

**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

## 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, 2005. 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 2005 by \$5.4 billion (reported as net assets) compared with \$4.6 billion at the end of fiscal year 2004. Of this amount, \$421.4 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 \$943.3 million compared with \$874 million at fiscal year 2004.

#### Fund Highlights

As of the close of fiscal year 2005, the State's governmental funds reported combined ending fund balances of \$2.7 billion compared with \$2.3 billion at fiscal year 2004. Of this amount, \$252.8 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 \$289.7 million compared with \$132.9 million in fiscal year 2004, which is a increase of \$156.8 million (or 118%).

The State's business-type activity funds reported net assets at the close of fiscal year 2005 in the amount of \$266.9 million compared with the fiscal year-end 2004 net assets of \$236.3 million. \$240.5 million of the business-type activity fund equity was restricted at fiscal year-end 2005 leaving an unrestricted balance of \$16.7 million. This represents a \$1.8 million (or 12.1%) increase from the fiscal year-end 2004 business-type activity fund unrestricted net asset balance of \$14.9 million.

#### Long-term Debt

The State's total bonds and notes payable for governmental activities increased by \$116.5 million, from \$305.1 million in fiscal year 2004 to \$421.6 million (or 38.2%) in fiscal year 2005.

Business-type activities reported bonds and notes payable of \$5.2 million at fiscal year-end 2005. This represents a decrease of \$2.7 million (or 34.2%) over the fiscal year-end 2004 reported amount of \$7.9 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 similar 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. 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.

### **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, stronger than expected statewide economic performance, an almost non-existent 2005 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2004 (JGTRRA).

### **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 \$5.4 billion at the end of fiscal year 2005. Net assets of the governmental activities increased \$761.6 million (or 17.6%), and business-type activities had a \$30.6 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)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
Current and other assets	\$2,952,118	\$3,407,149	\$350,552	\$373,018	\$3,302,670	\$3,780,167
Capital assets	2,409,128	2,805,658	8,925	9,670	2,418,053	2,815,328
Total assets	<u>5,361,246</u>	<u>6,212,807</u>	<u>359,477</u>	<u>382,688</u>	<u>5,720,723</u>	<u>6,595,495</u>
Long-term liabilities	336,669	444,855	9,896	7,150	346,565	452,005
Other liabilities	693,483	675,235	113,274	108,682	806,757	783,917
Total liabilities	<u>1,030,152</u>	<u>1,120,090</u>	<u>123,170</u>	<u>115,832</u>	<u>1,153,322</u>	<u>1,235,922</u>
Invested in capital assets, net of related debt	2,250,177	2,528,808	8,925	9,670	2,259,102	2,538,478
Restricted	1,858,088	2,159,185	212,473	240,514	2,070,561	2,399,699
Unrestricted	222,829	404,724	14,909	16,672	237,738	421,396
Total net assets	<u>\$4,331,094</u>	<u>\$5,092,717</u>	<u>\$236,307</u>	<u>\$266,856</u>	<u>\$4,567,401</u>	<u>\$5,359,573</u>



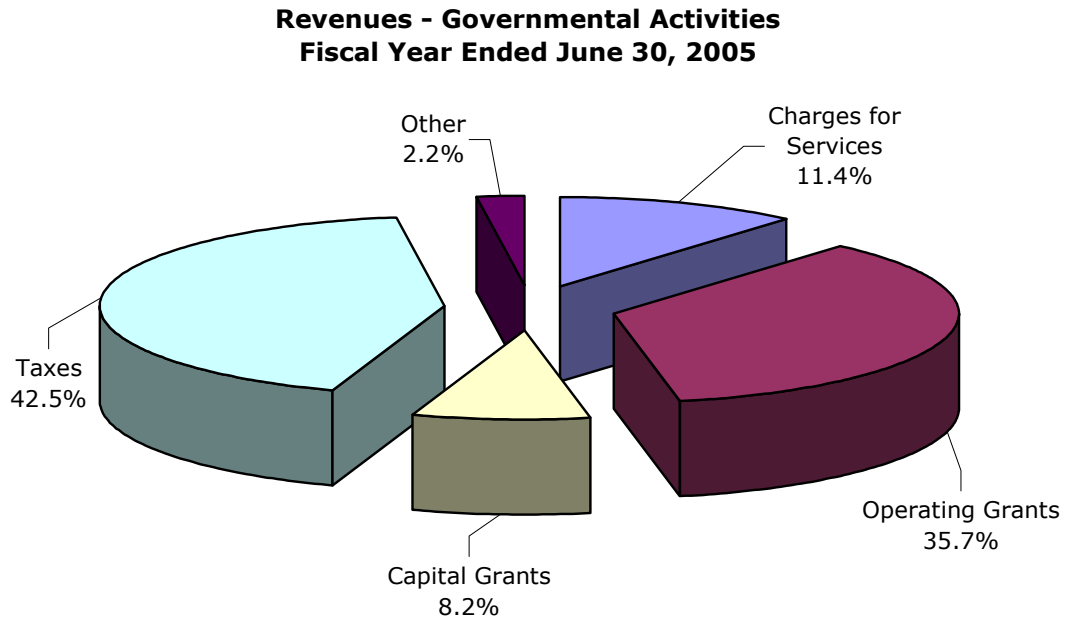
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

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

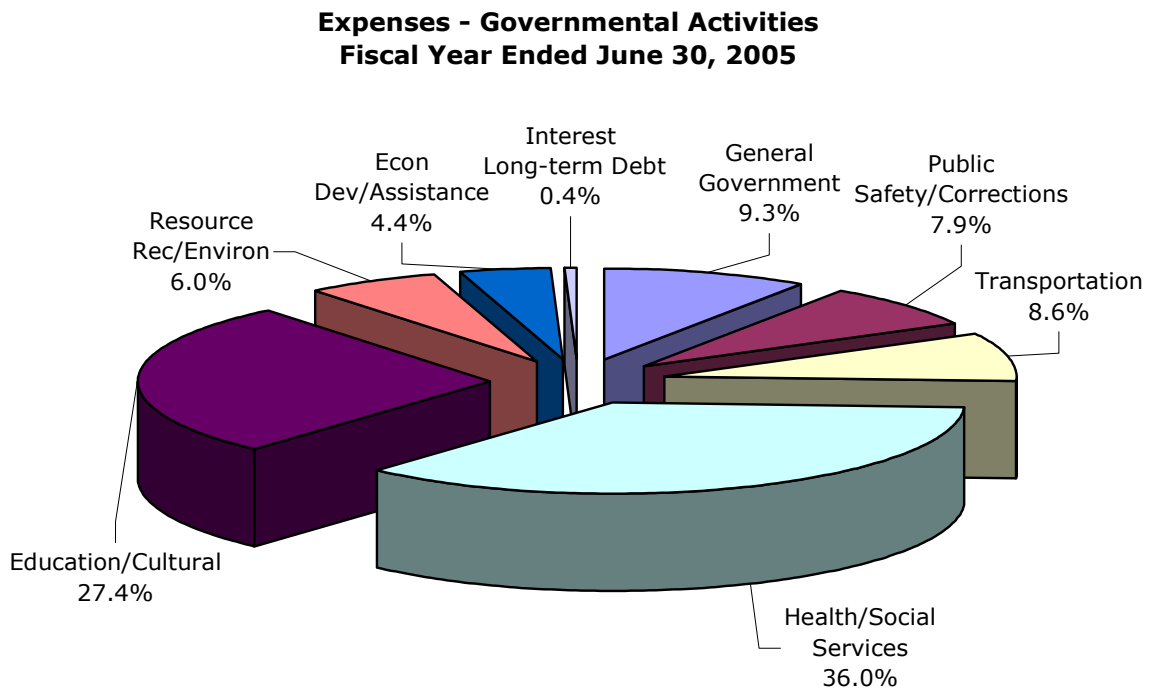
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 472,445	\$ 443,984	\$220,903	\$236,365	\$ 693,348	\$ 680,349
Operating grants	1,271,515	1,391,026	55,487	58,433	1,327,002	1,449,459
Capital grants	290,045	319,434	177	159	290,222	319,593
General revenues						
Taxes	1,436,571	1,657,668	14,621	15,624	1,451,192	1,673,292
Other	64,531	85,497	10,275	3,135	74,806	88,630
<b>Total revenues</b>	<b>3,535,107</b>	<b>3,897,609</b>	<b>301,463</b>	<b>313,716</b>	<b>3,836,570</b>	<b>4,211,323</b>
<b>Expenses:</b>						
General government	285,781	305,819	-	-	285,781	305,819
Public safety/corrections	227,786	258,610	-	-	227,786	258,610
Transportation	400,034	281,074	-	-	400,034	281,074
Health/social services	1,109,045	1,182,281	-	-	1,109,045	1,182,281
Educational/cultural	874,846	900,542	-	-	874,846	900,542
Resource/rec/enviro	258,057	197,539	-	-	258,057	197,539
Econ dev/assistance	144,687	144,777	-	-	144,687	144,777
Interest on long-term debt	15,088	14,375	-	-	15,088	14,375
Unemployment Insurance	-	-	93,882	75,291	93,882	75,291
Liquor Stores	-	-	42,827	45,503	42,827	45,503
State Lottery	-	-	28,669	27,681	28,669	27,681
Economic Dev Bonds	-	-	2,197	2,630	2,197	2,630
Hail Insurance	-	-	1,949	3,153	1,949	3,153
Gen Govt Services	-	-	48,395	50,329	48,395	50,329
Prison Funds	-	-	4,244	5,268	4,244	5,268
MUS Group Insurance	-	-	39,690	40,524	39,690	40,524
MUS Workers Comp	-	-	2,552	2,842	2,552	2,842
<b>Total expenses</b>	<b>3,315,324</b>	<b>3,285,017</b>	<b>264,405</b>	<b>253,221</b>	<b>3,579,729</b>	<b>3,538,238</b>
Increase (decrease) in net assets before transfers	219,783	612,592	37,058	60,495	256,841	673,085
Transfers	30,812	29,871	(30,812)	(29,871)	-	-
<b>Change in net assets</b>	<b>250,595</b>	<b>642,463</b>	<b>6,246</b>	<b>30,624</b>	<b>256,841</b>	<b>673,085</b>
Net assets, beg of year (restated)	4,080,499	4,450,254	230,061	236,232	4,310,560	4,686,488
<b>Net assets, end of year</b>	<b>\$4,331,094</b>	<b>\$5,092,717</b>	<b>\$236,307</b>	<b>\$266,856</b>	<b>\$4,567,401</b>	<b>\$5,359,573</b>

**Governmental Activities**

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

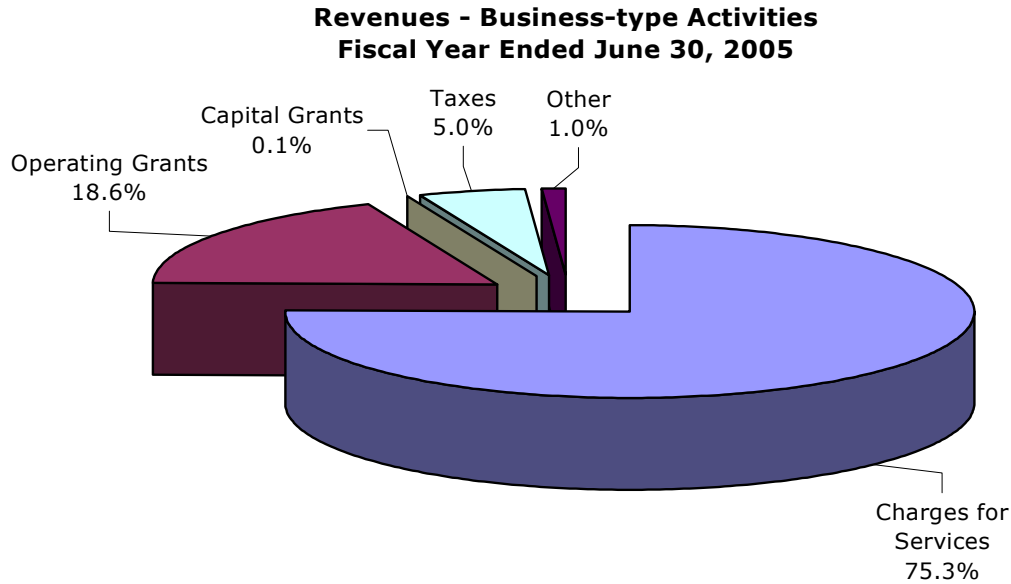


The following chart depicts expenses of the governmental activities for the fiscal year:

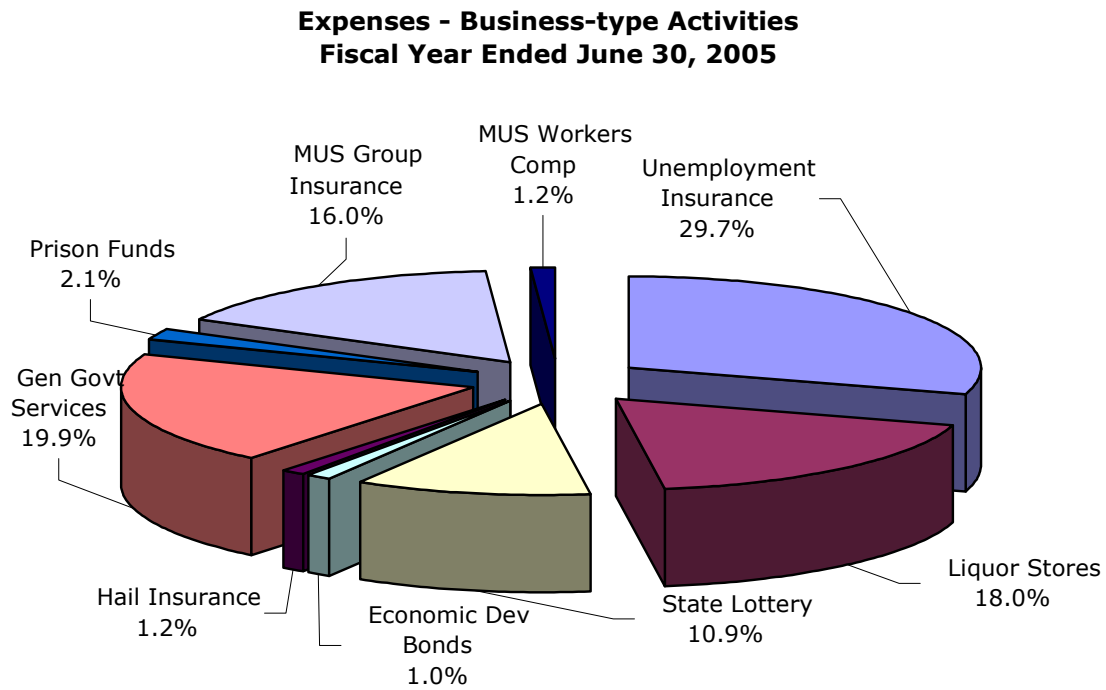


**Business-type Activities**

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 \$2.7 billion. Of this total amount, \$258.5 million (or 9.6%) 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 \$289.7 million. Unreserved fund balance increased during the fiscal year by \$156.8 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The 59<sup>th</sup> Legislative Session convened on January 3 and adjourned on April 21, 2005. The session approved a 342.7 million increase in General Fund spending for the 2007 biennium. This represents an almost 15% increase over the 2005 biennium expenditure level. The General Fund budgetary increases approved for the 2007 biennium follow:

- \$104 million increase in Human Services programs.
- \$86.5 million increase for K-12 Education
- \$36.3 million increase for Higher Education
- \$34 million increase for Corrections
- \$81.8 million for other governmental functions

Supplemental Development – General Fund supplementals approved by the Legislature included \$4.4 million for secure care and corrections of inmates; \$8.5 million for the highway patrol court settlement; \$6.8 million for additional district court reimbursements; \$9 million to fully fund the Crow Tribe settlement escrow account, and \$16 million (transfer and expenditure authority) to pay the remaining IRIS loan balance and final contractor obligations.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2005. Overall General Fund revenues were up by \$142.2 million (or 11.6%). This was primarily due to the individual and corporate income tax revenue increase of \$100.2 and \$30.5 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 \$27.6 million increase in natural resource tax revenues between fiscal years 2004 and 2005.

General Fund Expenditures – General Fund expenditures increased by \$66 million (or 5.7%) in 2005. These increases were primarily for the purposes described in the supplemental development section above.

**State Special Revenue Fund**

At the end of the current fiscal year, fund balance of the State Special Revenue Fund was \$907.4 million. Fund balance increased during the fiscal year by \$213.2 million, primarily because of increased natural resource tax, property tax, investment earnings, and federal revenue.

Within the State Special Revenue Fund, expenditures increased \$21.2 million in the General Government function. This primarily relates to increased oil production tax distributions to the counties of \$20.5 million. The Education/Cultural functional expenditures increased by \$12.7 million. This primarily relates to an increase in land trust distributions to the State's K-12 schools of \$11.5 million. Department of Transportation Highway expenditures decreased by \$27.3 million, offsetting the increases previously discussed.

**Federal Special Revenue Fund**

Fund balance in the Federal Special Revenue Fund decreased to \$27.4 million (or 12.8%).

The decrease of \$46.4 million in charges for services revenues and increase of \$43.3 million in indirect cost recoveries represent a correction in the classification of federal highway indirect cost recoveries. These revenues were previously misclassified as charges for services.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2005. Significant changes within the functional categories were caused by (1) Transportation - Increased federal highway

construction expenditures of \$25.4 million; (2) Resource/Recreation/Environment - Decreased federal fire reimbursements of \$44.6 million; (3) Capital Outlay - Increased federally funded military construction projects of \$12.6 million; (3) Public Safety/Corrections - Increased Disaster and Emergency Services funding to the State of \$13.8 million; (4) Health and Social Services - Increased Medicaid reimbursements of \$12.2 million and increased Food Stamp benefits of \$9.4 million.

**Coal Severance Tax Permanent Fund**

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$32.8 million (or 5%). This increase was primarily fueled by increased natural resource taxes of \$4.3 million (or 27.4%) and investment income of \$30.5 million (or 172.4%). These increases reflect increased production of Montana’s coal and a significantly improved investment climate over that of the previous year.

**Land Grant Permanent Fund**

Reserved fund balance in the Land Grant Permanent Fund increased by \$9.5 million (or 2.2%). This increase was primarily caused by increased investment income of \$27.8 million (or 418.5%). This increase reflects a significantly improved investment climate over that of the previous year. Rentals and leases and royalties income increased by \$11.4 million (or 36.6%). This increase relates to the higher natural resource production within the State during 2005 as the result of higher gas, oil, timber, and metals prices. The impact of this increase in revenues on fund balance was offset by transfers out for educational purposes.

**Unemployment Insurance Enterprise Fund**

Net assets restricted for unemployment compensation increased by \$16.1 million (or 8.4%). Unemployment premium collections increased by \$5 million (or 7.4%). Unemployment benefits paid decreased by \$22.1 million. Both of these factors contributed to the increase in net assets and are reflective of Montana’s strong economy during 2005.

**Economic Development Enterprise Fund**

Net assets did not change significantly in this fund during 2005. 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 9.8% from fiscal year 2004 to fiscal year 2005. Revenues from various sources for fiscal year 2005, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

<b>Revenue Source</b>	<b>Amount</b>	<b>2005 Percent of Total</b>	<b>Increase (Decrease) from 2004</b>	<b>Percent Increase (Decrease)</b>
Licenses/permits	\$ 245,244	6.4%	\$ 4,632	1.9%
Taxes	1,627,858	42.2	211,466	14.9
Chg srv/fines/forfeits/settle	145,235	3.8	(55,355)	(27.6)
Investment earnings	143,937	3.7	94,574	191.6
Securities lending income	5,169	0.1	3,137	154.4
Sales doc/merch/property	22,655	0.6	4,633	25.7
Rentals/leases/royalties	43,723	1.1	12,036	38.0
Contributions/premiums	7,744	0.2	136	1.8
Grants/contracts/donations	27,984	0.7	5,116	22.4
Federal	1,502,939	39.0	22,127	1.5
Federal indir cost recvy	81,050	2.1	43,228	114.3
Other revenues	4,340	0.1	(2,072)	(32.3)
<b>Total revenues</b>	<b>\$3,857,878</b>	<b>100.0%</b>	<b>\$343,658</b>	

Total expenditures for all governmental functions increased 3.3% from fiscal year 2004 to fiscal year 2005. Expenditures by function for fiscal year 2005, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

<b>Expenditure Function</b>	<b>Amount (in thousands)</b>	<b>2005 Percent of Total</b>	<b>Increase (Decrease) from 2004</b>	<b>Percent Increase (Decrease)</b>
General government	\$ 293,808	8.1%	\$ 41,322	16.4%
Public safety/corrections	238,929	6.6	30,336	14.5
Transportation	523,022	14.5	(6,533)	(1.2)
Health/social services	1,186,462	32.8	72,398	6.5
Education/cultural	905,150	25.0	6,162	0.7
Resource/recreation/environment	206,903	5.7	(43,687)	(17.4)
Economic development/assistance	146,306	4.0	1,925	1.3
Securities lending	4,905	0.1	3,121	174.9
Debt service	41,374	1.1	1,345	3.4
Capital outlay	70,851	2.1	10,541	17.5
<b>Total expenditures</b>	<b>\$3,617,710</b>	<b>100.0%</b>	<b>\$116,930</b>	

**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, 2005, amounts to \$4.6 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$2.8 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 16.7% 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 decreased from \$219.6 million at June 30, 2004, to \$213.2 million at June 30, 2005.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	<b>Amount (in thousands)</b>	<b>Ratio Debt to Assessed Value (1)</b>	<b>State Debt Per Capita (2)</b>
General obligation debt	\$213,195	0.43%	\$229.98

- (1) Assessed value is based on tax year.
- (2) Based on 2004 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 4.4 % in the second quarter of 2005, which is unchanged from the rate of 4.4% during the second quarter of 2004. This compares favorably with the nation's average unemployment rate of 5.2% during the same time period.

The 59<sup>th</sup> Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2005 biennium of \$162.4 million. During fiscal year 2005, economic conditions continued to improve with the General Fund balance, as of June 30, 2005, ending at the \$299.8 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2005. 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 Sheriff's 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.