

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2004

Prepared By:

Department of Administration

Steve Bender, Acting Director

Administrative Financial Services Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Jenifer Alger, Accountant

Janet Atchison, Accountant

Matthew McBurnett, Accountant

Susan Van Norden, CA

Operations Section

Linda Gaughan, Accountant, Supervisor

Mark Curtis, Computer Applications Software Engineer

Penny Killham, Accounting Technician

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2004

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.....	11
State Organization Chart.....	12
Selected State Officials.....	13

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.....	66
Note 3 – Cash/Cash Equivalents and Investments.....	67
Note 4 – Disaggregation of Accounts Receivable and Payable.....	72
Note 5 – Capital Assets.....	74
Note 6 – Retirement Systems.....	76
Note 7 – Other Postemployment Benefits.....	85
Note 8 – Risk Management.....	86

Notes to the Financial Statements (<i>continued</i>)	
Note 9 – Commitments.....	92
Note 10 – Leases/Installment Purchases Payable.....	93
Note 11 – State Debt.....	94
Note 12 – Interfund Balances and Transfers.....	102
Note 13 – Fund Deficits.....	106
Note 14 – Reserved Fund Balances.....	106
Note 15 – Related Party Transactions.....	106
Note 16 – Contingencies.....	107
Note 17 – Subsequent Events.....	108
Note 18 – Material Violations of Finance-Related Legal Provisions.....	108

Required Supplementary Information

Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	110
Notes to the Required Supplementary Information – Budgetary Reporting.....	112

Supplementary Information – Combining Statements and Individual Fund Statements and Schedules

Nonmajor Governmental Funds	
Combining Balance Sheet – Governmental Funds by Fund Type.....	114
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds by Fund Type.....	115
Combining Balance Sheet – Debt Service Funds.....	118
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Debt Service Funds.....	120
Combining Balance Sheet – Capital Projects Funds.....	124
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Capital Projects Funds.....	125
Combining Balance Sheet – Permanent Funds.....	128
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Permanent Funds.....	130
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Assets.....	134
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	142
Combining Statement of Cash Flows.....	146
Internal Service Funds	
Combining Statement of Net Assets.....	156
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	160
Combining Statement of Cash Flows.....	164
Fiduciary Funds	
Pension (and Other Employee Benefit) Trust Funds	
Combining Statement of Fiduciary Net Assets.....	174
Combining Statement of Changes in Fiduciary Net Assets.....	176
Private-Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets.....	180
Combining Statement of Changes in Fiduciary Net Assets.....	182
Agency Funds	
Combining Statement of Fiduciary Net Assets.....	186
Combining Statement of Changes in Assets and Liabilities.....	188

STATISTICAL SECTION

Graphic Presentations:

Revenues by Source - All Governmental Fund Types.....	194
Expenditures by Function - All Governmental Fund Types	195
Revenues by Source - All Governmental Fund Types.....	196
Expenditures by Function - All Governmental Fund Types	196
Property Tax Levies and Collections.....	197
Taxable and Market (Assessed) Value of Property.....	197
Property Tax Rates - Direct and Overlapping Governments	198
Property Tax Mill Levy for State Purposes	198
Ratio of Direct State Debt to Assessed Value and Direct State Debt per Capita	199
Ratio of Annual Debt Service to Total General Expenditures	199
Revenue Bond Coverage - Higher Education	200
Revenue Bond Coverage – Housing Authority.....	200
Revenue Bond Coverage - Economic Development Bonds.....	201
Construction and Bank Deposits.....	202
Property (Assessed) Values	202
Income Data.....	203
Public Education Enrollment	204
Demographic Statistics	205
Annual Average Nonagricultural Employment by Selected Industries	205
Major Private Employers in Montana.....	206
Miscellaneous Statistics	206

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To 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, 2004, 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 1.55 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 0.04 and 0.10 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 10.51 and 5.69 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 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have issued our report dated November 29, 2004, 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 (04-01) 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,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 29, 2004