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

Table of Contents

INTRODUCTORY SECTION
Title Page .................................................................................................................................................. 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 (continued)

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Commitments</td>
<td>98</td>
</tr>
<tr>
<td>10</td>
<td>Leases/Installment Purchases Payable</td>
<td>99</td>
</tr>
<tr>
<td>11</td>
<td>State Debt</td>
<td>100</td>
</tr>
<tr>
<td>12</td>
<td>Interfund Balances and Transfers</td>
<td>108</td>
</tr>
<tr>
<td>13</td>
<td>Fund Deficits</td>
<td>111</td>
</tr>
<tr>
<td>14</td>
<td>Reserved Fund Balances</td>
<td>111</td>
</tr>
<tr>
<td>15</td>
<td>Related Party Transactions</td>
<td>111</td>
</tr>
<tr>
<td>16</td>
<td>Contingencies</td>
<td>112</td>
</tr>
<tr>
<td>17</td>
<td>Subsequent Events</td>
<td>115</td>
</tr>
<tr>
<td>18</td>
<td>Material Violations of Finance-Related Legal Provisions</td>
<td>116</td>
</tr>
</tbody>
</table>

Required Supplementary Information

<table>
<thead>
<tr>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Comparison Schedule – General and Major Special Revenue Funds</td>
<td>118</td>
</tr>
<tr>
<td>Notes to the Required Supplementary Information – Budgetary Reporting</td>
<td>120</td>
</tr>
<tr>
<td>Pension Plan Information – Single Employer Systems – Schedule of Funding Progress</td>
<td>121</td>
</tr>
<tr>
<td>Notes to the Required Supplementary Information – Pension Plan Information</td>
<td>121</td>
</tr>
</tbody>
</table>

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