

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007

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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, 2007. 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 2007 by \$6.5 billion (reported as net assets) compared with \$6 billion at the end of fiscal year 2006. Of this amount, \$600.4 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 \$1,127.3 million compared with \$991.8 million at fiscal year 2006.

Fund Highlights

As of the close of fiscal year 2007, the State's governmental funds reported combined ending fund balances of \$3.1 billion compared with \$2.9 billion at fiscal year 2006. Of this amount, \$544.5 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.5 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$549.2 million compared with \$408.6 million in fiscal year 2006, which is an increase of \$140.6 million (or 34.4%).

The State's business-type activity funds reported net assets at the close of fiscal year 2007 in the amount of \$335.2 million compared with the fiscal year-end 2006 net assets of \$296.9 million. \$314.7 million of the business-type activity fund equity was restricted at fiscal year-end 2007 leaving an unrestricted balance of \$11.8 million. This represents a \$6.7 million (or 36.2%) decrease from the fiscal year-end 2006 business-type activity fund unrestricted net asset balance of \$18.5 million.

Long-term Debt

The State's total bonds and notes payable for governmental activities decreased by \$32.5 million, from \$428.5 million in fiscal year 2006 to \$396 million (or 7.6%) in fiscal year 2007.

Business-type activities reported bonds and notes payable of \$3.1 million at fiscal year-end 2007. This represents a decrease of \$0.8 million (or 20.5%) over the fiscal year-end 2006 reported amount of \$3.9 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 similarly 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. An 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. A retirement fund is an example of a fiduciary fund.

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 and stronger than expected statewide economic performance.

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 \$6.5 billion at the end of fiscal year 2007. Net assets of the governmental activities increased \$445.9 million (or 7.8%), and business-type activities had a \$38.3 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)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$3,562,620	\$3,830,490	\$410,309	\$466,063	\$3,972,929	\$4,296,553
Capital assets	3,240,577	3,402,036	9,110	8,698	3,249,687	3,410,734
Total assets	6,803,197	7,232,526	419,419	474,761	7,222,616	7,707,287
Long-term liabilities	451,014	415,944	9,766	10,212	460,780	426,156
Other liabilities	659,701	678,175	112,724	129,368	772,425	807,543
Total liabilities	1,110,715	1,094,119	122,490	139,580	1,233,205	1,233,699
Invested in capital assets, net of related debt	2,842,708	3,115,260	8,703	8,698	2,851,411	3,123,958
Restricted	2,202,592	2,347,395	269,687	314,722	2,472,279	2,662,117
Unrestricted	647,182	675,752	18,539	11,761	665,721	687,513
Total net assets	\$5,692,482	\$6,138,407	\$296,929	\$335,181	\$5,989,411	\$6,473,588

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:

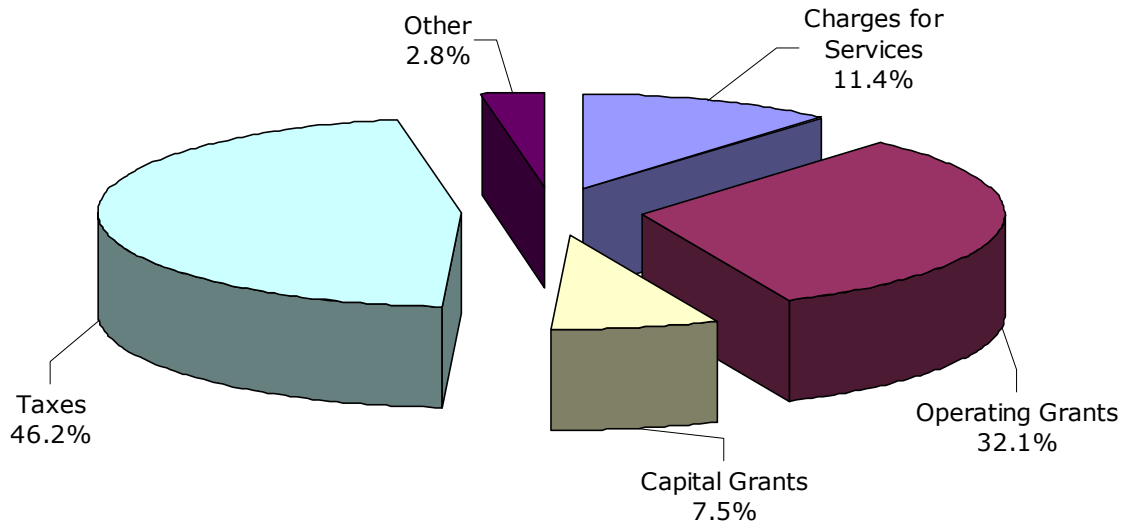
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues						
Charges for services	\$ 487,767	\$ 496,464	\$257,729	\$280,217	\$ 745,496	\$ 776,681
Operating grants	1,371,109	1,395,324	58,051	64,691	1,429,160	1,460,015
Capital grants	305,345	325,352	378	171	305,723	325,523
General revenues						
Taxes	1,871,808	2,006,511	17,317	19,046	1,889,125	2,025,557
Other	73,388	123,669	5,162	2,532	78,550	126,201
Total revenues	4,109,417	4,347,320	338,637	366,657	4,448,054	4,713,977
Expenses:						
General government	525,981	450,646	-	-	525,981	450,646
Public safety/corrections	245,810	293,193	-	-	245,810	293,193
Transportation	216,942	197,510	-	-	216,942	197,510
Health/social services	1,270,056	1,266,098	-	-	1,270,056	1,266,098
Educational/cultural	976,046	1,065,504	-	-	976,046	1,065,504
Resource/rec/enviro	142,460	256,751	-	-	142,460	256,751
Econ dev/assistance	150,449	152,154	-	-	150,449	152,154
Interest on long-term debt	19,569	19,418	-	-	19,569	19,418
Unemployment Insurance	-	-	72,661	72,378	72,661	72,378
Liquor Stores	-	-	50,514	55,521	50,514	55,521
State Lottery	-	-	31,020	30,416	31,020	30,416
Economic Dev Bonds	-	-	3,441	4,167	3,441	4,167
Hail Insurance	-	-	4,632	4,663	4,632	4,663
Gen Govt Services	-	-	51,017	53,851	51,017	53,851
Prison Funds	-	-	5,356	6,487	5,356	6,487
MUS Group Insurance	-	-	52,139	58,532	52,139	58,532
MUS Workers Comp	-	-	2,978	2,647	2,978	2,647
Total expenses	3,547,313	3,701,274	273,758	288,662	3,821,071	3,989,936
Increase (decrease) in net assets before transfers	562,104	646,046	64,879	77,995	626,983	724,041
Transfers	34,802	41,080	(34,802)	(41,080)	-	-
Change in net assets	596,906	687,126	30,077	36,915	626,983	724,041
Net assets, beg of year (restated)	5,095,576	5,451,281	266,852	298,266	5,362,428	5,749,547
Net assets, end of year	\$5,692,482	\$6,138,407	\$296,929	\$335,181	\$5,989,411	\$6,473,588

Governmental Activities

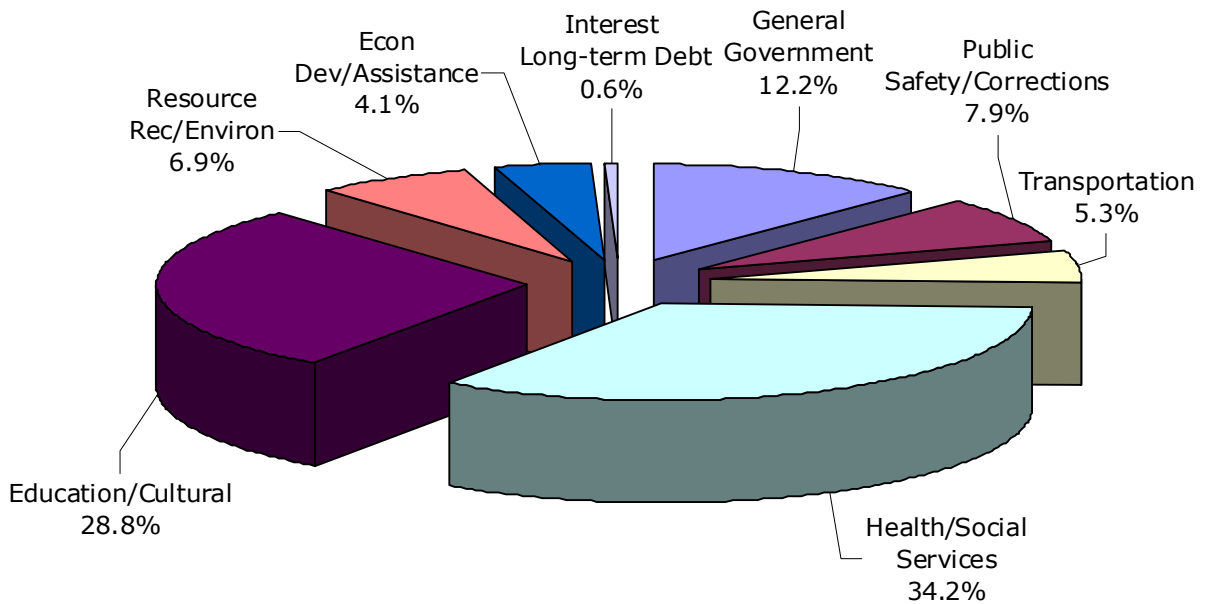
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities
Fiscal Year Ended June 30, 2007**



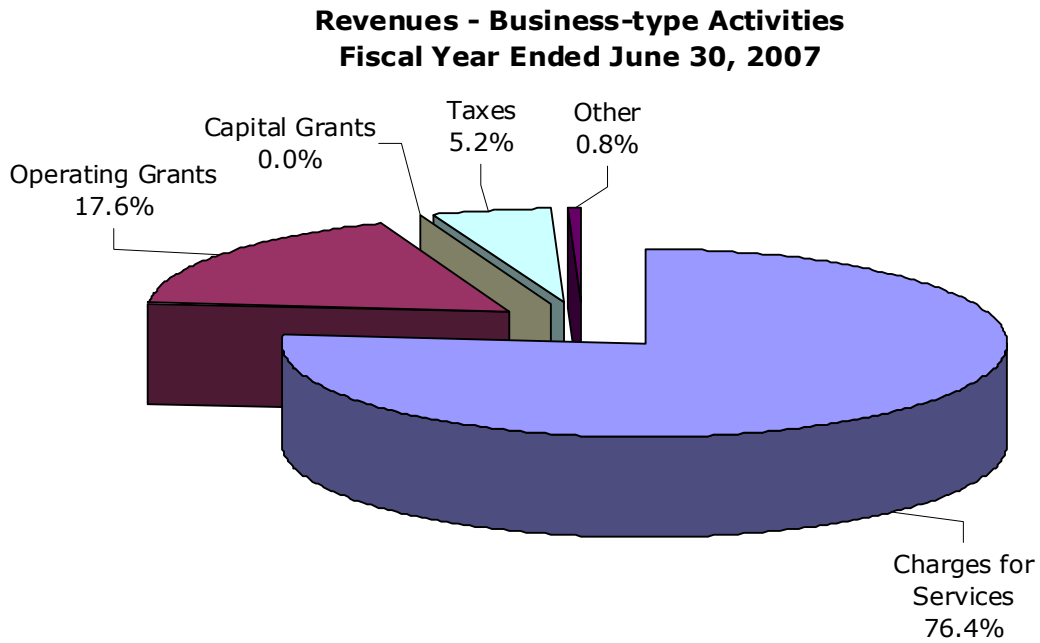
The following chart depicts expenses of the governmental activities for the fiscal year:

**Expenses - Governmental Activities
Fiscal Year Ended June 30, 2007**

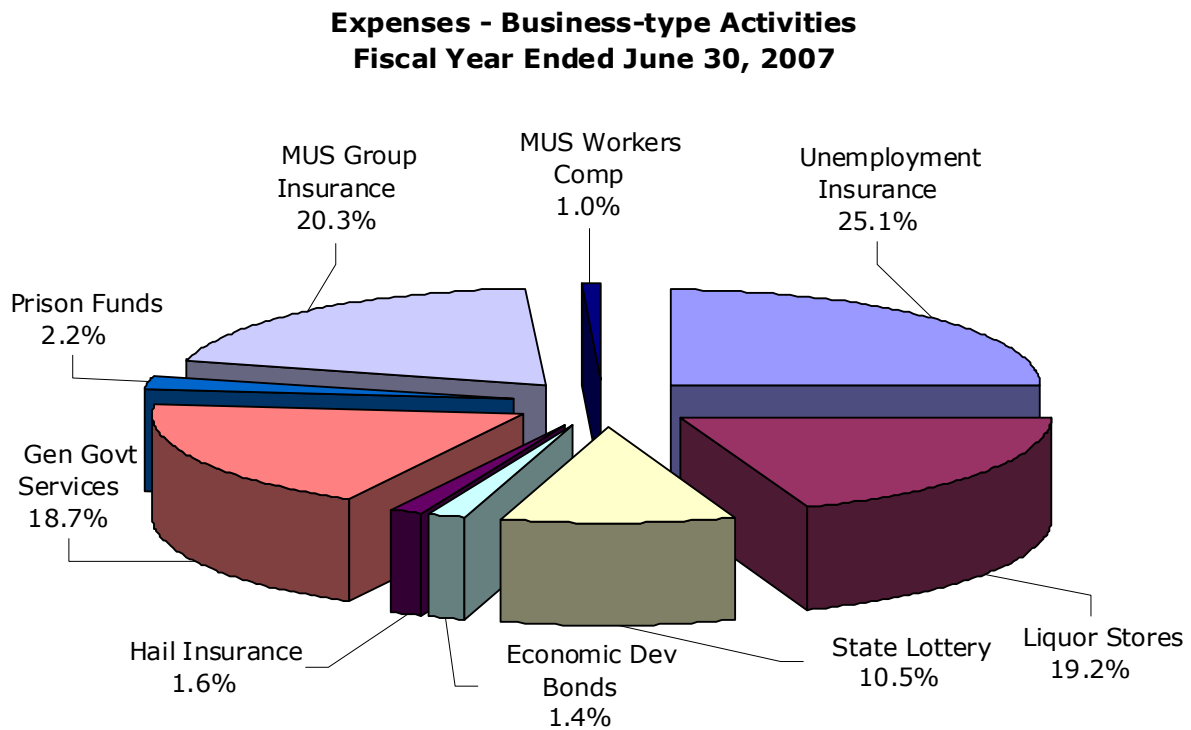


Business-type Activities

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 \$3.1 billion. Of this total amount, \$544.5 million (or 17.6%) 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 \$549.2 million. The ending General Fund unreserved fund balance was \$90.3 million higher than the anticipated \$458.9 million estimated by the 60th Legislature. Unreserved fund balance increased during the fiscal year by \$140.6 million, primarily because of increases in all tax revenue categories and investment earnings combined with under-spent budget authority and program expenditure increases as discussed below.

Higher Revenues Than Anticipated – Total General Fund revenue, including transfers; was \$1,845 million for fiscal year 2007. This is \$129.9 million (7.6%) more than fiscal year 2006, and \$69.4 million (3.9%) more than was projected for fiscal year 2007. The increase in revenue from fiscal year 2006 to fiscal year 2007 was primarily a result of increased revenue from taxes, including individual income, property, corporate license, and oil/natural gas production, and treasury cash account interest earnings. Within the tax category, individual and corporate income tax revenue increased \$61.1 and \$24.2 million, respectively. Continued economic growth within Montana and a strong investment market contributed to this income tax growth.

As noted above, total collections for fiscal year 2007 were \$69.4 million over the official forecast. Individual income tax exceeded the revenue estimate by \$33.2 million. Corporate income tax exceeded the estimate by \$16.4 million; oil and natural gas taxes exceeded the estimate by \$10.1 million; and treasury cash account interest earning exceeded the estimate by \$6.5 million. These four revenue sources account for 95.4% of the \$69.4 million difference. Individual and corporate income taxes account for 71.5% of the difference. Two other categories, lottery (\$3.1 million) and coal trust interest earnings (\$2.4 million), had differences that exceeded \$2 million.

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly \$53 million. This was primarily caused by:

- School funding - \$22.4 million was due to a biennial reversion of school funding appropriations resulting from an increase in mineral revenues in the guarantee account which offset the need for general fund expenditures, lower expenditures for school facilities (\$3 million) due to fewer schools than anticipated qualified for facilities funding, and other minor reversions. Most of this reverted authority was anticipated during the legislative session.
- The Department of Health and Human Services reverted authority from the supplemental in the amount of \$5.4 million primarily due to lower Medicaid costs than anticipated during the legislative session.
- The Department of Corrections reverted authority from supplemental appropriations in the amount of \$4.6 million due to less than anticipated demand for secure care beds.
- The Commissioner of Higher Education reverted \$4.2 million in authority, primarily due to fewer resident students attending Montana schools than anticipated.
- The Department of Natural Resources and Conservation did not require as much supplemental funding as originally anticipated to cover the fiscal year 2007 fire season.
- The Legislative Branch (\$3.6 million) and the Long-Range Building (\$2.5 million) program both spent less than appropriated in fiscal year 2007, but most of these amounts will be carried forward in to the next biennium as these appropriations are continuing.

General Fund Expenditures – Overall General Fund expenditures increased by \$83.6 million (or 5.4%). This increase and offsetting decreases are summarized below:

- The \$89.9 million (or 16.8%) increase in the education/cultural function was primarily due to increased payments for the support of K-12 schools.
- The \$70.8 million (or 22.8%) decrease in the general government function was primarily due to a decrease in one-time-only payments designed to actuarially fund the Teachers and Public Employee retirement systems.
- Within the public safety/corrections function, the increase of \$28.7 million (or 18.1%) was caused primarily by increases of \$18.6 million within the Public Defenders Office, which became fully functional in 2007, and \$6.5 million in the corrections function.

- The \$30.4 million (or 109.7%) increase in the resource/recreation/environmental function was primarily the result of the costs of fighting fires in a very active 2007 firefighting season.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$984.4 million. Fund balance increased during the fiscal year by \$47.5 million (or 5.1%).

In the State Special Revenue Fund, investment income increased by \$21.8 million (or 140.9%), other tax revenues by \$5.9 million (or 7.2%) as discussed in Note 1, and licenses and permits by \$21.5 million (or 16.5%). These increases account for 95.4% of the overall \$51.4 million increased revenue in the fund.

Expenditures within the State Special Revenue Fund increased by \$13.8 million (or 1.6%). Within the State Special Revenue Fund, expenditures increased \$18.8 million in the general government function. This primarily was due to:

- Increased oil production tax distributions of \$5.9 million to the counties and an increase to Insure Montana providing accessibility to health insurance for the State's small employers within the general government function.
- A decrease in education/cultural functional expenditures by \$17.7 million as a result of less common school trust interest and income revenues.
- Increases in the Big Sky RX program of \$2.9 million, a \$3.7 million increase resulting from the Nursing Home bed tax rate, and \$3.5 million in increased Medicaid spending in the health and social services function.
- A decrease in transportation expenditures of \$10.1 million as the result of internal funding adjustments.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by \$4.6 million (or 16.7%).

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2007. Significant changes within the functional categories were caused by (1) Transportation - increased federal highway construction expenditures of \$31.8 million due to internal funding adjustments; (2) General Government - decreases in Montana Votes Montana Database and voting systems - \$7.0 million and Public Safety Communications - \$2.9 Million; (3) Health and Social Services - decrease of \$25.7 million caused by decreased estimated Medicaid incurred but unpaid claims.

Coal Severance Tax Permanent Fund

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$25.9 million (or 3.5%). This was primarily caused by decreases in natural resource taxes of \$3.2 million (or 19.2%) and increased investment income of \$30.9 million (or 221.2%).

Land Grant Permanent Fund

Reserved fund balance in the Land Grant Permanent Fund increased by \$11.7 million (or 2.7%). This was caused by an increase in investment income of \$26.5 million (or 973.0%) due to the fund's increased investment valuation. Rentals, leases, and royalties income decreased by \$11.7 million (or 18.8%) primarily as a result of decrease in oil and gas bonus receipts of \$11 million and timber revenues of \$5.5 million. Most other land grant revenues increased as the result of higher natural resource production (other than timber) from the related state lands during 2007.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation increased by \$29.9 million (or 12.9%). Unemployment premium collections increased by \$6.9 million (or 9.0%). Unemployment benefits paid increased by \$3.0 million. The large increase in unemployment collections offset the small increase in unemployment benefits paid and contributed to the increase in net assets. This was reflective of Montana's continued strong economy during 2007.

Economic Development Bonds Enterprise Fund

Net assets decreased by \$0.7 million in fiscal year 2007. This decrease was the result of a \$0.9 million transfer from the fund to the Board of Investment's investment account. No transfers were made in fiscal year 2006. 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 5.3% from fiscal year 2006 to fiscal year 2007. Revenues from various sources

for fiscal year 2007, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease)
Licenses/permits	\$ 285,890	6.6%	\$ 26,817	10.4
Taxes	2,009,620	46.4	128,782	6.8
Chg srv/finest/forfeits/settle	160,571	3.7	(1,949)	(1.2)
Investment earnings	171,047	4.0	108,070	171.6
Securities lending income	5,339	0.1	(2,172)	(28.9)
Sales doc/merch/property	20,460	0.5	(952)	(4.4)
Rentals/leases/royalties	51,442	1.2	(11,876)	(18.8)
Contributions/premiums	9,240	0.2	455	5.2
Grants/contracts/donations	25,362	0.6	(625)	(2.4)
Federal	1,504,595	34.8	(26,200)	(1.7)
Federal indir cost recvy	81,611	1.9	(311)	(0.4)
Other revenues	2,701	0.0	(1,992)	(42.4)
Total revenues	\$4,327,878	100.0%	\$218,047	5.3%

Total expenditures for all governmental functions increased 2.8% from fiscal year 2006 to fiscal year 2007. Expenditures by function for fiscal year 2007, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount (in thousands)	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease)
General government	\$ 401,331	9.7%	\$(65,555)	(14.0)%
Public safety/corrections	284,777	6.9	30,396	11.9
Transportation	575,157	13.9	15,462	2.8
Health/social services	1,267,854	30.7	(7,093)	(0.6)
Education/cultural	1,050,239	25.4	73,793	7.6
Resource/recreation/environment	247,090	6.0	42,677	20.9
Economic development/assistance	152,442	3.7	1,422	0.9
Securities lending	5,261	0.1	(2,402)	(31.3)
Debt service	52,183	1.3	(1,108)	(2.1)
Capital outlay	95,834	2.3	26,329	37.9
Total expenditures	\$4,132,168	100.0%	\$113,921	2.8%

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, 2007, amounts to \$5.2 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$3.4 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 3.0% 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 general obligation bond ratings from both Moody’s Investor Service (Aa2), Standard and Poor’s Corporation (AA- with a positive outlook) and Fitch Ratings (AA). The State received bond rating upgrades from Moody’s and Fitch in 2007. These are the first bond rating upgrades for the State’s general obligation debt in 26 years.

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 \$230.1 million at June 30, 2006, to \$208 million at June 30, 2007.

The ratio of general obligation debt to personal income and the amount of general obligation debt per capita are:

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$208,015	0.71%	\$219.55

- (1) Personal income is for calendar year 2006.
- (2) Based on estimated 2007 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 2.4% in the second quarter of 2007, which is a slight improvement from the rate of 3.1% during the second quarter of 2006. This compares favorably with the nation’s average unemployment rate of 4.5% during the same time period. As of October 2007, the State’s rate has risen to 3.1%.

The 60th Legislative Session adjourned on April 27, 2007, without passing a general appropriations act. The legislature was reconvened in special session on May 10, and adjourned upon the completion of business, including the passage of a general appropriations act, on May 15. After completion of the regular and special sessions, the projected unreserved General Fund balance for the 2009 biennium is \$183.8 million. During fiscal year 2007, economic conditions continued to improve with the unreserved General Fund balance, as of June 30, 2007, ending at the \$549.2 million level.

A second special session of the legislature was called to order to address forest fire suppression funding issues. This session was called to order, passed related legislation, and adjourned on September 5, 2007. The laws resulting from the session provided for a \$40 million transfer from the General to the State Special Revenue Fund, with future transfers from the General Fund required at the beginning of each fiscal year to maintain the \$40 million balance in the State Special Revenue Fund, with this money restricted to be used only for fire suppression costs. The long term impact of these transactions on the General Fund should be zero since the General Fund paid for these fire costs in the past, and will continue to either pay for costs in excess of the amount transferred, or transfer additional money to the State Special Revenue Fund for expenditure.

The State’s retirement systems are actuarially sound as of fiscal year end 2007. This represents a significant improvement over the previous fiscal year, and is largely a result of actions taken by the executive and legislative branches.

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.