

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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Table of Contents

INTRODUCTORY SECTION

	Page
Title Page.....	1
Table of Contents.....	2
Letter of Transmittal.....	6
Certificate of Achievement for Excellence in Financial Reporting.....	12
State Organization Chart.....	13
Selected State Officials.....	14

FINANCIAL SECTION

Independent Auditor's Report.....	16
Management's Discussion and Analysis.....	18

Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Assets.....	30
Statement of Activities.....	32
Governmental Fund Financial Statements	
Balance Sheet.....	36
Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Assets.....	37
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	40
Proprietary Fund Financial Statements	
Statement of Net Assets.....	44
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	46
Statement of Cash Flows.....	48
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets.....	52
Statement of Changes in Fiduciary Net Assets.....	53
Component Unit Financial Statements	
Combining Statement of Net Assets.....	56
Combining Statement of Activities.....	58
Notes to the Financial Statements	
Note 1 – Summary of Significant Accounting Policies.....	60
Note 2 – Other Accounting Issues.....	67
Note 3 – Cash/Cash Equivalents and Investments.....	67
Note 4 – Disaggregation of Accounts Receivable and Payable.....	78
Note 5 – Capital Assets.....	80
Note 6 – Retirement Plans.....	83
Note 7 – Other Postemployment Benefits.....	91
Note 8 – Risk Management.....	92

Notes to the Financial Statements (<i>continued</i>)	
Note 9 – Commitments.....	98
Note 10 – Leases/Installment Purchases Payable.....	99
Note 11 – State Debt.....	100
Note 12 – Interfund Balances and Transfers.....	108
Note 13 – Fund Deficits.....	111
Note 14 – Reserved Fund Balances.....	111
Note 15 – Related Party Transactions.....	111
Note 16 – Contingencies.....	112
Note 17 – Subsequent Events.....	115
Note 18 – Material Violations of Finance-Related Legal Provisions.....	116

Required Supplementary Information

Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	118
Notes to the Required Supplementary Information – Budgetary Reporting.....	120
Pension Plan Information – Single Employer Systems – Schedule of Funding Progress.....	121
Notes to the Required Supplementary Information – Pension Plan Information.....	121

Supplementary Information – Combining Statements and Individual Fund Statements and Schedules

Nonmajor Governmental Funds	
Combining Balance Sheet – Governmental Funds by Fund Type.....	124
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds by Fund Type.....	125
Combining Balance Sheet – Debt Service Funds.....	128
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Debt Service Funds.....	130
Combining Balance Sheet – Capital Projects Funds.....	134
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Capital Projects Funds.....	135
Combining Balance Sheet – Permanent Funds.....	138
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Permanent Funds.....	140
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Assets.....	144
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	152
Combining Statement of Cash Flows.....	156
Internal Service Funds	
Combining Statement of Net Assets.....	166
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	170
Combining Statement of Cash Flows.....	174
Fiduciary Funds	
Pension (and Other Employee Benefit) Trust Funds	
Combining Statement of Fiduciary Net Assets.....	184
Combining Statement of Changes in Fiduciary Net Assets.....	186
Private-Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets.....	190
Combining Statement of Changes in Fiduciary Net Assets.....	192
Agency Funds	
Combining Statement of Fiduciary Net Assets.....	196
Combining Statement of Changes in Assets and Liabilities.....	198

STATISTICAL SECTION

Graphic Presentations:	
Revenues by Source - All Governmental Fund Types.....	202
Expenditures by Function - All Governmental Fund Types	203
Revenues by Source - All Governmental Fund Types.....	204
Expenditures by Function - All Governmental Fund Types	204
Property Tax Levies and Collections.....	205
Taxable and Market (Assessed) Value of Property.....	205
Property Tax Rates - Direct and Overlapping Governments	206
Property Tax Mill Levy for State Purposes	206
Ratio of Direct State Debt to Assessed Value and Direct State Debt per Capita	207
Ratio of Annual Debt Service to Total General Expenditures	207
Revenue Bond Coverage - Higher Education	208
Revenue Bond Coverage – Housing Authority.....	208
Revenue Bond Coverage - Economic Development Bonds.....	209
Construction and Bank Deposits.....	210
Property (Assessed) Values	210
Income Data.....	211
Public Education Enrollment	212
Demographic Statistics	213
Annual Average Nonagricultural Employment by Selected Industries	213
Major Private Employers in Montana.....	214
Miscellaneous Statistics	214

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INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2005, 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 - 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 0.06 and 1.38 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 0.06 and 0.12 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 10.90 and 5.64 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 opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform

the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 basic 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements and Individual Fund Statements and Schedules listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

At July 1, 2005, four retirement systems, Public Employees' (PERS-DBRP), Teachers' (TRS), Game Wardens' and Peace Officers' (GWPORS) and, Sheriffs' (SRS) retirement systems were not actuarially sound with an Unfunded Actuarially Accrued Liability (UAAL) totaling \$522.6 million, \$903.3 million, \$5.5 million and \$10.9 million, respectively. The maximum UAAL to comply with the amortization period of 30 years at January 1, 2006, is \$266.4 million for PERS-DBRP, \$463 million for TRS, \$4.3 million for GWPORS, and \$(3.6) million for SRS. The negative \$3.6 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system.

In accordance with *Government Auditing Standards*, we have issued our report dated November 23, 2005, 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. This 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. It is included in the Legislative Auditor's separately issued report (05-01) on the State's basic financial statements.

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

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 23, 2005