

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2006

Prepared By:

Department of Administration

Janet Kelly, Director

Sheryl Olson, Deputy Director

Administrative Financial Services Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Janet Atchison, Accountant

Darla Cole, Accountant

Charles Idehen, CPA

Karen Simpson, CPA

Operations Section

Mark Curtis, Computer Applications Software Engineer

Linda Gaughan, Accountant, Supervisor

State of Montana
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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

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, 2006 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 0.07 and 1.48 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 0.07 and 0.14 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 11.24 and 6.67 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 opinions, insofar as they relate 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, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the Pension Plan Information 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 June 30, 2006, three retirement systems, Public Employees' (PERS-DBRP), Game Wardens' and Peace Officers' (GWPORS) and, Sheriffs' (SRS) retirement systems were not actuarially sound with Unfunded Actuarially Accrued Liabilities (UAAL) totaling \$460.2 million, \$5.1 million and \$8.8 million, respectively. The maximum UAAL to comply with the amortization period of 30 years at June 30, 2006, is \$269.9 million for PERS-DBRP, \$5.1 million for GWPORS, and \$(5) million for SRS. The negative \$5 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system. At July 1, 2006 the Teachers' Retirement System was not actuarially sound with an UAAL totaling \$863.1 million and a maximum UAAL of \$467.6 million to comply with the amortization period of 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated November 21, 2006, 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, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (06-01) 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 21, 2006