



February 20, 2008

Representative Ron Erickson
3250 Pattee Canyon Road
Missoula, MT 59803-1703

Dear Representative Erickson:

At the December 12, 2007 subcommittee hearing of the Finance and Claims Interim Committee, you asked Montana State Fund's Board of Directors to send a written response to one section of the *MSF Revised Recommendations for LFC Consideration*, dated December 6, 2007. The board considered the fiscal analyst's opinions and recommendations at our December 7, 2007 board meeting, as well as MSF management's position.

The LFC analyst noted the "MSF budget is presented on a cash basis as opposed to a full accrual basis" [*Recommendations*, p. 2] and recommended MSF change to an accrual budget. Based on verbal discussions with the Director of Legal Services, Gregory Petesch, and subsequent written opinion, the LFC analyst recommended the "legislature may wish to consider legislation to further define the reporting basis of the financial information to be used for the estimated budget approved by the MSF board."

Montana State Fund's Board of Directors held a special meeting on January 30, 2008 and discussed your request. We also received a legal opinion from MSF's General Counsel [attached], concluding that, "... MSF's current budgeting and financial reporting practices are consistent with current statutory requirements." After consideration of the matter, the Board made and passed the following motions:

Ken Johnson moved that the board direct the President/CEO to continue to provide information on Montana State Fund to the Legislative Finance Committee and sub-committee and also requested that the President/CEO keep the board advised of the actions of the Legislative Finance Committee and sub-committee. He moved that the board advise the Legislative Finance Committee that it does not concur in the recommendations presented in the Montana State Fund Revised Recommendations for Legislative Finance Committee Consideration of December 6, 2007 and the legal opinion of the Code Commissioner. He moved that the Montana State Fund board members receive a draft letter for their approval before the final letter is sent out for the March 6 and 7, 2007 meeting. The motion was seconded by Jim Swanson. Chairman Dwyer asked for questions or comments from board members and from the audience. There being none, he called for the vote and the motion passed unanimously.

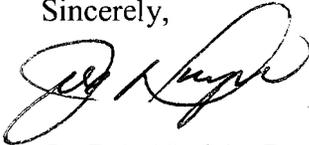
The MSF Board of Directors appreciates the oversight responsibility of the Legislative Finance Committee in reviewing the annual budget; however, we do not agree with the recommendations

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in the LFC report, and do strongly believe that we have sufficient information through the budget and the financial statements provided by MSF to do our work as a civilian board. However, in recent discussions with Mr. Hubbard, and in view of the LFC's desire for better understanding of the MSF budget, I believe future presentations to the LFC regarding MSF's budget should include not only the budget document, but also copies of the Annual Strategic Plan (including pro forma projections of premium and expenses) and the most current financial statements containing all accrued liabilities of MSF.

In spite of the differing viewpoints, the board knows that MSF and the LFC work hard toward the betterment of Montana, and we have total confidence in the executives of MSF to work with you in addressing concerns as well as effectively and efficiently managing the company.

Sincerely,



On Behalf of the Board of Directors,
Joe Dwyer, Chairman of the Board

JD/sh

cc: Senator Dave Wanzenried
Senator Keith Bales
Senator John Brueggeman
Senator Trudi Schmidt