 million in fiscal year 2006-07. Additionally, revenues exceeded expenditures by approximately $12 million in fiscal year 2004-05, $5 million in fiscal year 2005-06, and $7 million in fiscal year 2006-07.

Effect: The department is not in compliance with federal requirements, resulting in questioned costs.

Cause: Department personnel stated that as a result of inadequate reserves and an audit finding in 2003, the department aimed to maintain a reserve at the level required in statute plus an additional amount equal to two to three months of expenditures. Department personnel stated the intent of this funding goal was to permit sufficient time for the department to make adjustments to the plan, if necessary, without the drastic changes required in 2003. Department personnel believe the group benefit plan reserve level projected as of June 30, 2007, is reasonable in light of their responsibility to remain actuarially sound.

Recommendation: We recommend the Department of Administration adjust premiums to ensure revenues do not exceed expenditures during a fiscal year and reserve amounts do not exceed what is allowed by state law and federal regulation.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-11: U.S. Department of Agriculture
CFDA #10.676, Forest Legacy Program

U.S. Department of Interior
CFDA #15.808, U.S. Geological Survey, Research and Data Collection

Criteria: Federal regulation, 2 CFR 225, Appendix B, Section 32, indicates professional service costs are allowable when reasonable in relation to the services rendered. The nature and scope of the service rendered in relation to the service required and the adequacy of the contractual agreement for the services are relevant factors to be considered in determining if professional service costs are allowable.

Condition: The Department of Fish, Wildlife, and Parks (department) purchased certain services under contract agreements. The department did not follow contract terms applicable to payments for some services.

Questioned Costs: We question costs of $7,500 charged to CFDA #15.808 for services not listed in the contract and $21,544 charged to CFDA #10.676 for services for which there was not a valid contract, totaling $29,044.

Context: Of 16 contract payments tested, seven were not supported by current contract terms. In three instances, department personnel paid at a billed rate that differed from the contract rate. The department also paid for services twice under expired contracts, paid a charge not listed in an agreement, and paid for units of service in excess of those specified in an agreement.

Effect: Payments did not comply with contract terms, resulting in questioned costs.

Cause: According to department personnel involved in the transactions, the department paid the billed amount. In cases where a valid contract had been executed, program personnel either did not have access to it or did not review it prior to approving the invoice.

Recommendation: We recommend the Department of Fish, Wildlife, and Parks monitor procedures to ensure personnel comply with contract terms when approving contract payments.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-12: U.S. Department of Agriculture
CFDA #10.025, Plant and Animal Disease, Pest Control and Animal Care

Criteria: Federal regulation, 2 CFR 225, Appendix B, Section 8(h)(4) and (5), requires salaries or wages be supported by documentation to show actual charges to federal programs for employees working on multiple federal programs. The regulation provides that a budget percentage split among federal programs may be used for interim accounting purposes, but there must be a reconciliation and adjustment for budget-to-actual certified activity on a quarterly basis.

Condition: In our prior Single Audit report, we recommended the Department of Livestock (department) charge personal service costs to federal programs based on actual time spent, and maintain documentation of hours worked on federal programs. In fiscal years 2005-06 and 2006-07, we noted that the department's time records properly account for charges to federal programs for individuals working on a single federal program. For individuals working on multiple federal programs, the department uses a budgeted percentage allocation of time to charge federal programs, rather than actual time worked on the program. While the process used to determine the budgeted percent allocation is reasonable, the department does not periodically review the charges and determine if adjustments are needed as a result of the actual time spent on federal programs.

Questioned Costs: We question personal service costs of $66,447 and $116,282 charged to federal programs in fiscal years 2005-06 and 2006-07, respectively.

Context: We identified four department employees who worked on multiple projects; the time charged for all four was on a percent allocation basis.

Effect: Because the department does not periodically review the time charged to see if adjustments are needed as required by federal regulations, there are unsupported personal service costs charged to federal programs.

Cause: Department personnel stated they have been unable to get the four individuals working on multiple projects to track their time by grant, and they have not instituted any procedures to correct the issue noted last audit. Accounting personnel record payroll expenditures to match budget allocations. There are no time records to support the budget allocations.

Recommendation: We recommend the Department of Livestock have adequate support to document compensation charges to federal programs in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-13: U.S. Department of Agriculture
CFDA #10.551, Food Stamps

U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families
CFDA #93.563, Child Support Enforcement

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Control Objectives for Information and related Technology (COBIT) version 3, PO4.10, states that senior management should maintain a segregation of duties by creating a division of roles and responsibilities which should exclude the possibility for a single individual to undermine a critical process. Management should also make sure that personnel are performing only those duties designated for their respective jobs and positions. In particular, a segregation of duties should be maintained between the following functions: information systems use, data entry, computer operation, network management, system administration, systems development and maintenance, change management, security administration, and security audit.

Condition: The department has inadequate migration procedures for its Electronic Benefits Transfer (EBT) system. When a computer or network program needs to be changed or upgraded, a migration process is performed. A migration is the movement of programming code from one system, usually test environment, to the live (production) system. Department staff perform migrations using an administrator-level account, meaning an account having full access to the systems involved. Six department EBT staff perform migrations using a shared administrator-level account. Because of its shared nature, use of this account does not provide accountability for changes made. We determined individuals responsible for migrating code changes are also responsible for monitoring the appropriateness of code changes. Individuals with administrator-level account access can update, change, delete or create additional EBT program code. The department does not have a system to monitor changes made to program code through administrator-level accounts.

Questioned Costs: No questioned costs were identified.

Context: From July 2006 through November 2006, EBT processed the following monthly averages (the participant averages are not unique counts since a participant may have multiple benefit types):

	Participants	Benefit Amounts
Food Stamps	35,323	$7,872,267
TANF	2,105	875,173
Child Support	5,120	1,236,750

Effect: The program code controls the daily process of the EBT system and, if inappropriately altered, could cause the system to malfunction or potentially deny EBT cardholders' full access to their benefits.

Cause: Department management said administrator-level account access is needed for all the on-call staff in case of computer system problems.

Recommendation: We recommend the Department of Public Health and Human Services segregate electronic benefit transfer system code change and review responsibilities.

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Finding 2-14: U.S. Department of Agriculture
CFDA #10.551, Food Stamps

U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families
CFDA #93.563, Child Support Enforcement

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Control Objectives for Information and related Technology (COBIT) version 4, PO4.11, states management should implement a division of roles and responsibilities that reduces the possibility for a single individual to undermine a critical process. Management should also make sure that personnel are performing only authorized duties relevant to their respective jobs and positions. COBIT version 4, AI7.10, states that control procedures should be established to ensure timely and correct distributions and updates of approved configuration items. This involves integrity controls; segregation of duties among those who build, test and operate; and adequate audit trails of all actions.

Condition: The department's eight contract staff have full Electronic Benefits Transfer (EBT) database access, which is more access than needed to perform their job duties.

Questioned Costs: No questioned costs were identified.

Context: The contractor only used the full EBT database access twice within the last year.

Effect: A person with full database access has the ability to access production data and change or remove benefit amounts, benefits receipt and/or release dates, remove database files or insert program code to remove database files at a future date.

Cause: Department management said they have not limited the EBT contractors access because contractors need access to ensure EBT software continues to run as expected.

However, management said full EBT database access is not necessary and access could be limited then restored when needed.

Recommendation: We recommend the Department of Public Health and Human Services provide the contractor's full Electronic Benefits Transfer system database access only when needed.

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Finding 2-15: U.S. Department of Agriculture
CFDA #10.551, Food Stamps

U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families
CFDA #93.563, Child Support Enforcement

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Section 45-6-332, MCA, indicates a person commits the offense of theft of identity when purposely or knowingly obtaining personal identifying information of another person and uses that information for any unlawful purpose, including obtaining or attempting to obtain credit, goods, services, financial information, or medical information in the name of the other person without the consent of the other person. Section 45-6-312, MCA, also indicates a person commits the offense of unauthorized acquisition or transfer of food stamps if the person knowingly acquires, purchases, possesses, or uses any food stamp or coupon that the person is not entitled to.

Condition: The department's replacement procedures for lost or stolen Montana Access cards are insufficient. Montana Access is the program used by the department to distribute federal Food Stamp and Temporary Assistance for Needy Families (TANF) program funds and department managed Child Support funds to Montana citizens. When recipients receive their Montana Access issued benefits they access the benefits using a card similar to a debit card. If recipients lose the cards, they can call the Montana Access help desk, be identified through demographic data stored in the Electronic Benefits Transfer (EBT) system (such as birth date, social security number, address, etc.) and request a replacement. Once the recipients receive the replacement cards, they call the help desk to create a new Personal Identification Number (PIN) for the new card, making it available for use. We determined existing benefit recipient identification procedures are inadequate to prevent or deter unlawful acquisition of replacement Montana Access cards. We identified 57 individuals with access to the EBT system and the demographic data used to identify a recipient in replacing their Montana Access card. Currently, a person requesting a replacement card is

not required to identify themselves other than by providing their demographic data. Any department staff and contractors with access to demographic data can obtain and activate a Montana Access replacement card with three phone calls: the first to change the address, the second to request the replacement card, and the third to activate the replacement card.

Questioned Costs: No questioned costs were identified.

Context: From July 2006 through November 2006, EBT processed the following monthly averages (the participant averages are not unique counts since a participant may have multiple benefit types):

	Participants	Benefit Amounts
Food Stamps	35,323	$7,875,267
TANF	2,105	875,173
Child Support	5,120	1,236,750

We reviewed February 2007 and determined food stamp and TANF benefits due to be expunged for the month totaled $41,005. Montana Access card replacements in January and up to February 13, 2007, totaled 2,626. We compared recipients with benefits due to be expunged in March 2007 with recipients in January and February 2007 who ordered replacement cards. We found no evidence of replacement cards being wrongfully ordered.

Effect: The potential exists for unauthorized acquisition or transfer of food stamps to occur and remain undetected. The most susceptible benefits are those due to be expunged for a lack of use. Food stamp recipients have up to a year and TANF up to 180 days to use their benefits; if not the benefits are expunged, or removed from availability. Since the benefits have not been accessed within those time periods the original recipients are less likely to notice if someone else is accessing their benefits, increasing the chance benefits can be used unlawfully without being noticed.

Cause: EBT project management said the risk of allowing access to the EBT system and demographic data necessary to obtain new Montana Access cards has not been something considered.

Recommendation: We recommend the Department of Public Health and Human Services improve benefit recipient identification procedures to detect unauthorized acquisition of replacement Montana Access cards.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-16: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: Federal regulation, 45 CFR 95.621, requires the Department of Public Health and Human Services (department) to establish and maintain procedures for review and analysis of data processing and system security issues for systems used to administer the Medical Assistance Program (Medicaid). These regulations include directives regarding risk analyses to ensure both new and existing systems include cost effective controls. In addition, the department is required to perform risk analyses whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to evaluate physical and data security operating procedures and personnel practices. The department is required to maintain reports of its biennial Automated Data Processing (ADP) system security reviews, together with pertinent supporting documentation.

Condition: The department does not perform periodic risk analyses or biennial system security reviews for all of the ADP systems used to administer Medicaid. The ADP systems impacting the Medicaid program include: Medicaid Management Information System (MMIS), The Economic Assistance Management Systems (TEAMS), Agency Wide and Client Systems (AWACS), and Combined Health Information and Montana Eligibility System (CHIMES).

Department management provided the following information concerning Medicaid ADP systems:

- An independent review of the MMIS control system is completed every year.
- Department management completed a security plan review for the TEAMS system in March 2006.
- Department staff completed an internal audit of the purchasing application within the AWACS system in July 2007.
- CHIMES is the new Medicaid system, which is still in the development phase. This system will include a risk management and security plan.

The department's reviews and audits do not include all the federal requirements discussed above. Specifically, they do not include risk analyses to ensure both new and existing systems include cost effective controls.

Questioned Costs: No questioned costs identified.

Context: The department receives more than $500 million in Medical Assistance Program funding each year. The ADP systems are used to provide many essential functions, such as eligibility and benefit determination (TEAMS and CHIMES), payments to providers (MMIS), and provider contract monitoring and other financial system functions (AWACS).

Effect: The department has not complied with federal regulation. Manual procedures, called work-arounds, have been adopted to facilitate proper processing of data. Currently, there are twelve work-arounds in TEAMS, which could degrade the efficiency and effectiveness of the collective Medicaid ADP system. In addition, the issues discussed in Findings 2-22 through 2-24 address control deficiencies related to claims and recipient and provider data stored within the MMIS. These combined work-arounds and control deficiencies indicate the department has increased risks related to its ADP systems.

Cause: Management said they are currently developing plans to assure future assessments of the Medicaid ADP systems are in compliance with federal regulations.

Recommendation: We recommend the Department of Public Health and Human Services conduct security reviews and risk analyses of data processing systems used to administer Medicaid as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-17: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 7 CFR 246.7(l)(2), states that the state or local agency must require each applicant to present proof of identity at the time of eligibility certification, to avoid dual participation in the program. In addition, federal regulation, 7 CFR 246.7(d)(2)(v)(A), states that the applicant must also provide documentation of income at eligibility certification.

Condition: We tested eligibility documentation for 24 program recipients at four local agencies to determine whether eligibility was properly determined based on federal regulations. At one agency, we found that four of the six recipient case files tested did not contain the required supporting documentation for eligibility. Two of the four case files did not contain proof of identity and the other two did not contain documentation of income.

Questioned Costs: We question $2,605 of benefits issued to these four applicants in fiscal years 2005-06 and 2006-07. Because the local agency does not always require proper documentation, we believe the potential questioned costs exceed $10,000 in both fiscal years 2005-06 and 2006-07.

Context: From July 1, 2005 through June 14, 2007, benefits provided by the local agency were $576,719. Two-thirds of the files tested at the local agency did not contain the required documentation for determining the recipients' eligibility for benefits.

Effect: Since the local agency does not maintain adequate documentation, we could not determine if the four applicants receiving benefits were eligible per federal regulations.

Cause: Local agency staff indicated benefits cannot be denied for failure to provide proof of identity. They also stated that since most people living in the area are on some type of public assistance, they are income eligible so proper documentation is not always required

by the local agency. We agree most people living in the area are receiving some type of public assistance. However, state and federal regulations require proof of identity and documentation of income in order to be eligible to receive benefits.

Recommendation: We recommend the Department of Public Health and Human Services implement procedures to ensure the Women, Infants, and Children program local agencies obtain proof of identity and documentation of income as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-18: Various Federal Programs
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C (1)(c), indicates expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. Section 2-18-617, MCA, limits the accumulation of employee vacation leave to twice the amount an employee earns in a calendar year. Leave accumulated above these amounts at the end of the calendar year is considered excess and must be used by the employee within the first 90 days of the next calendar year. If the employee requests and management denies the use of excess leave during the 90-day period, forfeiture of the leave may be delayed until the end of the calendar year. In no case does the law allow excess vacation leave to be held past the end of a calendar year.

Condition: The Department of Public Health and Human Services (department) has historically allowed excess vacation leave to be carried forward rather than forfeited as required by state law. In an effort to manage employees' excess vacation leave balances, the department implemented an excess leave policy in February 2004. This policy allows the carry forward and use of excess vacation leave beyond the amount allowed by state law. The department allowed 11 employees to carry forward excess annual leave until January 2007 when excess leave was finally forfeited.

Of the 11 employees allowed to carry forward excess annual leave:

- Two employees used various amounts of their excess vacation leave in calendar years 2005 and 2006 instead of forfeiting the leave as required by state law. The value of excess leave used in calendar years 2005 and 2006 was $22,150.
- The department paid bonuses totaling $129,000 to five employees under the department's broadband pay plan during calendar years 2005, 2006, and 2007. The bonuses were paid at various times during those years and each payment was calculated using the employees' pay rate times the amount of excess leave that was forfeited.
- Two employees were paid excess vacation leave upon termination:
  - One employee had excess vacation leave balances dating back to calendar year 2000. The department allowed the employee's excess leave balance to increase each year until the employee resigned in December 2005. At that time, the employee's accumulated leave balance was 1,713 hours.

The maximum leave this employee could have legally accumulated as of December 2005 was 768 hours. The employee's total accumulated leave balance of 1,713 hours, including the 945 hours of excess vacation leave, was included in the final termination payout calculations. The dollar value of the excess vacation leave paid to this employee in calendar year 2005 was approximately $41,600.

» A second employee's termination pay included approximately 100 hours of excess vacation leave totaling $2,100 in calendar year 2005.

Questioned Costs: The excess vacation leave paid to the department's employees was allocated to federal programs through direct charges or through its cost allocation plan. Approximately $55,000 in excess vacation leave payments was allocated to various federal programs. The value of excess leave used by department employee's resulted in $2,777 being charged to federal programs. We question a total of $57,777 in costs charged to various federal programs in calendar years 2005, 2006, and 2007.

Context: Out of approximately 2,800 employees, the department allowed 11 employees to carry forward annual leave in excess of the amount allowed under state law. As of January 2007, the department does not have any employees with accumulated vacation leave balances in excess of the amount allowed under state law and policy.

Effect: Paying employees bonuses for vacation leave amounts in excess of those allowed by law circumvents the leave forfeiture provisions of state law. Since the amounts paid to the department's employees and the value of the excess vacation leave used by the department's employees is not allowable under state law, it is not allowable under federal regulations.

Cause: Department management said they implemented an excess vacation leave plan in February 2004 to eliminate the excess vacation leave recorded on the departments' records. As part of the department's plan to reduce excess leave, management paid bonuses to employees under the department's broadband pay plan. Management said the broadband pay plan allows employees to be compensated for extra effort and a job well done. They said the excess vacation leave was used as a basis for the bonus calculations since they needed a way to value the employees' extra effort. However, only the department's top management personnel with excess vacation leave balances were paid bonuses.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Continue to enhance compliance with state law related to vacation leave, and

B. Charge only allowable leave costs to federal programs.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-19: U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families

Criteria: The state plan for the Temporary Assistance for Needy Families (TANF) program administered by the Department of Public Health and Human Services (department) outlines the criteria used in the eligibility and benefit determination process. Eligibility factors includes parental connection, child citizenship, child support to state, participation in work and job search programs, family investment agreement and income levels.

Condition: The U.S. Department of Health and Human Services contracted with the Legislative Audit Division, under the Improper Payments Act of 2002, to perform a statistical sample of TANF program benefit payments for the month of September 2005. We identified eligibility and benefit determination errors in the sample items, primarily the result of missing hard-copies of birth identification. The Economic Assistance Management System indicated hard-copy birth identification was obtained, but at the time of our review the documentation was not in the case file.

Questioned Costs: We believe questioned costs exceed $10,000, based on projecting the sample results to the population.

Context: Of 150 cases reviewed, 10 contained eligibility and benefit determination errors. TANF expenditures were approximately $29.7 million in fiscal year 2005-06.

Effect: The department did not comply with state plan eligibility and benefit payment requirements, resulting in questioned costs.

Cause: Caseworkers at the county Offices of Public Assistance did not include the appropriate documentation in the client's files to determine eligibility or made errors in determining eligibility and benefit payments. In addition, clients of the TANF program failed to report or provide required information to the caseworkers.

Recommendation: We recommend the Department of Public Health and Human Services ensure TANF eligibility and benefit determinations comply with the state plan.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-20: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: The Social Security Act Title 19, Section 1927, requires the Department of Public Health and Human Services (department) to provide drug utilization data to drug manufacturers no later than 60 days after the end of each quarter so drug rebates can be calculated and remitted.

Condition: The department does not submit Medical Assistance Program (Medicaid) drug utilization data within 60 days. Drug utilization data is provided to the manufacturers in the form of invoices. We reviewed seven invoices sent to the manufacturer during the audit period and none of the invoices met the 60-day requirement. The invoice submission dates ranged from 61 to 96 days after the end of each quarter.

Questioned Costs: No questioned costs identified.

Context: Department staff indicated the department routinely misses the 60-day deadline.

Effect: Delaying the submission of drug utilization data to the manufacturers delays the receipt of rebates due the state.

Cause: Department staff indicated the state relies on the federal government to provide the rebate percentages for the drugs within 45 days of the quarter end. The receipt of those percentages can sometimes be later than 45 days. This compresses the remaining tasks involved in preparing the drug utilization data into a two-week or less period. Department staff also indicated invoices are not prepared until the end of the month because manufacturers could send payments in for prior invoices and they do not want to double bill them.

Recommendation: We recommend the Department of Public Health and Human Services provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulations.

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Finding 2-21: Various Federal Programs
CFDA #Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C (1)(c), indicates expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. Section 2-18-617, MCA, limits the accumulation of annual leave to twice the amount an employee earns in a calendar year. Leave accumulated above these amounts at the end of the calendar year is considered excess and must be used by the employee. In no case does the law allow excess vacation leave to be held past the end of the calendar year.

Condition: Prior to the appointment of a new Department of Labor and Industry (department) commissioner in January 2005, department personnel did not enforce state excess leave laws. The new commissioner instructed department personnel to comply with state excess leave laws, but allowed one year to use leave that should have already been forfeited.

Questioned Costs: We question $22,933 in costs charged to various federal programs through the department's indirect cost rate.

Context: Out of approximately 800 department employees, we noted the following three instances where the department allowed personnel to keep or use more annual leave than allowed by state law:

- Included in a termination payout was $22,933 for 569 hours in excess of leave allowed by the state.
- One employee had accumulated 715 hours of excess leave when he transferred to another state agency. No payouts were made to this employee.
- One employee was allowed to use 14.67 hours (valued at $303) annual leave which should have been forfeited.

Effect: The department did not comply with federal regulations and state law, resulting in questioned costs.

Cause: Department personnel stated they believed employees were entitled to the excess leave under the law.

Recommendation: We recommend the Department of Labor and Industry:

A. Continue to enhance compliance with state law related to excess annual leave.
B. Charge only allowable leave costs to federal programs.

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Finding 2-22: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The Social Security Act, Title XIX, Section 1902(a)(25), requires the department to take an active role in identifying other entities legally responsible for care and services available under the state plan, such as health insurance plans, and ensuring they pay their share.

Condition: When a prospective Medical Assistance Program (Medicaid) recipient is applying for Medicaid, the department relies on recipients to notify county health officials if they are covered by a third party. This information is entered into The Economic Assistance Management System (TEAMS) as part of a recipient's eligibility information. If a recipient does not notify their department eligibility examiner they are covered by a third party, that information will not be passed on to the Medicaid Management Information System (MMIS) and the department assumes Medicaid is the primary source for payment. We obtained the records for certain individuals covered by the healthcare plan administered by the state of Montana on behalf of its employees. We compared the plan enrollment records with records of Medicaid recipients. As of March 2007, we identified 244 individuals who are covered by Medicaid and the state health care plan, but only identified as having Medicaid in the MMIS.

Questioned Costs: No questioned costs identified.

Context: Between March 1, 2006, and February 28, 2007, the Medicaid program paid 12,183 claims totaling $3,913,095 to the individuals referred to above. During fiscal year 2006, the department paid nearly $750 million in Medicaid claims, of which $208 million was paid with state funding sources. In any given month, roughly 75,000 Montanans participate in this program.

Effect: At least a portion of the $3.9 million referred to above may have been covered through the state healthcare plan. The population we tested was from a single insurance plan representing a small percentage of private insurance membership in the state.

Cause: The department relies on potential Medicaid recipients to notify county health officials if they are covered by a third party. If the recipient does not notify the health official, the department has no additional controls to identify Medicaid recipients who are covered by a third party.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Strengthen controls over Medicaid processing and claims payment to ensure Medicaid participant data is accurate, complete, and represents current participant status, including identifying Medicaid recipients who are covered by a third party.

B. Investigate exceptions and recover any overpayments made by Medicaid for claims that should have been paid by a third party.

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Finding 2-23: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The Social Security Act, Title XIX, Section 1902(a)(25), requires the department to take an active role in identifying other entities legally responsible for care and services available under the state plan, such as health insurance plans, and ensuring they pay their share.

Condition: Medicare is an entity responsible for paying health care costs before the Medical Assistance Program (Medicaid). Medicare is a federally funded health insurance program for individuals over the age of 65, blind, or disabled. The primary way for the department to identify individuals eligible for both Medicaid and Medicare is for the department's eligibility examiner to obtain this information from the recipients during the Medicaid application process. If recipients do not notify the department that they are also covered by Medicare, the department relies on Medicaid providers and federal social security data to recognize dual eligibility. We identified 15 individuals considered eligible for both Medicare and Medicaid in The Economic Assistance Management System (TEAMS) that were only identified as being eligible for Medicaid in the MMIS.

Questioned Costs: No questioned costs identified.

Context: Our analysis shows that from January 2003 to February 2007, 1,399 claims totaling $111,454 had been paid by Medicaid on behalf of the 15 individuals referred to above while covered by Medicare. The department reviewed these exceptions and stated that six of these individuals are not eligible to receive Medicare because they have not worked the necessary number of quarters in their lifetime. The department also represents that one of the individuals is deceased. The remaining eight individuals are eligible for Medicare but not recognized as such in the MMIS.

Effect: A portion of the claims referred to above may have been covered by Medicare.

Cause: MMIS does not recognize that both Medicare and Medicaid are responsible for the bill if TEAMS does not provide the Medicare notification to MMIS.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Strengthen controls over Medicaid processing and claims payment to ensure Medicaid participant data is accurate, complete, and represents current participant status, including identifying Medicaid recipients who are covered by Medicare.

B. Investigate exceptions and recover any overpayments made by Medicaid for claims that should have been paid by Medicare.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-24: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The Social Security Act, Title XIX, Section 1902, requires the department to take an active role in identifying other entities legally responsible for care and services available under the state plan, such as health insurance plans, and ensuring they pay their share. Department policy requires all Medicaid recipients who are eligible for Medicare to enroll in that program.

Condition: The department periodically reviews the list of Medical Assistance Program (Medicaid) recipients for individuals who are about to turn 65. Unless they have not worked a minimum number of quarters during their life, they will be eligible for Medicare. When the department identifies these individuals, they send letters notifying them that once they turn 65, they need to apply for Medicare or their Medicaid benefits will be suspended. If an individual does not apply for that program, their Medicaid coverage will be suspended. However, data analysis of the MMIS shows exceptions to this policy.

Questioned Costs: No questioned costs identified.

Context: We identified 34 individuals over the age of 65 that have not enrolled in Medicare but are still receiving Medicaid benefits. Further analysis shows that between March 1, 2006, and February 28, 2007, 1,298 claims totaling $432,486 have been paid by Medicaid on behalf of these recipients.

Effect: A portion of the claims referred to above may have been covered by Medicare.

Cause: The department has reviewed these exceptions and state that 17 of these individuals are not eligible for Medicare because they have not worked a sufficient number of hours in their lives. They also state that 10 of these individuals are dead, although these names are not included in our count of deceased recipients. Of the remaining seven exceptions, the department represents that two recipients have appropriately had their coverage

suspended and two recipients were still receiving Medicare coverage even though they have not enrolled in Medicare. The department has not identified the status of three of the exceptions.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Strengthen controls over Medicaid processing and claims payment to ensure Medicaid participant data is accurate, complete, and represents current participant status, including identifying Medicaid recipients who are covered by Medicare.

B. Investigate exceptions and recover any overpayments made by Medicaid for claims that should have been paid by Medicare.

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Finding 2-25: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction
CFDA #20.600, State and Community Highway Safety

Criteria: Federal regulation, 2 CFR 225, Appendix C, Section G(2), indicates internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant federal agency in exceptional cases. Federal regulation, 2 CFR 225, Appendix A, Section C(1) and (2), indicates that to be an allowable federal cost, charges must be reasonable and conform to state and federal regulations. State law requires fees and charges for services deposited in the internal service fund type be based upon commensurate costs. For fees to be commensurate with costs, all revenues and costs, whether operating or nonoperating, must be considered.

Condition: The Department of Transportation's (department's) Equipment Internal Service Fund revenues were not commensurate with costs for fiscal year 2006-07. Similar errors occurred in prior years because the Equipment Internal Service Fund had accumulated fund equity, excluding $41.8 million in estimated capital contributions, of approximately $20.2 million at June 30, 2007. This level of equity is the result of consistently charging fees in excess of costs.

Questioned Costs: We question $1,084,000, which represents the federal share of accumulated overcharges, estimated to be 6.62 percent of fund equity less contributed capital and the allowable 60-day working capital reserve.

Context: Revenues, excluding contributed capital, exceeded expenses in this fund by $391,872, or 1.75 percent, and $1,656,770, or 4.49 percent, in fiscal years 2005-06 and 2006-07, respectively. Based on information department personnel obtained from the department's project accounting system, Equipment Internal Service Fund charges to federally participating projects were $2,100,345 and $1,419,719 in fiscal years 2005-06

and 2006-07, respectively. The estimated federal share of these charges is $3,153,000, or 6.62 percent of total revenues.

Effect: The department is not in compliance with federal regulations and state law, resulting in questioned costs.

Cause: Department personnel stated they exclude nonoperating revenues and expenses from the rate calculation, including the calculation of the loss or gain from each fiscal year to carry forward into the rate calculation for the second subsequent fiscal year. For example, they calculated a $1,625,831 loss for fiscal year 2004-05 to carry forward into the fiscal year 2006-07 rate, instead of the $1,633,698 gain that occurred, because they excluded expense accounts with negative balances totaling over $3,259,000 that they classified as nonoperating. Similarly, they calculated a $900,000 loss for fiscal year 2005-06 to carry forward into the fiscal year 2007-08 rate, instead of the $391,872 gain, because they excluded an expense account with a negative balance of over $1,350,000 that was classified as nonoperating.

Recommendation: We recommend the Department of Transportation revise its rate-setting methodology to establish fees commensurate with costs in the Equipment Internal Service Fund, in accordance with state law and federal requirements.

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Finding 2-26: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction

Criteria: Federal law, 23 USC 156, permits the Department of Transportation (department) to use the federal share of net income from the sale, use, or lease of real property previously acquired with federal funds only if the income is used for projects eligible under 23 USC. Federal regulation, 49 CFR 18.25(g), requires the federal share of program income be deducted from the federal share of program costs, unless otherwise authorized by the federal awarding agency. In addition, federal regulation, 49 CFR 18.31(2), states income derived from the sale of property should be used to compensate the awarding agency. The amount due to the awarding agency is calculated by applying the awarding agency's percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses.

Condition: The department cannot show that it uses the federal share of program income from rent, lease, and sale of excess property acquired in federally participating projects of approximately $500,000 per year in accordance with federal requirements. Department personnel estimated the department received approximately $1,100,000 in revenues during fiscal years 2005-06 and 2006-07 from the rent, lease, and sale of property acquired for construction projects. They deposited the entire amount of such program income in the restricted highway revenue account in the State Special Revenue Fund. The federal share of this income and the expenditures it funded were not tracked separately in the accounting records. Department personnel said it was not practical to estimate the federal share of this revenue, but we believe it could be nearly $1,000,000 for the audit period.

Questioned Costs: We question the costs paid with the estimated $1,000,000 in federal program income during fiscal years 2005-06 and 2006-07, as well as any federal funds it may have matched. Because the department has been depositing the federal share of program income in the restricted highway revenue account since 2002, potential questioned costs may exceed these amounts.

Context: For the two fiscal years ended June 30, 2007, the department consistently recorded the federal share of program income in its restricted highway revenue account in the State Special Revenue Fund.

Effect: The department is not in compliance with federal regulations, resulting in questioned costs.

Cause: The department has no policy or procedure to ensure the federal share of program income was expended for allowable purposes. Department personnel indicated they started depositing the federal portion of program income in the restricted highway revenue account in the State Special Revenue Fund when federal regulations changed in 2002.

Recommendation: We recommend the Department of Transportation establish procedures to demonstrate compliance with federal program income requirements.

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Finding 2-27: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction

Criteria: The Cash Management Improvement Act Treasury-State agreement (agreement) requires the Department of Transportation (department) to request federal funds so that the funds will be received and credited to a state account as specified in the funding technique or specified clearance pattern noted in the agreement for the federal programs administered by the department.

Condition: The department did not comply with the timing requirements of the agreement. The department's usual practice was to request federal reimbursement for all disbursements on Wednesday for deposit on Thursday. This process was in compliance with agreement requirements when contractor payment warrants were written on Monday, or Friday when Monday was a holiday, but not when payments were made on other days. This process also did not comply with the agreement requirements for payroll disbursements since payroll disbursements were settled on Wednesdays, at least a day before reimbursement was received. The department also initiates contractor payments through electronic funds transfer (EFT). EFT payments are settled the following day, rather than the third day, which was assumed when the agreement was made.

Questioned Costs: No questioned costs identified.

Context: We tested 10 drawdowns from the period between July 1, 2005, and May 1, 2007, for compliance with the timing requirements of the agreement. Five of the drawdowns tested were not in compliance with the agreement requirements because the department did not seek timely reimbursement. In reviewing the spreadsheets for tracking payments and drawdowns, noncompliance occurred in 12 of the 53 instances reviewed.

Effect: The department is not in compliance with agreement requirements, resulting in lost investment earnings of approximately $230,000 in fiscal year 2006-07.

Cause: The department's payment patterns have changed, but the agreement does not reflect those changes, especially for payments made by electronic funds transfer instead of warrant. In addition, the department does not currently have the ability to seek reimbursement for different types of payments separately, as the information for billing

does not come from the accounting system that shows the payment type, but from the department's cost accounting system. Due to this constraint, the department must request reimbursement for all payment types at the same time.

Recommendation: We recommend the Department of Transportation:

A. Work with the Department of Administration to negotiate Cash Management Improvement Act agreements that will minimize the use of state funds to finance federal program costs prior to the receipt of federal funds.

B. Establish procedures and management controls to ensure cash drawdowns for contractor payments and payroll disbursements are made in accordance with the Cash Management Improvement Act agreements and, therefore, applicable federal cash management requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-28: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 7 CFR 246.19(b)(3), requires the department, to conduct monitoring reviews of each local agency at least once every two years. Federal regulation, 7 CFR 246.19(b)(4), requires the department to promptly notify local agencies of noncompliance with program requirements identified in the monitoring review. Department procedures define "promptly" as 60 days. Federal regulation, 7 CFR 246.19(b)(4), also states the department must require the local agency to submit a corrective action plan, including implementation timeframes, within 60 days of receiving a monitoring review report from the department.

Condition: The department receives funding from the federal government to operate the Special Supplemental Nutrition for Women, Infants, and Children (WIC) Program. The department provides vouchers to eligible households to purchase specific food items. To administer the program, the department contracts with local agencies that determine eligibility of recipients. The department is then responsible for monitoring these local agencies to ensure compliance with federal regulations. The department uses a log to track the progress of monitoring reviews. During our review, we found that the log showed department staff had conducted 30 monitoring reviews during fiscal years 2005-06 and 2006-07 (as of April 30, 2007). Of these, ten were not conducted within the two-year requirement and three have been scheduled to be performed beyond the two-year requirement. Upon completion of a monitoring review, it is the department's practice to notify the local agency of findings identified and request a corrective action plan. During our audit period, ten monitoring reports issued were sent to local agencies more than 60 days after the review. The department did not receive seven of the local agency corrective action plans within 60 days.

Questioned Costs: No questioned costs identified.

Context: During our past two audits of the department, we have identified problems with the department monitoring local agencies in accordance with federal regulations. The department spent approximately $12.8 million of federal WIC assistance in fiscal year 2005-06 and $13.3 million in fiscal year 2006-07.

Effect: The department is not in compliance with federal regulations in regards to conducting timely monitoring reviews of local agencies, notifying the local agencies in a timely manner of any findings resulting from the department's reviews and ensuring that the department receives a corrective action plan from the local agencies within the required time limit. As a result the potential exists for local agency noncompliance to remain undetected.

Cause: Department personnel indicated staffing availability makes it difficult to complete the required tasks within the specified time frames.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Conduct timely monitoring reviews of the Women, Infants, and Children local agencies in accordance with federal regulations.

B. Promptly notify the local agencies of noncompliance findings in accordance with federal regulations.

C. Obtain corrective action plans from the local agencies within 60 days, in accordance with federal regulations.

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Finding 2-29: U.S. Department of Health and Human Services
CFDA #93.659, Adoption Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires that the Department of Public Health and Human Services (department) maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The U.S. Department of Health and Human Services' Child Welfare Policy Manual, Section 8.2B.11, requires the department to document in each child's adoption case file the specific factors that make the child difficult to place and describe the efforts to place the child for adoption without providing assistance.

Condition: Based on discussion with department staff and review of adoption case files, we determined the department does not have adequate documentation in each child's file to identify the specific factors that make the child difficult to place and the efforts used to place the child without providing adoption subsidy.

Questioned Costs: No questioned costs were identified.

Context: We reviewed 25 case files, but based on discussions with department staff believe this issue affects all adoption case files.

Effect: By not adequately documenting the specific factors that make a child difficult to place and the efforts made to place a child, the department is not in compliance with federal regulations and policies.

Cause: Department management stated they could improve the documentation for all adoptive placements to show they have complied with the requirements regarding their efforts to place a child without a subsidy agreement. They thought the subsidy agreement fulfilled the requirement of making a reasonable effort to place the child without a subsidy since the subsidy agreement includes a statement to that effect. However, the subsidy agreement itself does not adequately document the department's efforts to place a child without a subsidy agreement. This agreement does not give any specific details about

the adoptive child or describe the department's efforts used to place the child without providing assistance.

Recommendation: We recommend the Department of Public Health and Human Services implement procedures to ensure supporting documentation related to providing adoption without a subsidy is included in each adoption case file in accordance with federal regulations.

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Finding 2-30: U.S. Department of Agriculture
CFDA # 10.557, Special Supplemental Nutrition Program for Women,Infants, and Children

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 7 CFR 246.12(g)(4)(i), requires the department to identify high-risk vendors at least annually, based on criteria established by the department. In addition, federal regulation, 7 CFR 246.12(j)(4)(i), also requires the department to conduct compliance investigations, including inventory audits and/or compliance buys, on a minimum of five percent of the vendors authorized as of October 1 of each year. State plan requirements include the following procedures:

- Ranking high-risk vendors to determine the order in which compliance investigations will be performed.
- Notifying the vendor and the Local Agency Retailer Coordinator of the investigations, violations found and the subsequent consequences.
- Obtaining a written response describing the corrective action plan within 30 days of when notification was sent to the vendor.

Condition: We found the department did not perform the procedures required by the state plan in all cases. The department did not rank high-risk vendors to determine the order in which to perform the compliance investigations, but instead performed them by geographic region. Although the department has performed compliance investigations on vendors, the criteria used and reasons for identification of these vendors was not documented. We selected a sample of four compliance investigations and found the department did not provide notification to one of the retailers or Local Agency Retailer Coordinator. In addition, the department did not obtain required corrective action plans for the other three compliance investigations. As of April 2007, the department had received only two vendor responses and one of the two was not on company letterhead, was not signed by the vendor, and did not describe the corrective action plan. The department accepted the vendor response without requesting further documentation.

Questioned Costs: No questioned costs were identified.

Context: The department spent approximately $12.8 million of assistance under CFDA #10.557 in fiscal year 2005-06 and $13.3 million in fiscal year 2006-07.

Effect: The department cannot demonstrate it has complied with federal regulations and the state plan.

Cause: Department staff does not maintain documentation to support the consideration or assessment of high-risk vendors. Supporting documentation is also not available to demonstrate compliance investigations were completed on a minimum of five percent of the vendors authorized as of October 1 of each year. Department staff stated investigations were conducted by geographic location in order to save on travel costs. In regards to corrective action plans, the department did not start requiring vendors to submit them until March of 2007.

Recommendation: We recommend the Department of Public Health and Human Services perform Women, Infants, and Children compliance investigations in accordance with federal regulations and department policy.

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Finding 2-31: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care-Title IV-E
CFDA #93.659, Adoption Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 2 CFR 225, Appendix A (C)(1)(a), states that to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

Condition: The department operates the Subsidized Adoption and Foster Care programs with federal financial assistance under the provisions of Title IV-E of the Social Security Act. Federal foster care and adoption funds may be spent for maintenance payments on behalf of eligible children. Foster care payments are made to individuals providing foster care, child care institutions, or public or non-profit child placement or child care agencies. Department management indicated any foster care or adoption payment corrections and rate adjustments require three levels of approval in the Child and Adult Protective Services (CAPS) system before they are processed. However, there is no requirement that documentation must be included in the CAPS system explaining why each of these transactions is necessary and how the adjustment was calculated. As long as a correction is for an allowable activity and the dollar amount does not seem unreasonable, the payment is usually approved by the various authorities, without them knowing all the details of the transaction.

Questioned Costs: We questioned cost of $31 charged to CFDA #93.658.

Context: The department processed approximately $17,000 of federal Foster Care and Adoption rate adjustments or correcting entries during our audit period. We reviewed 20 foster care case files and could not find support or documentation for one foster care payment correction and rate adjustment.

Effect: Since the department does not have adequate support for the payment correction and rate adjustment we cannot determine if the cost is necessary or reasonable.

Cause: Department management had contacted the field office staff to inquire about the rate adjustment and were still unable to determine how the rate was calculated, but it appears the field office staff input the wrong rate. The correct rate is $2.24 and they entered $3.24, which resulted in an overpayment of $31. The department's current procedures did not find this error and supporting documentation does not explain the rate change.

Recommendation: We recommend the Department of Public Health and Human Services implement procedures to ensure foster care and adoption payment corrections and rate adjustments are adequately documented in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-32: U.S. Department of Health and Human Services
CFDA #93.659, Adoption Assistance

Criteria: Federal law, 42 USC 673 (a)(2)(A)(i), states that in order for an adopted child to be eligible for Federal Title IV-E funding, there must a judicial determination in the first court ruling that sanctioned the removal of the child from the home. This ruling must state that continuation in the home would be contrary to the child's welfare.

Condition: The department operates the Subsidized Adoption and Foster Care programs with federal financial assistance under the provisions of Title IV-E of the Social Security Act. Federal Foster Care and Adoption funds may be spent for maintenance payments on behalf of eligible children. Adoption payments are made to adoptive parents who adopt eligible children with special needs. During our review, we found one case file that did not contain a contrary-to-welfare determination in the first court ruling, which renders the child ineligible to receive Title IV-E benefits.

Questioned Costs: We question $7,550 of Title IV-E benefits used for adoption assistance on behalf of an ineligible child.

Context: We reviewed 25 adoption files and found one that did not contain a contrary-to-welfare determination in the first court ruling.

Effect: The department paid $7,550 in adoption benefits using federal Title IV-E adoption funding, but the child was not eligible to receive Title IV-E funding.

Cause: Department management said they recently created a special Title IV-E unit to help determine Title IV-E eligibility in Foster Care and Adoption cases. By May 2006 the Title IV-E unit reviewed all foster care cases, which included many adoption cases, but has not had a chance to do a complete review of all of the older adoption cases.

Recommendation: We recommend the Department of Public Health and Human Services ensure adoptions receiving federal Title IV-E funding are eligible for funding in accordance with federal regulation.

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Finding 2-33: U.S. Department of Health and Human Services
CFDA #93.959, Block Grants For Prevention and Treatment of Substance Abuse

Criteria: Federal regulation, 2 CFR 225, Appendix B(8)(h), requires the Department of Public Health and Human Services (department) to adequately document and support the distribution of salaries and wages.

Condition: The department could not adequately support tuberculosis expenditures charged to the block grant in fiscal year 2005-06. Expenditures for tuberculosis result from operations at the Montana Chemical Dependency Center (MCDC). The MCDC staff test each person for tuberculosis when admitted to the facility. In fiscal year 2005-06, the department estimated ten percent of the MCDC doctor and nurse's time was spent on tuberculosis testing. However, the department had no basis for the ten percent estimate or other supporting documentation for $23,110 of tuberculosis expenditures charged to the federal grant.

Questioned Costs: We question $23,110 of costs charged in fiscal year 2005-06 because the department does not have adequate documentation for the expenditures.

Context: During fiscal year 2005-06, the department recorded Substance Abuse, Prevention and Treatment grant expenditures of $7,020,498.

Effect: Noncompliance with federal regulations, resulting in questioned costs.

Cause: Department personnel indicated they should develop a better system for recording the actual costs of tuberculosis testing.

Recommendation: We recommend the Department of Public Health and Human Services maintain adequate documentation of tuberculosis testing expenditures charged to the federal Substance Abuse, Prevention and Treatment grant in accordance with federal regulations.

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Finding 2-34: U.S. Department of Health and Human Services
CFDA #93.283, Centers For Disease Control and Prevention - Investigations and Technical Assistance

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C(1)(a) and C(1)(j), indicates that to be allowable, costs incurred by the Department of Public Health and Human Services (department) must be necessary and reasonable for proper and efficient performance and administration of federal awards and be adequately documented.

Condition: The department receives funding from the federal government to operate the Centers for Disease Control and Prevention (CDC) program, which includes a Bioterrorism grant. The department cannot adequately support $10,664 of expenditures charged to the Bioterrorism grant. When Bioterrorism staff provided supporting invoices for two different transactions, we found the support for both transactions included six of the same invoices. CDC purchases made using the state's purchasing card are originally charged to the General Fund and then allocated to the appropriate Federal Special Revenue Fund based on the supporting invoices. The department allocated the General Fund expenditures twice. Since the duplicate costs recorded on the state's accounting records were not necessary, they are not allowable costs of the grant.

Questioned Costs: We question $10,664 of costs charged to CFDA #93.283 in fiscal year 2005-06.

Context: We reviewed support for eight Bioterrorism expenditure transactions and found one duplicate transaction for $10,664 recorded on the state's accounting records in fiscal year 2005-06.

Effect: The department is not in compliance with federal regulations, resulting in questioned costs.

Cause: Department management indicated the duplicate transaction was a result of staff error. They said they have controls in place to review actual expenditures, but this error was not identified during the review because the transaction was recorded at month-end.

Recommendation: We recommend the Department of Public Health and Human Services implement procedures to ensure Bioterrorism grant expenditures are allowable under federal regulations.

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Finding 2-35: Various Federal Agencies
CFDA # Various, Research and Development Cluster

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires The University of Montana (university) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal Regulation, 2 CFR 220, Appendix A, Section J, outlines types and timing of expenses that may or may not be charged to Research and Development grants and requires travel costs be paid in accordance with state and university policy. Federal regulation, 2 CFR 215, Subpart C, provides guidelines for matching costs.

Condition: The university's controls over tracking grant activity are not working as designed. University accountants are responsible for knowing the federal regulations and keeping documentation for expenses charged to the grants. University personnel have developed a control system making grant accountants responsible for reviewing reports that list expenses charged to the grants and determining if the charges comply with federal regulations. We reviewed support in 20 grant files for expenses at the department level, and found the following instances where grant requirements were not followed or documentation was not adequate to determine compliance:

- A federal grant was charged for relocation costs for a foreign student. The initial charges were valid; however, the individual did not stay for an entire year as required by federal regulations. The university paid $1,690 for relocation costs that should have been reimbursed. On the report the grant accountants reviewed, the expense was listed under recruiting costs. The recruiting costs were budgeted for background checks of potential employees. We found no evidence of questioning this expense and the money was not reimbursed to the federal government as required.

- We found instances where travel claims were not paid in accordance with policy. The university overpaid $866 of travel expenses. In each of the three cases, federal grants were charged for the unallowable expenses.

- Budgets are developed for each specific Research and Development grant based on grant requirements. The reports the accountants review to determine reasonableness and allowability of charges include budget information. In one

instance we found the purchase of clothing charged to the travel budget instead of the proper budget line. No documentation exists that this cost was questioned and the total purchase price was over the limit set for clothing.

- Grant accountants are responsible for notifying individuals 60 days before a grant ends to ensure expenses are reported and complete before the grant ends. We tested nine notifications and found three of the nine were not timely. The notifications were significantly less than the 60-day requirement.

- Final reports and a final review of expenses charged to a grant are a part of the control process. We tested 10 reports and found that in one instance there was no documentation that a final report was sent and no documentation a final expense report was reviewed.

- One grant we reviewed pays expenses for work done at another university. Most expenses are paid as they are incurred, however, at the end of the month the other university sends a bill which does not give a detailed list of expenses being claimed. There was no documentation so the grant accountant could not determine if expenses were legitimate.

- One grant had a subcontract with a college. At the end of the grant period the grant accountants are required to review expenses before the grant ends to ensure they are charged in the appropriate period. We found expenses of $3,612 charged and paid after the prime grant period had ended. No documentation existed that the activity was questioned.

- Individuals at the university department level are responsible for tracking any matching costs. Matching costs are state dollars used to match federal funding. We reviewed one grant which required match. The department was unable to provide adequate documentation as to how they met the requirement.

Questioned Costs: We question a total of $6,168 charged to the Research and Development Cluster in fiscal years 2005-06 and 2006-07. Of this, $1,690 was charged to CFDA #93.396, $866 was charged to CFDA #47.050, and $3,612 was charged to CFDA #47.050. We believe potential questioned costs exceed $10,000.

Context: Although we observed evidence that reports were reviewed by the grant accountants; we were unable to determine if any costs charged to grants were marked for follow-up, and if so what the results were.

Effect: The university is not in compliance with federal regulations, resulting in questioned costs.

Cause: University personnel agreed that documentation in files needs improvement and are currently working on improvements to the process.

Recommendation: We recommend The University of Montana improve documentation procedures to ensure it is following established controls relating to Research and Development grants.

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Finding 2-36: U.S. Department of Housing and Urban Development
CFDA #14.228, Community Development Block Grants/State's Program
CFDA #14.239, Home Investment Partnerships Program

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Commerce (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 24 CFR 85.35, requires the department to ensure that federal dollars are not provided to any party which is debarred or suspended from participation in federal assistance programs.

Condition: The department administers the Home Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) federal awards. Under these programs, the department subgrants federal dollars to projects that serve low- and middle-income families. Payments for a particular subgrant can be made over a period of several years. During our prior audit, we reported the department did not have procedures in place to ensure subgrantees of the HOME program were not debarred and suspended from receiving federal dollars. During the current audit, we reviewed ten HOME grant files and found that the department had not completed suspension and debarment verifications for nine of the subgrantees. We also reviewed ten CDBG grant files during the current audit and noted that seven of the files did not contain evidence that the suspension and debarment requirements were met. We found that the CDBG economic development contracts included suspension and debarment language, but the CDBG planning and community development contracts did not. When a subgrantee signs an economic development contract, the subgrantee is asserting that he or she is not suspended or debarred from receiving federal funds, which meets the federal requirement. The planning and community development contracts, however, do not have the suspension and debarment language so the federal requirement is not met for these types of contracts.

Questioned Costs: No questioned costs were identified.

Context: Nine out of ten HOME grant files and seven out of ten CDBG grant files did not contain evidence that the suspension and debarment requirements were met. The single subgrant in the HOME program, for which suspension and debarment requirements

were verified, was a subgrant awarded during the audit period, while the nine exceptions related to subgrants awarded during previous audit periods. In total, the HOME program expended $5,580,783 and $5,809,218 in fiscal years 2006-07 and 2005-06, respectively. Of these expenditures, approximately 92 percent was subgranted. The three subgrants in the CDBG program, for which suspension and debarment requirements were verified, were economic development grants. In total, the CDBG program expended $10,838,019 and $10,447,508 in fiscal years 2006-07 and 2005-06, respectively. Of these expenditures, approximately 97 percent was subgranted.

Effect: Without documentation that a subgrantee's suspension and debarment status was considered, the department cannot demonstrate compliance with the federal requirement.

Cause: In response to the prior audit recommendation in the HOME program, the department intended to verify the recipients of previously awarded subgrants were not suspended and debarred. However, the department did not do so and continued to make payments for subgrants that were awarded during previous periods. For the CDBG program, department staff indicated they relied on the boiler plate contract language, and believed the suspension and debarment language was included in all CDBG contracts.

Recommendation: We recommend the Department of Commerce continue to implement procedures to ensure compliance with federal requirements that prohibit contracting with suspended and debarred parties.

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Finding 2-37: U.S. Department of Housing and Urban Development
CFDA #14.871, Section 8 Housing Choice Vouchers

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Commerce (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs.

Condition: The department administers the federal Section 8 Housing Choice Vouchers program (vouchers program). The vouchers program provides rental assistance to help low income families afford decent, safe, and sanitary rental housing. The department contracts with field agents who determine eligibility for the program, perform inspections of the rental units, calculate the amount of housing assistance, and conduct annual reexaminations to ensure continuing client eligibility. Supporting documentation is included in files maintained by the department and relevant information is input to the department's Housing Assistance Payment Plan Yearly (HAPPY) system. Both department personnel and field agents have access to the HAPPY system. The amount of housing assistance paid by the vouchers program is originally calculated by the field agents when they update information in HAPPY. Information such as household membership, income, rental unit type, number of bedrooms, and allowance for utility costs paid by the client is used to calculate the housing assistance payment. The documentation supporting the housing assistance calculation is sent to the department, and department staff verify and correct input to HAPPY prior to approving the housing assistance payment. During the audit, we sampled 81 housing assistance payments from the first 21 months of the audit period and noted eight instances where the department did not identify and correct errors in the field agent's calculations prior to approving the payment.

Questioned Costs: No questioned costs were identified.

Context: Eight out of 81 housing assistance payments contained calculation errors. Of the eight sample errors, four involved incorrect housing assistance payments. Sample results indicate that additional housing assistance calculation errors exist. Additional errors likely include overpayments as well as underpayments. In total the federal program expended $15,228,041 and $16,437,158 in fiscal years 2006-07 and 2005-06, respectively.

Effect: Because departmental controls failed to discover the calculation errors, a total of $468 in additional assistance should have been paid by the vouchers program.

Cause: The department cited human error as the reason the errors were not identified and corrected prior to approval. There has been approximately 75 percent turnover in program management positions for the Housing Assistance Bureau during the audit period, which contributed to the errors.

Recommendation: We recommend the Department of Commerce follow established internal control procedures to ensure housing assistance payment calculations are accurate prior to approval.

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Finding 2-38: U.S. Department of Housing and Urban Development
CFDA #14.856, Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Commerce (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The Housing and Urban Development Requisition for Partial Payment of Annual Contributions report requires the department to report the average monthly housing assistance payment per unit year to date.

Condition: The department administers the Section 8 Moderate Rehabilitation (Mod Rehab) program. Under this program, property owners rehabilitate substandard housing and then lease the units to low income families. In return, the federal government provides rent subsidies to the property owner based on a contract, which includes the number and type of rental units under subsidy. The department submits reports for Montana's 12 Mod Rehab housing projects each spring. The federal government uses the reports to estimate the cash needs for each housing project, and to allocate the federal moneys to the projects. Required report elements include expenditure estimates and various year-to-date averages, including the average tenant payment and average housing assistance payment (HAP). The formula used by the department to calculate average HAP incorrectly includes the most recent month's expenditures twice.

Questioned Costs: No questioned costs were identified.

Context: All 12 Mod Rehab reports we reviewed contained the calculation error. The overstatements ranged from $27 to $59, or 8.4 to 12.91 percent.

Effect: The average HAP reported to the federal grantor agency is overstated.

Cause: The department staff responsible for the calculation said a supervisor had instructed the calculation to be performed as described.

Recommendation: We recommend the Department of Commerce properly calculate the average monthly Housing Assistance Payments reported to the federal government.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-39: U.S. Department of Labor
CFDA #17.258, WIA Adult Program
CFDA #17.261, WIA Pilots, Demonstrations, and Research Project

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Commerce (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 29 CFR 97.21(c), requires minimal time between the drawing of funds from the federal government and the disbursement of funds for federal program purposes. To comply, each cash draw must be limited to the minimum amount needed and must be timed to coincide with actual, immediate cash disbursements for federal program costs. The Workforce Innovation in Regional Economic Development (WIRED) grant agreement between the federal Department of Labor and the Montana Department of Labor and Industry specifies payments can be drawn down on an as needed basis covering a 48-hour period.

Condition: The Department of Labor and Industry is Montana's designated recipient of the federal Workforce Investment Act (WIA) and WIRED federal awards. The WIRED award is a WIA research and pilot project. The authority to spend these federal dollars lies with other state agencies, including the department. The agreements between the department and the Department of Labor and Industry indicate the department's requisitions for cash will be honored in amounts and at times judged proper to carry out activities specified in the agreements. During the audit we analyzed cash transactions and balances for the WIA and WIRED accounts at the department and found that the department requested and received federal funds to which it was not yet entitled. Finding 2-47 addresses a related issue existing at the Department of Labor and Industry.

Questioned Costs: No questioned costs were identified.

Context: The department requested cash for the WIA program only one time during the audit period. The request, dated March 29, 2006, was for $400,000. The WIA account carried an average $205,000 cash balance for the audit period. The WIA account cash balance at the end of fiscal years 2006-07 and 2005-06 was $64,463 and $357,933, respectively. The department requested cash for the WIRED program six times during

the audit period. The draw request amounts and two-day post request cash balances are summarized in the table below. The WIRED account cash balance at the end of fiscal years 2006-07 and 2005-06 was $575,603 and $10,047, respectively.

Draw Date	Draw Amount	Two-Day Post Draw Cash Balance
5/4/2006	$10,000	$5,067
6/28/2006	$10,000	$10,047
9/5/2006	$10,000	$7,704
10/6/2006	$250,000	$251,567
2/14/2007	$100,000	$106,744
3/5/2007	$1,000,000	$1,103,378

After we brought this to the attention of the department, the department returned excess cash to the Department of Labor and Industry.

Effect: The department did not comply with federal requirements.

Cause: The department indicated they drew the funds to ensure the Department of Labor and Industry would apply for further WIA funding. In May 2007, the department's original allocation of WIRED funds from the Department of Labor and Industry was reduced. The department indicated they needed WIRED cash on hand to mitigate the impact of the reduced allocation.

Recommendation: We recommend the Department of Commerce minimize the time between the request for federal funds and their disbursement for federal program purposes as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-40: Various Federal Agencies
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix B, Section 22(d)(3), states that contributions to a reserve for certain self-insurance programs are allowable if the contributions are based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially. Alternatively, federal regulations provide that contributions to a reserve for an approved self-insurance plan are an allowable cost to the extent the coverage and rates would have been allowed had insurance been purchased to cover the risks.

Condition: The Montana University System (MUS) Group Insurance Plan is a self-insurance program that provides health coverage to the Office of the Commissioner of Higher Education (office), the Montana State University and The University of Montana campuses, the community colleges, and the State Bar. An actuary was hired to determine the incurred but not reported (IBNR) liability as of June 30, 2006, and 2007, and to aid the office in its rate setting process. As part of this rate setting process, the office analyzes how a given rate level will affect the current plan reserve level. However, the office does not have documentation demonstrating the rates which generated reserve levels are based on sound actuarial principles or other applicable criteria in accordance with federal regulations. Without this documentation, the portion paid by federal funds may not be allowable charges to federal programs.

Questioned Costs: We believe questioned costs resulting from potential excess reserves exceed $10,000. Questioned costs could be as high as $2,868,210, which represents the portion of the reserve balance estimated to be the result of premiums paid from various federal awards.

Context: The reserve levels were $22,752,039 and $23,925,412 as of June 30, 2006, and 2007, respectively.

Effect: The office is not in compliance with federal regulations, resulting in potential questioned costs, because it does not have documentation demonstrating reserve levels are actuarially based or that the rates charged are less than what would have been charged had insurance been purchased to cover those risks.

Cause: Office personnel believe their background and history with group insurance gives them the knowledge needed to determine an appropriate level of reserve. While we agree the office has experienced staff, we cannot presume the current staff has the necessary qualifications or expertise to address the requirements of federal law. The office should ensure the documentation supporting its rates and reserves demonstrates compliance with federal regulations.

Recommendation: We recommend the Office of the Commissioner of Higher Education maintain the Group Insurance Plan reserve based on sound actuarial principles or other applicable criteria in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-41: Various Federal Agencies
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C(1)(c), states that expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. Section 2-18-812(3), MCA, requires all reserve funds and premiums paid to the state employee group benefit plan account within the state self-insurance fund to be expended for claims under the plan.

Condition: VEBA is a voluntary plan employees can elect to participate in to pay health care costs. Once the election is made, a designated number of sick leave hours can be converted to a contribution to the member's account. In order to fund the start up costs of the plan, the Department of Administration (department) received a loan. The department made transfers, which were not for claims, from the employee group benefit plan account to VEBA during the audit period to repay the balance of the loan and fund operating costs. The employee group benefit plan account is an Internal Service Fund funded by premiums paid. A portion of those premiums were paid with federal dollars.

Questioned Costs: We question the department's use of federal funds to pay VEBA program startup costs, estimated at $65,038.

Context: In fiscal year 2004-05, $150,000 was transferred to VEBA. In fiscal year 2005-06, an additional $232,576 was transferred. Of the total $382,576 transferred, $252,911 was used to pay off the balance of the loan.

Effect: As a result of the transfers, the department is not in compliance with the restriction in statute on what state employee group benefit funds can be expended on or how the plan can pay administrative expenses. Additionally, since the employee group benefits fund is an Internal Service Fund and fees must be commensurate with costs, the transfer could result in increased fees to cover the cost of the transfer and therefore forcing all state employee health plan participants to essentially pay a portion of the operating costs of a voluntary account.

Cause: During fiscal years 2004-05 and 2005-06 the department did not have enough funds to pay off the balance of the loan and to operate the VEBA plan. The Health Care

and Benefits Division personnel determined a transfer from the employee group benefits reserve funds to the VEBA fund would be the best way to benefit the employees or retirees who ultimately had paid into the reserve fund.

Recommendation: We recommend:

A. The Department of Administration limit group benefit expenses to plan claims and fund the volunteer employee benefit account from plan revenue as required by state law.

B. The VEBA fund reimburse the group benefits fund $382,576 for the transfers made in fiscal years 2004-05 and 2005-06.

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Finding 2-42: U.S. Department of Homeland Security
CFDA #97.004 & 97.067, Homeland Security Cluster

Criteria: OMB Circular A-133, Subpart D, Section .400(d), requires the Department of Military Affairs (department) to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. In addition, the department is required to consider whether the subrecipient's audit necessitates adjustment of the department's financial records.

Condition: The department received notice from the Local Government Services Bureau that three county audits reported issues related to the Homeland Security Grant program. The audit findings included issues related to $40,000 of unsupported salary and benefits charged to the grant in fiscal year 2004-05, unrecorded grant revenues and expenditures on the entities' financial records, and grant award information missing from entity files. The department did not take action with respect to these findings.

Questioned Costs: We question costs of $40,000 of unsupported salary and benefits incurred by a subrecipient in fiscal year 2004-05.

Context: The department received notification of the findings in January 2006. As of July 20, 2007, the department had not taken any action.

Effect: The department is not in compliance with federal subrecipient monitoring requirements, resulting in questioned costs.

Cause: Prior to November 2006, an individual was responsible for reviewing and resolving audit findings. That individual moved to a different position in November 2006 and responsibility for reviewing and resolving audit findings was not reassigned. Department personnel believed they could review audit findings when they conducted on-site monitoring visits. However, as noted above federal regulations require a more timely response.

Recommendation: We recommend that the Department of Military Affairs assign responsibility for reviewing subrecipient audits and take necessary action as required by federal regulations.

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Finding 2-43: U.S. Department of Defense
CFDA #12.401, National Guard Military Operations and Maintenance (O&M) Projects

Criteria: Federal regulation, 32 CFR 33.36 (2) and (9), requires the Department of Military Affairs (department) to maintain a contract administration system which ensures its contractors perform in accordance with the terms, conditions, and specifications of contracts or purchase orders. In addition, the department must maintain records sufficient to detail the significant history of a procurement. In addition, federal regulation, 32 CFR 33.20 (6), states that accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

Condition: The department had operations and maintenance contracts that had expired, but payments for services continued without a valid contract in place.

Questioned Costs: We question costs of $220,023 in fiscal year 2005-06 and $1,283,246 in fiscal year 2006-07.

Context: We noted one contract had expired on June 30, 2005. The contract was not renewed and payments continued to be made in fiscal years 2005-06 and 2006-07. We also noted other operations and maintenance contracts that expired on June 30, 2006, and were not renewed until the end of fiscal year 2006-07.

Effect: Written contracts exist to protect the department and vendors. Without a valid contract, performance or other issues could arise that may be difficult to resolve. Because the department failed to renew several contracts in a timely manner and continued to pay expenditures under the expired contracts, the department is not in compliance with federal regulation, resulting in questioned costs.

Cause: Department personnel cited delays in getting contract renewals. They also said there were task orders signed under the contract. Since the contract had expired, the validity of the task orders is in question.

Recommendation: We recommend that the Department of Military Affairs comply with federal regulation by ensuring valid contracts are in effect prior to incurring expenditures.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2-44: U.S. Department of Labor
CFDA #17.225, Unemployment Insurance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Labor and Industry (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The Montana Operations Manual section 12-1210.00 requires that when feasible, responsibility for custody and recordkeeping for collections be separated to avoid placing employees in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.

Condition: One employee at the department receives all checks and cash and prepares the daily deposit. Before completing the deposit the employee reconciles the total from the checks and cash to the total on the computer system entered by data processing based on Unemployment Insurance (UI) tax reports. When the employee finds an error was made by data processing, the employee corrects the amount on the computer system. The responsibility for the deposit (custody) of the checks and the ability and responsibility to change amounts on the computer system (recordkeeping) are incompatible functions.

Questioned Costs: No questioned costs were identified.

Context: The department receives over $80 million in UI tax collections each year. Personnel estimated that 90 percent of collections are received in checks and cash, of which less than one-half of one percent is in cash. The remaining collections are received through electronic payments.

Effect: Under the current system the employee is in a position to change the amount received to a lesser amount on the computer system, remove checks or cash received, and replace with other checks and cash for the same or lesser amount. Despite other controls in the system, none of them would detect this on a timely basis.

Cause: Department personnel indicated UI collections have processed this way for years and they have never had any problems.

Recommendation: We recommend the Department of Labor and Industry implement adequate controls in its Unemployment Insurance tax collection and deposit process.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-45: U.S. Department of Labor
CFDA #17.225, Unemployment Insurance
CFDA #17.207, 17.801 & 17.804, Employment Services Cluster
CFDA #17.258, 17.259 & 17.260, Workforce Investment Act Cluster

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Labor and Industry (department) maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. In addition, federal regulation, 29 CFR 97.35, prohibits the department from purchasing items from entities on the federal suspended and debarred list.

Condition: At the department, all purchases, except information technology items, go through a central purchasing person. We found that as part of this process, the department does not have controls in place to ensure that vendors selected for purchases over $25,000 have not been suspended or debarred as required by federal regulations. In addition, the department contracted with service providers for over $6 million in fiscal year 2005-06 to administer the Workforce Investment Act at the local level. The department's control to ensure the service providers comply with federal suspension and debarment regulations is through requirements in the contract. The contracts indicate the entities will provide certification that they are not suspended or debarred. The department did not obtain certifications from any of the providers.

Questioned Costs: No questioned costs were identified.

Context: The Department of Labor and Industry received $104,654,986 total federal assistance in fiscal year 2005-06 and $103,579,431 in fiscal year 2006-07.

Effect: The department is not in compliance with federal regulations related to controls over suspension and debarment. The potential exists that the department could be contracting with vendors or providers that have been suspended or debarred.

Cause: Department personnel indicated they rely on the Department of Administration (DOA) to ensure vendors have not been suspended or debarred for all purchased over

$25,000. Department personnel received a confirmation from one person at the DOA that when they are aware that federal funds are involved they do review the federal suspended and debarred list for the purchase. However, on the DOA website it instructs agencies to review the federal suspended and federal debarred list if procurement projects involve federal funds. In addition, department personnel indicated they intended the language in the contract to mean that by signing the contract the provider certified it had not been suspended or debarred. Since we brought this issue to their attention, department personnel have changed the language in their fiscal year 2007-08 contracts.

Recommendation: We recommend the Department of Labor and Industry establish controls for central purchases and for Workforce Investment Act contracts to ensure compliance with federal regulations related to suspension and debarment.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-46: U.S. Department of Labor
CFDA #17.225, Unemployment Insurance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Labor and Industry (department) maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 20 CFR 601.1(a), requires the department to follow state Unemployment Insurance (UI) laws that are approved by the federal government.

Condition: For each calendar year the department has a process to assign approximately 35,000 employers to one of the 20 tax rates specified in state law based on employers experience in the UI program. The department first calculates theoretical cut-off points that will generate the amount of revenue needed to adequately fund the UI program. Next, they select actual cut-off points using the employer experience rating that are as close to the calculated cut-off points as possible. State law addresses whether an employer should be given the higher or lower tax rate if its experience rate falls between the actual and calculated cut-off points. We found 15 of 40 cut-off points for the calendar years 2006 and 2007 rating process were incorrect.

Questioned Costs: No questioned costs were identified.

Context: During fiscal years 2005-06 and 2006-07 the department collected over $161 million in UI tax revenue. Since we brought these tax rate errors to the department's attention, personnel have notified the employers' who paid more in UI taxes than they should have because of the incorrect tax rates. Their accounts have been credited for the difference between what they should have paid using the correct rate and what they paid using the incorrect rate. The department decided since it was its error it would not bill employers who paid less in UI taxes than they should have because of the incorrect tax rate.

Effect: As a result of the incorrect cut-off points, 21 employers were given an incorrect UI rate for calendar years 2006 and 2007. The department is not in compliance with state and federal laws. The dollar effect of the errors is shown in the following table.

	Dollar Amount of Over-Assessments	Dollar Amount of Under-Assessments	Net Total
Calendar Year 2006	$123,378	$471	$123,907
Calendar Year 2007*	$141,604	$130	$141,475

* Calendar Year 2007 over and under assessments were estimated based on calendar year 2007 UI taxable wages available and 2006 taxable wages.

Cause: Department personnel indicated the errors occurred for a number of reasons. Personnel assigned to establish and review the cut-off points for calendar year 2006 were not aware of the need to look at more than one factor when deciding the cut-off points. Beginning with calendar year 2007 cut-off points, the review was performed by personnel with a more complete understanding of the rating system. The review identified one of the errors, but since the review was after the rates were sent out, it could not be easily corrected so nothing was done.

Recommendation: We recommend the Department of Labor and Industry establish written control procedures related to the Unemployment Insurance rate setting process to ensure compliance with state and federal law regarding cut-off points.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-47: U.S. Department of Labor
CFDA #17.258, 17.259 & 17.260, Workforce Investment Act Cluster
CFDA #17.261, WIA Pilots, Demonstrations, and Research Project

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Labor and Industry (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 29 CFR 97.40(a), requires the department to monitor grant and subgrant expenditures to assure compliance with federal regulations, including compliance with federal cash management regulations. Federal regulation, 29 CFR 97.21(b), requires the grantee and subgrantee to minimize the time elapsing between the receipt of funds and disbursement by the grantee or subgrantee. The department interprets a week as a reasonable time between receipt and funds being spent.

Condition: The department subgrants funds to the Department of Commerce (Commerce) and the Office of the Commissioner of Higher Education (CHE). The department and these subrecipients received the Workforce Innovation in Regional Economic Development (WIRED) initiative grant in the spring of 2006 as part of a Workforce Investment Act (WIA) research and pilot project. The department scheduled Commerce and CHE for monitoring in October of 2007. The department awarded the WIA grant to Commerce in the fall of 2005. The department monitored Commerce in October/November of 2006. In fiscal years 2005-06 and 2006-07, Commerce was not in compliance with federal cash management requirements for the WIA and the WIRED grants (Finding 2-39). In fiscal year 2006-07, CHE was not in compliance with federal cash management requirements for the WIRED grant.

Questioned Costs: No questioned costs were identified.

Context: The following table shows four examples we found where cash was not spent by Commerce or CHE within a week of when it was received from the department as required by federal regulations.

State Agency	Federal Award	Excess Cash Balance	Minimum Number of Weeks Cash was Held
Commerce	WIRED	$551,298	17
CHE	WIRED	$18,529	5
Commerce	WIA	$278,241	13
Commerce	WIA	$64,463	65

Effect: Even though the department had monitored Commerce in October/November of 2006, the monitoring failed to identify Commerce's noncompliance with cash management requirements. The department's current procedures are to monitor its subrecipients after the close of the fiscal year. Based on the instances identified above, these procedures are not adequate to assure compliance with federal requirements.

Cause: Department personnel said they would have identified the cash management issues when they monitored CHE in October 2007 and taken appropriate action at that time. However, the subrecipients could have been out of compliance with cash management requirements for over a year and the department would not have known on a timely basis. In regards to the department not identifying Commerce's noncompliance with federal cash management requirements for the WIRED grant, the department stated that this was an error and their monitoring should have identified the issue.

Recommendation: We recommend the Department of Labor and Industry improve its subrecipient monitoring to ensure compliance with federal cash management regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-48: Various Federal Programs
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C (1)(c), indicates expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. Section 2-18-617, MCA, limits the accumulation of annual leave to twice the amount an employee earns in a calendar year. Leave accumulated above this amount at the end of a calendar year is considered excess and must be used by the employee within the first 90 days of the next calendar year. If the employee requests and management denies the use of excess leave during the 90-day period, forfeiture of the leave may be delayed until the end of the calendar year.

Condition: Each year the Department of Transportation (department) notifies employees when they have accumulated more than twice their annual leave. In the notification, employees are asked to submit a plan to use their excess leave hours prior to March 31 of that year, or if the March 31 deadline is not feasible, to submit an alternative proposal to use their excess leave by December 31. Although employees have submitted plans, the department has historically not forfeited employees' excess annual leave and has allowed it to be carried forward and used indefinitely.

Questioned Costs: We believe potential questioned costs exceed $10,000, charged to various federal programs through indirect cost and payroll additive charges.

Context: Based on an excess annual leave spreadsheet prepared by the department, 13 of the department's employees had accumulated a total of 4,009 hours of annual leave balances from prior years, ranging from .06 hours to 1,181.62 hours, which should have been forfeited at December 31, 2006, and had not been forfeited as of April 13, 2007. The value of the excess leave balances that should have been forfeited at December 31, 2006, was $191,885, at April 13, 2007. In 2006, 27 employees were paid for 672 hours of excess annual leave taken after March 31, 2006, that should have been forfeited at that date. Because the leave was taken before the end of 2006, it was not included in the $191,885 discussed above. Of the seven employees with excess leave who terminated employment with the department between July 1, 2005, and June 22, 2007, five were paid a total of $12,123 for 365 hours of excess annual leave that should have been previously forfeited.

Effect: The department did not comply with federal regulations and state law resulting in questioned costs.

Cause: Department administrators indicated the department's practice of not requiring forfeiture of excess annual leave was established by the Director's Office in a prior administration and the department is working to develop a plan to resolve these excess balances. They noted it is difficult for certain management level employees to use as much annual leave as they earn, particularly when they are working overtime and earning exempt compensatory time. They said employees usually use any exempt compensatory time they have before they take annual leave because, in accordance with state policy, employees are not paid for their exempt compensatory time balance when they terminate employment.

Recommendation: We recommend the Department of Transportation establish procedures to ensure all excess annual leave is used by employees or forfeited in accordance with state law.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2-49: Various Federal Programs
CFDA # Various

Criteria: Federal regulation, 2 CFR 225, Appendix A, Section C(1)(c), indicates expenditures are allowable costs of a federal grant if they are not prohibited under state law or regulations. The Administrative Rules of Montana 2.21.1812 and Montana Operations Manual section 3-0211 limit the amount of exempt compensatory time an employee can accumulate and carry forward to the next calendar year to 120 hours. Exempt compensatory time accumulated above this amount at the end of a calendar year is considered excess and must be used by the employee within the first 90 days of the next calendar year, unless an employee's written request for such leave is denied and an extension is granted by the employing agency. The length of the extension is up to the discretion of the department head or designee, but is not to exceed December 31 each year. Any excess exempt compensatory time not taken by December 31 is to be forfeited.

Condition: The Department of Transportation (department) does not require employees to forfeit exempt compensatory time in accordance with state policy. Employees have used and been paid for exempt compensatory time that should have been forfeited.

Questioned Costs: We believe potential questioned costs exceed $10,000, charged to various federal programs through indirect cost and leave additive charges.

Context: Based on a department-prepared spreadsheet of excess exempt compensatory time and central payroll records, 23 department employees had excess exempt compensatory time at the end of 2006. Three of these employees had 856 hours of excess exempt compensatory time valued at $40,990 that should have been forfeited by December 31, 2006, the maximum extension period. One employee took over 1,023 hours of excess exempt compensatory time, valued at approximately $32,800, in fiscal year 2005-06 prior to her termination in June 2006, that should have been forfeited in prior fiscal years.

Effect: The department did not comply with federal regulations and state policy, resulting in questioned costs.

Cause: Department administrators said the practice of not requiring forfeiture of excess exempt compensatory time balances was established by the Director's Office in a prior administration and the department is working to develop a plan to resolve these excess balances. They said the example we found of excess exempt compensatory time use prior to termination was part of a settlement negotiated with the employee and approved by management that allowed the employee to reach 30 years of service prior to retiring. We reviewed the settlement agreement and found it was signed after the employee's excess exempt compensatory time should have been forfeited.

Recommendation: We recommend the Department of Transportation establish procedures to ensure all excess exempt compensatory time is used by employees or forfeited in accordance with state policy.

Corrective Action Plan

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Corrective Action Plan D-1

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #1-1	Various	The Montana Legislature passed HB 63 to help make the Teachers Retirement System (TRS) actuarially sound. The bill infused state general fund and increased contribution rates. The results of the July 1, 2007 actuarial valuation shows the system is now funded on an actuarially sound basis.	David Senn, Executive Director, TRS	Completed
Finding #1-2	Various	The actuarial valuations for the eight defined benefit plans, dated 6/30/2007, show all plans to be actuarially sound in the Public Employees Retirement Administration (PERA). HB 131 was introduced and passed by the 2007 legislative session, signed by the Governor on 5/3/2007 and effective July 1, 2007. In PERS and SRS the unfunded actuarial liability was addressed by 1) increasing employer contributions and 2) setting a new Guaranteed Annual Benefit Adjustment (GABA) for new members. Employee contribution rates do not change. The unfunded actuarial liability in Game Wardens Peace Officer Retirement System was addressed solely through changing the GABA for new members. The amortization period, as of 6/30/2007 for the three plans, are as follows: Public Employees Ret. System 21.9 years Sheriffs Retirement System 19.6 years Game Wardens & Peace Officer Retirement System 11.3 years	Roxanne Minnehan, Executive Director, PERA	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #1-3	Various	The Department of Administration (DOA) does not view this as a state-wide control issue. The Department of Transportation has unique cost accounting and management systems used to accumulate and account for highway infrastructure construction costs and the related assets. These systems are agency specific, not statewide. The information from this system is used to update the state's accounting system. Because the underlying systems and procedures involved are agency specific this does not represent a process that can be addressed through a statewide control. The DOA has issued state policy requiring agencies to record their assets, including infrastructure, on the state accounting system and provides them the general guidance necessary to accomplish this. Additionally each agency is provided a periodic asset management to general ledger reconciliation to assist them in this process.To address this issue, the DOA, Administrative Financial Services Division, personnel will work directly with Department of Transportation Personnel and assist them in reconciling and adjusting the related accounting information on the state accounting system.	Paul Christofferson, Administrator Fin. Serv. Div., DOA	1/8/2008
Finding #1-3 (continued)		The Department of Transportation (DOT) is currently working with the Department of Administration to remove, revise, and re-enter its infrastructure on the state's asset management system and accounting system. A new naming convention has been implemented, making it much easier to identify and access infrastructure information when making year-end adjustments. Additionally, infrastructure processes and procedures have been documented and will be routinely reviewed and tested to ensure that the appropriate balances and related activity are reconciled and recorded on the state accounting system.	Jody Brandt, Bureau Chief, Accounting Controls Bureau & Joe Williams, Global Accountant, DOT	3/1/2008
Finding #1-4	Various	The DOA is in the process of developing additional accounting policy adding to and reinforcing the existing policy requiring a one to one match between transactions and deposits on the state accounting system. The Department will develop the procedures necessary to enforce the new policy.	Paul Christofferson, Administrator, Fin. Serv. Div., DOA	4/30/2008

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-1	12.400, 12.401	The Department of Military Affairs (DMA) has established procedures to ensure compliance with bidding requirements and appropriate segregation of duties.	John Wheeler and Dan Hubber, Military Affairs	Completed
Finding #2-2	97.067, 97.004	The DMA has established procedures to ensure that only allowable costs are charged to federal programs.	Dan McGowan, DES Military Affairs	Completed
Finding #2-3	12.400, 12.401	The DMA has a certification clause in all contracts to ensure contractors are not suspended or debarred.	Dan Hubber, Military Affairs	Completed
Finding #2-4	Various	The Department of Administration (DOA) has implemented a process, with the federal government's approval, that provides an annual payment to the Federal Department of Health and Human Services for the estimated federal share of the rebate.	Paul Christofferson, Administrator Fin. Serv. Div.	Completed
Finding #2-5	Various	The DOA assumed the SWCAP preparation process, implemented a SWCAP checklist and is either current on the submission of plans or has received extensions from the federal government for the related plans.	Paul Christofferson, Administrator Fin. Serv. Div.	Completed
Finding #2-6	66.458, 66.468	A check of the Debarred and Suspended Parties list has been added to the Loan Closing Checklist of both loan programs.	Dean Rude, Department of Environmental Quality (DEQ), Chief Financial Officer	Completed
Finding #2-7	Various	1) DEQ moved the $130,560 discount from the Internal Service Fund to the General Fund and appropriate State and Federal Special Revenue Funds. 2) Accounting personnel responsible for processing worker's compensation discounts and refunds have been educated on the requirements of MOM 2-8070, Volume Discounts.	Dave Hamer, Accounting Manager, DEQ	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-8	90.401	The Secretary of State (SOS) office has developed policies and procedures to ensure that employees involved with federal programs receive training to properly monitor and administer the programs. SOS has followed state procurement rules and procedures for the various purchases made since the current administration assumed office. SOS has hired a Help America Vote Act (HAVA) Specialist, who holds a finance degree, to monitor the administration of the HAVA program.	Alan Miller and Christi Jacobson, SOS	Completed
Finding #2-9	93.617	The SOS office has developed policies and procedures to ensure that employees involved with federal programs receive training to properly monitor and administer the programs. SOS has followed state procurement rules and procedures for the various purchases made since the current administration assumed office. SOS has hired a Help America Vote Act (HAVA) Specialist, who holds a finance degree, to monitor the administration of the HAVA program.	Alan Miller and Christi Jacobson, SOS	Completed
Finding #2-10	Various	The DOA does not concur. The Department of Administration is fully in compliance with state law and federal regulations regarding allowable reserves for a self-insurance fund. The Legislative Audit Division found in financial compliance audit #06-13 that the employee benefits fund had excess reserves not permitted by federal regulation. The basis of this finding was application of 60-days working capital limit (above incurred but not reported or IBNR reserves) applied to the fund balance. On July 24, 2007 the Legislative Audit Division provided documentation to the Department agreeing that the 60-day working capital finding was not applicable to the employee benefit self-insurance fund. As a result, the finding in audit #06-13 is not valid. The DOA has substantiated that the employee benefit self-insurance funds reserve levels are not excessive. The documentation prepared by our actuary is based on applying sound actuarial principles as required by state law and federal regulations in determining allowable reserve levels. The actuary finds that existing reserve levels are less than actuarially recommended reserve levels for the employee benefit self-insurance fund.	Connie Welsh, Health Care and Benefits Division, DOA	Not Applicable
Finding #2-11	15.808, 10.676	Fish Wildlife and Parks (FWP) will continue to stress the importance of proper contract procurement procedures with all department employees.	Margie Gilbert, Senior Accountant, FWP	6/30/2008

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-12	10.025	The Department of Livestock (DOL) eliminated the percentage (%) split task profiles for tracking personal services in federal grants in August 2007 just after our audit. The DOL now directly charges personal services to applicable federal grants.	Dr. Martin Zaluski, State Veterinarian, George Harris, Administrator Central Services, DOL	Completed
Finding #2-13	10.551, 93.558, 93.563	The Technology Services Division, within the Department of Public Health and Human Services (DPHHS) will complete a risk analysis of the electronic benefits transfer system by June 30, 2008. The results of the risk analysis will be used to develop an appropriate mitigation strategy for code change and review segregation.	Mary Angella Collins, DPHHS	6/30/2008
Finding #2-14	10.551, 93.558, 93.563	Based on findings from the electronic benefits transfer system risk analysis discussed above, the DPHHS will limit, where possible, the access provided to the contractor. If there are areas where full access is required, the department will develop processes and logging to ensure appropriate security controls are in place.	Mary Angella Collins, DPHHS	6/30/2008
Finding #2-15	10.551, 93.558, 93.563	The DPHHS will review existing fraud prevention procedures by June 30, 2008. Additional tools and/or processes that provide a reasonable balance between cost, client access and effectiveness will be implemented.	Mary Angella Collins, DPHHS	6/30/2008
Finding #2-16	93.778	The Technology Services Division is currently recruiting for a Security Officer. This position will coordinate/conduct the periodic security review and risk analyses required by federal regulations. The reviews for all current Medicaid administration systems will be completed by June 30, 2008.	Mary Angella Collins, DPHHS	6/30/2008

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-17	10.557	The local agency whose charts did not contain the required documentation is working with DPHHS to proceed through a corrective action plan specific to their organization. This agency will be monitored at least quarterly until DPHHS determines that the contractor is in full compliance with all WIC program requirements and has fully remedied the documentation deficiencies in all participant files.	Joan Bowsher, DPHHS	6/30/2008
Finding #2-18	Various	The DPHHS will continue to comply with existing policies and procedures to ensure compliance with the related state laws. The department will discuss cost allowability with our federal granting agencies.	Bill Kloker, DPHHS	Completed 6/30/2008
Finding #2-19	93.558	The Human and Community Services Division increased training, clarified policy, and increased scruitiny by regional policy specialists. Placing the new Deficit Reduction Act work participation requirements into place prompted even further review of policy, procedure, and monitoring functions.	Linda Snedigar, DPHHS	Completed
Finding #2-20	93.778	Procedures have been modified requiring the completion of drug utilization reporting within 60 days required by federal regulation.	Daniel Peterson, DPHHS	Completed
Finding #2-21	Various	Department of Labor and Industry (DOLI) staff have been made aware of the policies regarding excess leave. Periodic reports will be run by payroll staff to monitor employees accruing excess leave, and to determine that such leave is either taken or forfeited per the policy.	Shane Sierer, Chief, Fiscal Support Bureau, DOLI	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-22	93.778	DPHHS has began matching data with the federal government for active and retired military and civilian employees, revised processes to include reference to new laws and coordinated enforcement of the new law with the Department of Insurance. We will develop systems to match Medicaid data with third party insurance carrier data electronically.	Russ Hill, DPHHS	1/1/2009
Finding #2-23	93.778	DPHHS staff researched all 15 participants and have ensured that the correct information is now reported in the MMIS system and that any potential overpayments have been adjusted.	Duane Preshinger, DPHHS	Completed
Finding #2-24	93.778	DPHHS staff researched all 34 participants and have ensured that the correct information is now reported in the MMIS system and that any potential overpayments have been adjusted.	Duane Preshinger, DPHHS	Completed
Finding #2-25	20.205, 20.600	The Department of Transportation (DOT) develops the rates in accordance with management memo 2-86-7, which is the state's policy on working capital. For the 2007 biennium, the legislature approved a 60 day working capital for the Highway Equipment Internal Service Fund. The required working capital for fiscal year 2006 and 2007 was approximately $2.8 million. The actual working capital was ($1.6) million and $92,000 in fiscal year 2006 and 2007, respectively. The fund balance at June 30, 2007 contains approximately $62 million of equipment used to maintain the state's highway system. In fiscal year 2006, the department moved the accountability for the Equipment Internal Service Fund inventory from the Highways Special Revenue Fund to the Highway Equipment Internal Service Fund. This resulted in a one-time adjustment of approximately $1.3 million. The department did not include this amount when calculating the fiscal year 2008 rates since it would have resulted in an artificially low rate, which would adversely affect the funds working capital balance.	Jody Brandt, Bureau Chief, Accounting Controls Bureau, DOT	6/30/2008

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-25 (continued)		The department will review its current rate setting methodology and will work with the Department of Administration to ensure the rate setting methodology is in compliance with state and federal regulations. The department will perform quarterly analyses to determine the propriety of the rates and will make adjustments it deems necessary.		
Finding #2-26	20.205	The DOT met with the Federal Highway Administration cognizant and the state auditors to resolve the issue. According to the Federal Highway Administration cognizant, the department is complying with federal regulations regarding rental/sale proceeds. The department will establish procedures to more clearly demonstrate our compliance with federal regulations.	Jody Brandt, Bureau Chief, Accounting Controls Bureau, DOT	11/1/2007
Finding #2-27	20.205	A. The DOT worked with the Department of Administration to adjust the draw pattern for the fiscal year 2008 Cash Management Improvement Act (CMIA) agreement. The revised CMIA requires the department bill the federal government on Tuesday and receive the funds on Wednesday each week. B. The department established procedures in the Accounting Systems Operations Section to ensure federal billing occurs timely and in accordance with the CMIA Agreement.	Jody Brandt, Bureau Chief, Accounting Controls Bureau and Linda Hicks, Bureau Chief, Fiscal Operations Bureau, DOT	11/30/2007
Finding #2-28	10.557	An additional 1/2 an FTE has been added to the monitoring function to increase and maintain compliance with federal regulations. The 2007 and 2008 tracking logs confirm that all monitoring visits have occurred in accordance with federal regulations.	Joan Bowsher, DPHHS	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-29	93.659	The DPHHS has centralized the subsidy negotiation function and will develop procedures to ensure documentation of 1) the factors which make the child eligible for a subsidy and 2) the efforts made to place the child without a subsidy are in the adoption case file. These procedures shall be implemented by December 31, 2007.	Dave Thorsen, DPHHS	Completed
Finding #2-30	10.557	Existing procedures were revised to ensure compliance investigations are completed according to federal regulation and department policies.	Joan Bowsher, DPHHS	Completed
Finding #2-31	93.658, 93.659	The Child and Family Services Division has implemented a procedure requiring each regional fiscal officer and the Fiscal and Operations Bureau to maintain a file containing documentation for each payment correction and rate adjustment.	Dave Thorsen, DPHHS	Completed
Finding #2-32	93.659	The Department has centralized the Title IV-E eligibility function, including the determination of a child's eligibility for Title IV-E subsidized adoption. All procedures to assure the child's eligibility for newly-established adoption subsidies are in place. The Child and Family Services Division will develop a strategy to review existing Title IV-E subsidized adoption cases as to the child's eligibility for the federal subsidy at the time the adoption was finalized and will implement the strategy by June 30, 2008.	Dave Thorsen, DPHHS	6/30/2008
Finding #2-33	93.959	The method used to support 2006-07 costs has been applied to 2005-06 costs justifying $6,012 in Tuberculosis expenditures. Financial reporting staff will review reporting requirements and make any necessary adjustments by 12/31/07.	Jerry Foley, DPHHS	Completed
Finding #2-34	93.283	DPHHS has instituted additional monitoring procedures to ensure transactions are not processed twice.	Karen Wynne, DPHHS	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-35	Various	Provide mandatory training to PI's and ORSP staff that includes documentation standards. Implement procedures and controls to monitor compliance by ORSP staff with documentation standards.	Tony Rudbach and Jan Madole, University of Montana	5/1/2008 3/1/2008
Finding #2-36	14.228, 14.239	Department of Commerce (DOC) has modified contracts to contain suspension and debarment language. All prior and current grantees for HOME and CDBG have been checked for suspension and debarment.	Gus Byrom and Maureen Martin, Dept. of Commerce	Completed
Finding #2-37	14.871	DOC has limited the payment standard changes to once a year due to complexity of the calculation.	Maureen Martin, Housing Division, Dept. of Commerce	Completed
Finding #2-38	14.856	DOC has corrected the spreadsheet to properly calculate the average monthly Housing Assistance Payments.	Maureen Martin, Housing Division, Dept. of Commerce	Completed
Finding #2-39	17.258, 17.261	The DOC will draw money as needed for grant disbursements and administrative costs in accordance with federal regulations.	BJ Adams, Dept. of Commerce	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-40	Various	The Montana University System (MUS) disagrees with language in the report and recommendation that a portion of the plan reserve may be unallowable under federal law and that plan personnel are not qualified to address the sufficiency of the reserve. The plan contracts for certified actuarial services to assist with the management and oversight of the plan. Plan rates are set in close cooperation with the actuary to ensure the plan can cover the obligations of the plan, while considering how rates impact reserves and employee out-of-pocket exposure to the ever-rising costs of health care services. This process is appropriate to meet the requirements of state and federal law. State law authorizes the MUS to "maintain reserves to liquidate the unrevealed claims liability and other liabilities of the plan" per section 20-25-1310(1)(b), MCA. Neither state nor federal law require that an actuary set the amount of the reserve; that is by law a plan function and the obligation of the Commissioner of Higher Education, following analysis and consultation with the Inter-Unit Benefits Advisory Committee.	Mick Robinson and Paul Bogumill, Office of the Commissioner of Higher Education	Not Applicable
Finding #2-40 (continued)		Federal regulations require that reserve levels in excess of the amounts set by sound actuarial principles be "identified and justified" and that costs "be authorized or not prohibited under State or local laws or regulations." See 2 CFR Part 225 (OMB Circular A-87). A federal audit review board interpreting this federal regulation expressly ruled: "There is nothing in the cost principles or methodology for determining what a reasonable reserve level must be. . . the state as the administrator of the self-insurance plan . . . must be permitted some discretion in determining a reasonable reserve level . . . the determination of an appropriate reserve level for a self-insurance plan can be a highly complex decision . . . concerning a number of unknowns." Alabama Dept. of Finance v. Dept. of HHS Division of Cost Allocation (DCA), 1997. The plan maintains a justifiable reserve, based on numerous factors, such as the fact that we do not carry excess insurance, the skyrocketing costs of health care, the volatility of provider discounts, the potential for catastrophic claims, and other factors which were provided to the auditor.		

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-40 (continued)		Furthermore, the reserve amount questioned by the auditors is less than 5% of the total plan expenditures in fiscal 2006-07. Our analysis and documentation indicates the reserve level is reasonable when compared with the risks of administering a self-insured plan. Operating an insurance plan in accordance with actuarial principles is the minimum standard set by state and federal law; it is the bar below which the plan must not fall. The plan, while utilizing an actuary, must retain its responsibility and obligation to set the reserve at an amount we believe to be sufficient to pay plan obligations under our unique circumstances. Anything less would be irresponsible and could negatively impact the health insurance coverage of over 16,000 MUS employees, retirees, and their eligible dependents.		
Finding #2-41	Various	A. The DOA has implemented steps to comply with this recommendation. Legislation has been proposed and passed to permit additional funding sources for the program to enable self-sufficiency. Changes in administration of the program to reduce operating expenditures are being implemented. B. Based on changes outlined in A. above, the Department is seeking to increase revenue sufficient to permit the recommended reimbursement to the group benefits fund.	Connie Welsh, Health Care and Benefits, DOA	6/30/2009
Finding #2-42	97.004 97.067	The Department of Military Affairs (DMA) has assigned responsibility for reviewing sub recipient audits and taking necessary action as required by federal regulations.	Dan McGowan, DES Administrator Military Affairs	Completed
Finding #2-43	12.401	The DMA has developed procedures to ensure valid contracts are in effect prior to incurring expenditures.	Dan Hubber, Military Affairs	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-44	17.225	The capability to update (make corrections of payment received or tax due) was removed from the cashier position in September 2007. The update task was given to another employee who is not responsible for preparing the deposit.	Bernadine Warren, Chief, Unemployment Insurance Division, Department of Labor and Industry (DOLI)	Completed
Finding #2-45	17.225, 17.207, 17.801, 17.804, 17.258, 17.259, 17.260	The Department of Labor & Industry (DOLI) has implemented a procedure to review the Federal list of debarred/suspended vendors when making a purchase that involves federal funds. For fiscal year 2007-2008, the DOLI has amended the language of its contracts to indicate that by signing the contract the provider certified it had not been suspended or debarred.	Shane Sierer, Chief, Fiscal Support Bureau, DOLI	Completed
Finding #2-46	17.225	On August 13, 2007, the department established written procedures that include management review of all phases of the rating process prior to rates being assigned. In addition, the department has implemented a spreadsheet that will readily determine where the majority of wages fall and determining the proper rate class. These procedures were used in November 2007 for 2008 rates assignment.	Bernadine Warren, Chief, Unemployment Insurance Division, DOLI	Completed
Finding #2-47	17.258, 17.259, 17.260, 17.261	Department of Labor & Industry (DOLI) has developed and implemented procedures to ensure we are in compliance with federal cash management regulations by reviewing the subrecipient cash activity at the time the cash is requested as well as during our monitoring visits.	Shane Sierer, Chief, Fiscal Support Bureau, DOLI	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-48	Various	The DOT will establish procedures to mitigate excess annual leave balances but will explore what options are legally available to ensure that employer/employee contractual relationships are not breached before forfeiting excess leave balances. The department is currently working on a policy and developing procedures for excess annual leave balances. These will be finalized by 12/31/2007.	Jennifer Jensen, Administrator, Human Resource Division, DOT	Completed
Finding #2-49	Various	The DOT will establish procedures to mitigate excess exempt compensatory time balances but will explore what options are legally available to ensure that employer/employee contractual relationships are not breached before forfeiting excess leave balances. The department is currently working on a policy and developing procedures for excess compensatory balances. These will be finalized by 12/31/2007.	Jennifer Jensen, Administrator, Human Resources Division, DOT	Completed

Summary Schedule of Prior Audit Findings

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Summary Schedule of Prior Audit Findings E-1

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
	VARIOUS FEDERAL AGENCIES						
Various	Research and Development Cluster	2-29	Not liquidating all obligations incurred under an award within 90 calendar days as required by OMB Circular A-110.		1	02-03	
Various	Research and Development cluster	2-28	Inadequate control over subrecipient monitoring.		1	04-05	
Various	Research and Development cluster	2-29	Not enough control to ensure compliance with technical and performance reporting.		1	04-05	
Various	Research and Development cluster	2-30	Does not comply with federal regulations related to liquidating all obligations and grant close-out.		1	04-05	
Various	Various Federal Agencies	2-52	No review of SWCAP done by personnel.		2	04-05	
	U.S. DEPARTMENT OF AGRICULTURE						
Various	Various Federal Agencies	2-19	Lack of procedures related to suspended or debarred parties.		1	04-05	
Various	Plant and Animal Disease , Pest Control, and Animal Care 10.025, Inspection Grading and Standardization 10.162, Cooperative Agreements with States for Intrastate Meat and Poultry Inspection 10.475, and State Domestic Preparedness Equipment Support Program 97.004	2-53	All 3 current procedures used by the Department to recover direct and indirect personal service costs were not in compliance with fed regulations.	$418,636	2	04-05	
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-1	Follow-up procedures on WIC vouchers on edit report.		1	00-01	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-14	Not actively monitoring local agencies that administer WIC funds.		2	02-03	
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-15	Improperly accounting for WIC vouchers as either issued or voided.		1	02-03	
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-16	Ensuring that WIC recipients do not receive benefits more than once a month.		1	02-03	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-13	Incomplete review process of food instrument reports.		1	04-05	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-14	Number of required sites visits were not completed and reports were not completed.		2	04-05	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-15	No tracking of local agency corrective action plans.		2	04-05	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-16	No investigation or assessment of risk on non-compliance vendors.		2	04-05	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-17	Procedures for reviewing WIC clients were not followed during the audit period.		1	04-05	
10.558	Child and Adult Care Food Program	2-18	Documentation of provider eligibility is incomplete for the Child and Adult Care Feeding Program.		1	04-05	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.664	Cooperative Forestry Assistance	2-35	Minimizing the time between transfer of funds from the U.S. Treasury and disbursements by the DNRC.		1	02-03	
10.664	Cooperative Forestry Assistance	2-9	DNRC unable to provide documentation for cash draw.		1	04-05	
10.664	Cooperative Forestry Assistance	2-10	No documentation demonstrating eligibility was considered in subgrant approval.		1	04-05	
10.664	Cooperative Forestry Assistance	2-11	Unable to demonstrate a review of expenditures on primary accounting records/reports.		1	04-05	
10.664	Cooperative Forestry Assistance	2-12	Unable to ensure reports are prepared and submitted as required.		1	04-05	
10.664	Cooperative Forestry Assistance	2-8	Multiple accounting cost centers are used mingling state and federal expenditures.		1	04-05	
10.665	Schools and Roads -Grants to States	2-7	Findings in audits were not followed up on.		1	04-05	State Auditor followed up with the counties that needed to be contacted. This function transferred to the Department of Administration (DOA) effective July 1, 2007.
	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Various	Community Development Block Grants/Brownfields Economic Development Initiative 14.246, Grants for School Repair and Renovation 84.352	2-3	Not collecting certified weekly payroll for three projects with federal funding.	$502,196	1	04-05	

Category of Corrective Action Taken:

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
14.239	HOME Investment Partnerships Program	2-31	Not ensure subgrantees are not debarred/suspended from participating in federal programs.		2	04-05.	
14.228	Community Development Block Grant/State's Program	2-32	Does not accurately prepare the performance and evaluation report.		1	04-05	SABHRS reports are created and used for the PER but it is not electronically linked.
various	Various Fed Agencies	2-33	Travel claims processed did not follow rules.	Could exceed $10,000	1	04-05	During the FY 06-FY07 audit completed in September 2007, this finding was determined to be fully implemented.
	U.S. Department of Interior						
various	Fish & Wildlife Cluster, 15.605,15.611	2-47	Review for suspended and debarred parties is inadequate. Should require vendors to verify certification.		2	04-05	
various	Fish & Wildlife Cluster 15.605 & 15.611, Cooperative Endangered Species Conservation Fund 15.615, Forest Legacy Program 10.676	2-50	Report accuracy was poor so that it caused misclassified information and unsupported amounts.		1	04-05	
Various	Fish & Wildlife Cluster 16.605 15.611	2-51	Errors associated with cash draws in CMIA.		1	04-05	
various	Various Fed Agencies	2-48	Incomplete SEFAs for FY2003-04 and FY2004-05.		1	04-05	
15.611	Fish & Wildlife Cluster	2-49	Invoices to vendors violated contract terms.	Could exceed $10,000	2	04-05	Agency will continue to provide training to staff on appropriate monitoring of contract terms.
	U.S. DEPARTMENT OF LABOR						

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
various	Employment Service/Wagner-Peyser Funded Activities 17.207, Unemployment Insurance 17.225	2-43	Use of 15 day rather than 4 day clearance pattern was used for CMIA.		1	04-05	The Department of Labor and Industry (DOLI) is still working in conjunction with Department of Administration (DOA) on all CMIA's. We report all weekly draws on a yearly report to DOA. After reporting these draws to DOA, they responds to the Department with any overage or shortages due to the Federal Government.
17.207	Employment Service	2-44	Did not follow department and state purchasing regulations for printing services.	$31,416	1	04-05	DOLI is doing purchasing training every two years when the purchasing delegation agreement is renewed. Every employee listed in the delegation agreement as being able to purchase must attend the training. All contracts are now logged on a worksheet and all payments are tracked per contract to make sure we are complaint with DOA's contract limitations.
Various	Public Safety Partnership and Community Policing Grants 16.710, Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608	2-5	Vouchers for travel reimbursement were completed incorrectly.	$11,962	2	04-05	
	U.S. DEPARTMENT OF TRANSPORTATION						
various	Highway Safety Cluster 20.600,20.602,20.603,20.604,20.605	2-37	Match not supported.	$2,800,363	1	04-05	MDT received a letter from the National Highway Traffic Safety Administration dated 1/26/2007 documenting successful resolution of this finding.
various	Highway Planning and Construction 20.205, Alcohol Open Container Requirements 20.607, Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608	2-40	Incorrect percent rate used for material testing rate.	$14.24 million	1	04-05	Completed. Procedures were put into place 9/1/2005 to provide a supervisory review and verification of all rates to ensure the appropriate rates are being applied.
various	U.S. Department of Transportation	2-41	Calculation of the department cost allocation plans are incorrect.	By more than $10,000	1	04-05	Completed. Necessary changes were made to the calculation of FY2006 and future IDC rates as per OMB A-87.

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
various	Alcohol Open Container Requirements 20.607, Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608	2-6	The DOT did not obtain approval for award expenditures for towers and equipment in FY 2003-4.	$1,606,682	1	04-05	
20.205	Highway Planning and Construction	2-33	Inadequate control system in monitoring compliance with Davis-Bacon Act.	$24,737	1	02-03	
20.205	Highway Planning and Construction	2-38	Compliance with federal Davis-Bacon Act.		1	04-05	Completed. Necessary changes were made September, 2005.
20.205	Highway Planning and Construction	2-39	Compliance with CMIA Act.		2	04-05	Partially Completed. MDT completed migration to Oracle for some of its sub-systems in February, 2007, which helped resolve some of the billing issues noted. The department is now billing for the Highway Traffic Safety Program on a monthly basis. However, the department continues to experience compliance issues with regards to CMIA clearance patterns as outlined in the 2006-2007 financial compliance audit.
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	2-4	Controls were not adequate to ensure all expenditures incurred by ITSD on the Public Safety Radio projects were in compliance with state and federal regulations.	$112,152	1	04-05	
	U.S. ENVIRONMENTAL PROTECTION AGENCY						
Various	Capitalization Grants for State Revolving Funds 66.458, Capitalization Grants for Drinking Water State Revolving Fund 66.468	2-8	DEQ did not submit any federal cash transactions reports.		1	00-01	

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STATE OF MONTANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Capitalization Grants for Clean Water State Revolving Funds 66.458, Capitalization Grants for Drinking Water State Revolving Funds 66.468	2-3	Not filing federal cash transaction reports.		1	02-03	
various	Capitalization Grants for Clean Water State Revolving Funds, Capitalization Grants for Drinking Water State Revolving Funds	2-45	Untimely financial status reports were submitted.		1	04-05	
various	Various Fed Agencies	2-46	Inadequate controls in place to ensure compliance with fed regulations regarding the CMIA.		1	04-05	
	U.S. DEPARTMENT OF EDUCATION						
various	Special Education Grants to States 84.027, Special Education - State Personnel Development 84.323, Title 1 Accountability Grants 84.348 and Child Nutrition cluster 10.553,10.555, 10.559	2-34	Not monitoring all subrecipients.		1	04-05	
various	Title I Grants to Local Educational Agencies 84.010, Special Education Grants to States 84.027, Improving Teacher Quality State Grants 84.367, National School Lunch Program 10.555	2-35	Did not comply with CMIA Treasury-State agreement.		1	04-05	

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
various	Safe and Drug-Free Schools and Communities-State Grants 84.186, State Grants for Innovative Programs 84.298, School Renovation Grants 84.352, Improving Teacher Quality State Grants 84.367	2-36	Subgrantee list was not verified and suspended party was subgranted.	$36,199	1	04-05	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-17	Errors in preparation of the RSA - 2 Program Cost Report.		1	02-03	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-26	Incorrectly reporting same numbers as previous year on program cost report.		1	04-05	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-27	Payroll expenditures charged to wrong fiscal year.	$19,269	1	04-05	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-18	Not appropriately charging the correct period for personal services costs.	$6,568	1	02-03	
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
93.778	Medical Assistance Program	2-20	Billing invoices are not verified for quantity of serviced bills.		1	04-05	
93.778	Medical Assistance Program	2-21	No documentation that cost are reported within 150 days from hospitals.		1	04-05	
93.778	Medical Assistance Program	2-22	Drug utilization data is not provided to manufacturers within 60 days.		2	04-05	
93.658	Foster Care -Title IV-E	2-23	Placement hearings are not always completed timely.	$205,870	1	04-05	

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STATE OF MONTANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2007

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.658	Foster Care -Title IV-E	2-24	Timely reviews of foster care client eligibility not always completed.		1	04-05	
93.658	Foster Care -Title IV-E	2-25	Incorrect FMAP rates were used.		1	04-05	
	U.S. DEPARTMENT OF HOMELAND SECURITY						
97.004	State Domestic Preparedness Equipment Support Program	2-1	Three reports were not received by Jan. 30,2004 and three reports were not received by July 30,2004		1	04-05	
Various	Homeland Security Cluster, 97.004, 97.042, 97.053, 97.067	2-42	Did not conduct the subrecipient monitoring activities identified in the plan.		1	04-05	
97.046	Fire Management Assistance Grant	2-2	Documentation for 9 fire meal payments were insufficient for federal funding.	Could exceed $10,000.	1	04-05	

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