

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

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

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STATEMENT OF NET ASSETS

JUNE 30, 2006

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,096,137	\$ 302,388	\$ 1,398,525	\$ 225,030
Receivables (net)	299,478	31,161	330,639	76,881
Due from primary government	-	-	-	4,255
Due from other governments	130,384	264	130,648	21,288
Due from component units	1,542	3,570	5,112	1,028
Internal balances	(7,522)	7,522	-	-
Inventories	30,623	7,756	38,379	4,489
Advances to component units	8,802	5,215	14,017	-
Long-term loans/notes receivable	243,708	38,468	282,176	737,870
Equity in pooled investments (Note 3)	1,303,089	-	1,303,089	21,171
Investments (Note 3)	353,027	9,318	362,345	1,324,285
Securities lending collateral (Note 3)	90,178	1,304	91,482	149,779
Deferred charges	3,786	1,318	5,104	9,420
Capital assets (net) (Note 5)	3,240,577	9,110	3,249,687	517,134
Other assets	9,388	2,025	11,413	26,062
Total assets	6,803,197	419,419	7,222,616	3,118,692
LIABILITIES				
Accounts payable	403,930	7,917	411,847	65,739
Lottery prizes payable	-	2,807	2,807	-
Due to primary government	-	-	-	5,112
Due to other governments	6,133	406	6,539	-
Due to component units	4,255	-	4,255	1,028
Advances from primary government	-	-	-	14,017
Deferred revenue	30,878	6,941	37,819	22,410
Amounts held in custody for others	35,640	86	35,726	28,434
Securities lending liability (Note 3)	90,178	1,304	91,482	149,779
Other liabilities	723	256	979	9,840
Short-term debt (Note 11)	-	83,620	83,620	-
Long-term liabilities (Note 11):				
Due within one year	87,964	9,387	97,351	180,073
Due in more than one year	451,014	9,766	460,780	1,650,436
Total liabilities	1,110,715	122,490	1,233,205	2,126,868

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 2,842,708	\$ 8,703	\$ 2,851,411	\$ 295,410
Restricted for:				
Transportation	40,899	-	40,899	-
Fish, wildlife, and parks	71,610	-	71,610	-
Federal grants	26,686	-	26,686	-
Debt service/construction	8,471	-	8,471	33,595
Unemployment compensation	-	231,715	231,715	-
Funds held as permanent investments:				
Nonexpendable	1,373,924	-	1,373,924	192,868
Expendable	3,604	-	3,604	-
Housing authority	-	-	-	139,944
Resource/environment	552,687	-	552,687	-
Other purposes	124,711	37,972	162,683	100,232
Unrestricted	647,182	18,539	665,721	229,775
Total net assets	\$ 5,692,482	\$ 296,929	\$ 5,989,411	\$ 991,824

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 525,981	\$ 59,166	\$ 53,538	\$ 4,918	\$ (408,359)
Public safety/corrections	245,810	150,787	60,752	-	(34,271)
Transportation	216,942	31,766	35,657	289,785	140,266
Health/social services	1,270,056	30,022	894,787	-	(345,247)
Education/cultural	976,046	107,096	160,526	1,022	(707,402)
Resource/recreation/environment	142,460	77,064	104,298	8,956	47,858
Economic development/assistance	150,449	31,866	61,551	664	(56,368)
Interest on long-term debt	19,569	-	-	-	(19,569)
Total governmental activities	3,547,313	487,767	1,371,109	305,345	(1,383,092)
Business-type activities:					
Unemployment Insurance	72,661	76,754	17,529	-	21,622
Liquor Stores	50,514	58,975	-	-	8,461
State Lottery	31,020	39,923	-	-	8,903
Economic Development Bonds	3,441	7	3,620	-	186
Hail Insurance	4,632	3,057	363	-	(1,212)
General Government Services	51,017	15,589	36,060	378	1,010
Prison Funds	5,356	5,717	-	-	361
MUS Group Insurance	52,139	54,164	410	-	2,435
MUS Workers Compensation	2,978	3,543	69	-	634
Total business-type activities	273,758	257,729	58,051	378	42,400
Total primary government	\$ 3,821,071	\$ 745,496	\$ 1,429,160	\$ 305,723	\$ (1,340,692)
Component units:					
Housing Authority	\$ 44,104	\$ 381	\$ 45,773	\$ -	\$ 2,050
Facility Finance Authority	323	444	105	-	226
State Compensation Insurance (New Fund)	240,157	211,953	-	-	(28,204)
State Compensation Insurance (Old Fund)	9,061	-	-	-	(9,061)
Montana Surplus Lines	678	683	-	-	5
Montana State University	394,589	164,664	156,437	5,323	(68,165)
University of Montana	307,395	137,033	109,869	3,064	(57,429)
Total component units	\$ 996,307	\$ 515,158	\$ 312,184	\$ 8,387	\$ (160,578)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,383,092)	\$ 42,400	\$ (1,340,692)	\$ (160,578)
General revenues:				
Taxes:				
Property	194,617	-	194,617	-
Fuel	212,276	-	212,276	-
Natural resource	260,382	-	260,382	-
Individual income	760,981	-	760,981	-
Corporate income	153,574	-	153,574	-
Other	289,978	17,317	307,295	(10)
Unrestricted grants and contributions	4,158	-	4,158	106
Settlements	28,248	-	28,248	-
Unrestricted investment earnings	36,188	1,016	37,204	45,030
Payment from State of Montana	-	-	-	151,484
Gain on sale of capital assets	53	-	53	-
Miscellaneous	4,741	4,146	8,887	1
Contributions to term and permanent endowments	-	-	-	12,153
Transfers	34,802	(34,802)	-	-
Total general revenues, contributions, and transfers	1,979,998	(12,323)	1,967,675	208,764
Change in net assets	596,906	30,077	626,983	48,186
Total net assets - July 1 - as previously reported	5,092,717	266,856	5,359,573	943,289
Prior period adjustments (Note 2)	2,859	(4)	2,855	349
Total net assets - July 1 - as restated	5,095,576	266,852	5,362,428	943,638
Total net assets - June 30	\$ 5,692,482	\$ 296,929	\$ 5,989,411	\$ 991,824

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund

This fund accounts for activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type, beginning on page 126.

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT			TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	
ASSETS							
Cash/cash equivalents (Note 3)	\$ 394,072	\$ 462,598	\$ 40,358	\$ 66,652	\$ 9,051	\$ 74,235	\$ 1,046,966
Receivables (net) (Note 4)	182,261	82,298	11,243	8,410	5,468	5,069	294,749
Interfund loans receivable (Note 12)	29,044	22,922	906	-	-	-	52,872
Due from other governments	204	567	129,610	-	-	-	130,381
Due from other funds (Note 12)	63,006	11,129	804	-	-	94	75,033
Due from component units	225	732	103	78	-	-	1,138
Inventories	4,563	23,823	-	-	-	-	28,386
Equity in pooled investments (Note 3)	-	219,661	-	460,323	422,820	200,285	1,303,089
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707
Advances to other funds (Note 12)	69	14,369	-	33,477	-	3,110	51,025
Advances to component units	-	-	-	8,802	-	-	8,802
Investments (Note 3)	14,898	142,071	1,894	166,889	-	8,568	334,320
Securities lending collateral (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601
Other assets	2,038	6,364	361	-	-	-	8,763
Total assets	\$ 690,523	\$ 1,235,176	\$ 185,785	\$ 767,673	\$ 457,554	\$ 332,121	\$ 3,668,832
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	153,417	114,757	98,195	-	5,344	1,955	373,668
Interfund loans payable (Note 12)	-	6,729	39,235	-	-	1,361	47,325
Due to other governments	105	1,030	4,998	-	-	-	6,133
Due to other funds (Note 12)	6,960	46,772	3,771	6,244	3,621	2,009	69,377
Due to component units	17,332	1,025	1,766	-	-	30	20,153
Advances from other funds (Note 12)	-	48,326	1,752	-	-	12,701	62,779
Deferred revenue	72,346	31,031	7,949	-	-	334	111,660
Amounts held in custody for others	20,250	15,002	297	-	87	-	35,636
Securities lending liability (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601
Other liabilities	-	294	-	-	-	-	294
Total liabilities	270,410	298,235	158,230	29,286	29,267	31,198	816,626
Fund balances:							
Reserved for:							
Encumbrances	6,037	10,912	843	-	-	7	17,799
Inventories	4,563	23,823	-	-	-	-	28,386
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707
Advances to other funds/component units	69	14,369	-	42,279	-	3,110	59,827
Special revenue (Note 14)	-	724,161	28,042	-	-	-	752,203
Debt service	-	-	-	-	-	4,809	4,809
Trust principal (Note 14)	-	-	-	696,108	428,287	210,990	1,335,385
Escheated property	721	-	-	-	-	-	721
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	7,420	7,420
Unreserved, undesignated	408,580	(51,697)	(1,569)	-	-	-	355,314
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(637)	(637)
Capital projects funds	-	-	-	-	-	47,272	47,272
Total fund balances	420,113	936,941	27,555	738,387	428,287	300,923	2,852,206
Total liabilities and fund balances	\$ 690,523	\$ 1,235,176	\$ 185,785	\$ 767,673	\$ 457,554	\$ 332,121	\$ 3,668,832

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2006

(amounts expressed in thousands)

Total fund balances for governmental funds \$ 2,852,206

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.

Land	378,248	
Land improvements	20,364	
Buildings/improvements	382,320	
Equipment	78,221	
Infrastructure	3,417,984	
Other capital assets	155,088	
Construction in progress	312,296	
Intangible assets	15,311	
Less accumulated depreciation	<u>(1,607,758)</u>	
Total capital assets		3,152,074

Certain revenues are earned, but not available and therefore deferred in the funds. 81,796

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. 113,160

Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in governmental activities in the statement of net assets. 3,786

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest	(5,481)	
Lease/installment purchase payable	(1,721)	
Bonds/notes payable (net)	(428,538)	
Compensated absences payable	(74,248)	
Early retirement benefits payable	(49)	
Arbitrage rebate tax payable	(74)	
Other liabilities	<u>(429)</u>	
Total long-term liabilities		<u>(510,540)</u>

Net assets of governmental activities \$ 5,692,482

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006
 (amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES							
Licenses/permits	\$ 128,716	\$ 129,769	\$ -	\$ -	\$ 176	\$ 412	\$ 259,073
Taxes:							
Natural resource	111,413	126,355	-	16,933	-	5,217	259,918
Individual income	767,352	-	-	-	-	-	767,352
Corporate income	153,646	-	-	-	-	-	153,646
Property	180,447	14,170	-	-	-	-	194,617
Fuel	-	212,261	-	-	-	13	212,274
Other (Note 1)	209,241	81,800	-	-	-	1,990	293,031
Charges for services/fines/forfeits/settlements	36,412	84,329	30,478	-	-	11,301	162,520
Investment earnings	19,627	15,449	1,019	13,919	2,724	10,239	62,977
Securities lending income	2,240	1,411	17	1,608	1,466	769	7,511
Sale of documents/merchandise/property	402	4,141	1	-	14,068	2,800	21,412
Rentals/leases/royalties	39	966	-	-	62,153	160	63,318
Contributions/premiums	7	8,778	-	-	-	-	8,785
Grants/contracts/donations	3,286	21,679	899	-	33	90	25,987
Federal	29,103	11,575	1,490,117	-	-	-	1,530,795
Federal indirect cost recoveries	95	31,441	50,386	-	-	-	81,922
Other revenues	1,247	3,231	276	-	-	(61)	4,693
Total revenues	1,643,273	747,355	1,573,193	32,460	80,620	32,930	4,109,831
EXPENDITURES							
Current:							
General government	314,223	138,031	14,632	-	-	-	466,886
Public safety/corrections	157,976	47,393	45,041	-	-	3,971	254,381
Transportation	284	280,748	278,663	-	-	-	559,695
Health/social services	310,939	79,643	884,365	-	-	-	1,274,947
Education/cultural	697,365	92,865	182,439	-	3,767	10	976,446
Resource/recreation/environment	27,661	123,015	53,733	-	-	4	204,413
Economic development/assistance	26,655	65,187	59,178	-	-	-	151,020
Debt service:							
Principal retirement	710	396	251	-	-	31,189	32,546
Interest/fiscal charges	154	2,026	42	-	-	18,523	20,745
Capital outlay	2,339	29,570	26,016	-	-	11,580	69,505
Securities lending	2,197	1,676	17	1,580	1,440	753	7,663
Total expenditures	1,540,503	860,550	1,544,377	1,580	5,207	66,030	4,018,247
Excess of revenue over (under) expenditures	102,770	(113,195)	28,816	30,880	75,413	(33,100)	91,584
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	5,700	-	-	-	31,350	37,050
Bond premium	-	1,323	-	-	-	855	2,178
Inception of lease/installment contract	628	70	178	-	-	-	876
Insurance proceeds	-	327	-	-	-	-	327
General capital asset sale proceeds	44	95	24	-	-	1	164
Transfers in (Note 12)	67,655	155,480	1,845	3,406	-	63,744	292,130
Transfers out (Note 12)	(50,728)	(22,587)	(30,694)	(40,757)	(93,563)	(20,918)	(259,247)
Total other financing sources (uses)	17,599	140,408	(28,647)	(37,351)	(93,563)	75,032	73,478
Net change in fund balances	120,369	27,213	169	(6,471)	(18,150)	41,932	165,062
Fund balances - July 1 - as previously reported	299,793	907,377	27,390	744,858	446,434	258,984	2,684,836
Prior period adjustments (Note 2)	(2,008)	527	(4)	-	3	7	(1,475)
Fund balances - July 1 - as restated	297,785	907,904	27,386	744,858	446,437	258,991	2,683,361
Increase (decrease) in inventories	1,959	1,824	-	-	-	-	3,783
Fund balances - June 30	\$ 420,113	\$ 936,941	\$ 27,555	\$ 738,387	\$ 428,287	\$ 300,923	\$ 2,852,206

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)**

Net change in fund balances - total governmental funds \$ 165,062

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	712,675	
Depreciation expense	<u>(138,290)</u>	
Excess of capital outlay over depreciation expense		574,385

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (158,530)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 3,667

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. 3,783

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (8,385)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 16,662

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

Bonds issued	(37,050)	
Bond premium	(2,178)	
Capital lease financing	(876)	
Principal retirement	32,546	
Issuance costs deferral	1,452	
Bond issuance costs amortization	(366)	
Bond discount amortization	(13)	
Bond premium amortization	<u>1,399</u>	
Total long-term debt proceeds/repayment		(5,086)

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(233)	
Compensated absences	5,353	
Early retirement benefits	6	
Arbitrage rebate tax	21	
Other liabilities	201	
Total additional expenditures	<u>5,348</u>	<u>5,348</u>
Change in net assets of governmental activities		<u>\$ 596,906</u>

The notes to the financial statements are an integral part of this statement.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 146.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 168.

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT		TOTAL	
		BONDS	NONMAJOR		
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 229,404	\$ 11,242	\$ 61,742	\$ 302,388	\$ 49,172
Receivables (net) (Note 4)	2,516	9,305	19,301	31,122	4,650
Interfund loans receivable (Note 12)	-	-	4	4	309
Due from other governments	19	-	245	264	2
Due from other funds (Note 12)	-	4,184	239	4,423	6,072
Due from component units	50	1,720	1,844	3,614	484
Inventories	-	-	7,757	7,757	2,237
Short-term investments (Note 3)	-	-	-	-	-
Securities lending collateral (Note 3)	-	3	1,301	1,304	575
Other current assets	-	-	339	339	624
Total current assets	231,989	26,454	92,772	351,215	64,125
Noncurrent assets:					
Advances to other funds (Note 12)	-	16,131	75	16,206	-
Advances to component units	-	6,575	-	6,575	-
Long-term investments (Note 3)	-	6,117	3,201	9,318	18,706
Long-term notes/loans receivable	-	36,840	268	37,108	-
Deferred charges	-	1,299	18	1,317	-
Other long-term assets	-	-	1,686	1,686	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,301	7,301	3,645
Equipment	-	3	5,167	5,170	190,977
Infrastructure	-	-	884	884	-
Construction in progress	-	-	309	309	4,470
Intangible assets	-	-	413	413	769
Less accumulated depreciation	-	(3)	(8,114)	(8,117)	(111,687)
Total capital assets	-	-	9,103	9,103	88,505
Total noncurrent assets	-	66,962	14,351	81,313	107,211
Total assets	231,989	93,416	107,123	432,528	171,336

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 274	\$ 1,176	\$ 6,468	\$ 7,918	\$ 8,833
Lottery prizes payable	-	-	1,565	1,565	-
Interfund loans payable (Note 12)	-	-	258	258	5,602
Due to other governments	-	-	406	406	-
Due to other funds (Note 12)	-	4	12,849	12,853	3,298
Due to component units	-	-	-	-	52
Deferred revenue	-	-	6,940	6,940	1,014
Short-term debt (Note 11)	-	83,620	-	83,620	-
Lease/installment purchase payable (Note 10)	-	-	-	-	738
Bonds/notes payable - net (Note 11)	-	939	420	1,359	-
Amounts held in custody for others	-	-	86	86	3
Securities lending liability (Note 3)	-	3	1,301	1,304	575
Estimated insurance claims (Note 8)	-	-	7,387	7,387	12,666
Compensated absences payable (Note 11)	-	17	586	603	2,655
Arbitrage rebate tax payable	-	35	-	35	-
Other current liabilities (Note 11)	-	-	29	29	-
Total current liabilities	274	85,794	38,295	124,363	35,436
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,242	1,242	-
Advances from other funds (Note 12)	-	-	-	-	4,452
Bonds/notes payable - net (Note 11)	-	2,148	430	2,578	-
Estimated insurance claims (Note 8)	-	-	6,472	6,472	16,066
Compensated absences payable (Note 11)	-	25	597	622	2,222
Arbitrage rebate tax payable	-	94	-	94	-
Other long-term liabilities (Note 11)	-	-	227	227	-
Total noncurrent liabilities	-	2,267	8,968	11,235	22,740
Total liabilities	274	88,061	47,263	135,598	58,176
NET ASSETS					
Invested in capital assets, net of related debt	-	-	8,705	8,705	89,225
Restricted for:					
Unemployment Compensation	231,715	-	-	231,715	-
Other Purposes	-	2,922	35,051	37,973	-
Unrestricted	-	2,433	16,104	18,537	23,935
Total net assets	\$ 231,715	\$ 5,355	\$ 59,860	\$ 296,930	\$ 113,160

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	ECONOMIC			TOTAL	
	UNEMPLOYMENT INSURANCE	DEVELOPMENT BONDS	NONMAJOR		
Operating revenues:					
Charges for services	\$ -	\$ 7	\$ 110,681	\$ 110,688	\$ 106,276
Investment earnings	10,296	570	2,182	13,048	2,016
Securities lending income	-	-	57	57	61
Financing income	-	3,050	-	3,050	-
Contributions/premiums	76,754	-	70,019	146,773	112,574
Grants/contracts/donations	7,233	-	35,679	42,912	-
Taxes	-	-	17,317	17,317	-
Other operating revenues	3,493	-	922	4,415	1,986
Total operating revenues	97,776	3,627	236,857	338,260	222,913
Operating expenses:					
Personal services	-	250	10,478	10,728	37,620
Contractual services	-	22	11,261	11,283	19,761
Supplies/materials	-	10	51,488	51,498	21,927
Benefits/claims	70,459	-	95,149	165,608	88,268
Depreciation	-	-	1,222	1,222	11,091
Amortization	-	-	248	248	776
Utilities/rent	-	41	924	965	10,800
Communications	-	6	1,049	1,055	9,153
Travel	-	3	224	227	430
Repair/maintenance	-	1	522	523	8,237
Grants	-	-	1,395	1,395	-
Lottery prize payments	-	-	20,728	20,728	-
Interest expense	-	3,065	46	3,111	374
Securities lending expense	-	-	57	57	60
Arbitrage rebate tax	-	4	-	4	-
Dividend expense	-	-	1,706	1,706	-
Other operating expenses	2,201	38	1,448	3,687	2,941
Total operating expenses	72,660	3,440	197,945	274,045	211,438
Operating income (loss)	25,116	187	38,912	64,215	11,475
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	38
Gain (loss) on sale of capital assets	-	-	-	-	(811)
Federal indirect cost recoveries	-	-	-	-	4,292
Increase (decrease) value of livestock	-	-	284	284	-
Total nonoperating revenues (expenses)	-	-	284	284	3,519
Income (loss) before contributions and transfers	25,116	187	39,196	64,499	14,994
Capital contributions	-	-	385	385	-
Transfers in (Note 12)	-	-	78	78	2,330
Transfers out (Note 12)	(558)	-	(34,326)	(34,884)	(662)
Change in net assets	24,558	187	5,333	30,078	16,662
Total net assets - July 1 - as previously reported	207,157	5,168	54,531	266,856	95,301
Prior period adjustments (Note 2)	-	-	(4)	(4)	1,197
Total net assets - July 1 - as restated	207,157	5,168	54,527	266,852	96,498
Total net assets - June 30	\$ 231,715	\$ 5,355	\$ 59,860	\$ 296,930	\$ 113,160

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 79,084	\$ 7	\$ 180,420	\$ 259,511	\$ 218,409
Payments to suppliers for goods and services	(5,396)	(108)	(100,233)	(105,737)	(71,755)
Payments to employees	-	(249)	(10,282)	(10,531)	(37,699)
Grant receipts	7,164	-	37,223	44,387	4,361
Grant payments	-	-	(1,395)	(1,395)	-
Cash payments for claims	(70,657)	-	(59,829)	(130,486)	(90,565)
Cash payments for prizes	-	-	(20,860)	(20,860)	-
Other operating revenues	5,338	-	1,055	6,393	1,650
Other operating payments	-	-	(1,706)	(1,706)	-
Net cash provided by (used for) operating activities	15,533	(350)	24,393	39,576	24,401
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	17,312	17,312	-
Transfers to other funds	(558)	-	(30,610)	(31,168)	(662)
Transfers from other funds	-	-	61	61	2,330
Proceeds from interfund loans/advances	-	-	(25)	(25)	19,371
Payments of interfund loans/advances	-	-	(4)	(4)	(15,687)
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(5,309)	(445)	(5,754)	(348)
Proceeds from issuance of bonds and notes	-	1,103	-	1,103	-
Net cash provided by (used for) noncapital financing activities	(558)	(4,206)	(13,674)	(18,438)	5,004
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	38
Acquisition of capital assets	-	-	740	740	(14,521)
Proceeds from sale of capital assets	-	-	(1)	(1)	802
Principal and interest payments on bonds and notes	-	-	-	-	(142)
Net cash used for capital and related financing activities	-	-	739	739	(13,823)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(2,146)	(932)	(3,078)	(6,948)
Proceeds from sales or maturities of investments	-	1,794	961	2,755	1,117
Proceeds from securities lending transactions	-	-	52	52	(229)
Interest and dividends on investments	10,296	700	2,113	13,109	2,045
Payment of securities lending costs	-	-	(50)	(50)	229
Collections of principal and interest on loans	-	20,807	-	20,807	-
Cash payment for loans	-	(22,519)	-	(22,519)	-
Arbitrage rebate tax	-	11	-	11	-
Net cash provided by (used for) investing activities	10,296	(1,353)	2,144	11,087	(3,786)
Net increase (decrease) in cash and cash equivalents	25,271	(5,909)	13,602	32,964	11,796
Cash and cash equivalents, July 1	204,133	17,151	48,140	269,424	37,376
Cash and cash equivalents, June 30	\$ 229,404	\$ 11,242	\$ 61,742	\$ 302,388	\$ 49,172

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 25,116	\$ 186	\$ 38,912	\$ 64,214	\$ 11,475
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	1,221	1,221	11,087
Amortization	-	-	248	248	774
Taxes	-	-	(17,317)	(17,317)	-
Interest expense	-	3,065	46	3,111	374
Securities lending expense	-	-	86	86	60
Investment Earnings	(10,296)	(570)	(2,182)	(13,048)	(2,014)
Securities lending income	-	-	(86)	(86)	(61)
Financing income	-	(3,050)	-	(3,050)	-
Federal indirect cost recoveries	-	-	-	-	4,291
Arbitrage rebate tax	-	4	-	4	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	916	-	(1,477)	(561)	(738)
Decr (incr) in due from other funds	(50)	-	(110)	(160)	(508)
Decr (incr) in due from component units	(19)	-	(1,129)	(1,148)	(29)
Decr (incr) in due from other governments	-	-	59	59	-
Decr (incr) in inventories	-	-	(3,671)	(3,671)	(154)
Decr (incr) in other assets	-	-	2,353	2,353	(87)
Incr (decr) in accounts payable	(69)	14	2,932	2,877	1,943
Incr (decr) in lottery prizes payable	-	-	113	113	-
Incr (decr) in due to other funds	(65)	1	(2,506)	(2,570)	791
Incr (decr) in due to component units	-	-	(1)	(1)	29
Incr (decr) in deferred revenue	-	-	3,715	3,715	49
Incr (decr) in amounts held in custody for others	-	-	(10)	(10)	(27)
Incr (decr) in compensated absences payable	-	-	56	56	415
Incr (decr) in estimated claims	-	-	3,141	3,141	(3,269)
Net cash provided by (used for) operating activities	\$ 15,533	\$ (350)	\$ 24,393	\$ 39,576	\$ 24,401
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$ 738
Incr (decr) in fair value of investments	-	-	-	-	163
Total noncash transactions	\$ -	\$ -	\$ -	\$ -	\$ 901

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust Fund

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 186.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 JUNE 30, 2006
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 189,448	\$ 2,597	\$ 655,715	\$ 5,835
Receivables (net):				
Accounts receivable	16,887	-	832	408
Interest	14,178	-	-	-
Due from primary government	15,953	-	-	-
Due from other PERB plans	418	-	-	-
Long-term loans/notes receivable	135	-	-	-
Total receivables	47,571	-	832	408
Investments at fair value:				
Equity in pooled investments (Note 3)	6,673,208	-	-	-
Other investments (Note 3)	375,862	-	-	-
Total investments	7,049,070	-	-	-
Securities lending collateral (Note 3)	133,607	29	10,741	2
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(271)	-	-	-
Intangible assets	833	-	-	-
Total capital assets	907	-	-	-
Other assets	4	7,847	-	10,592
Total assets	7,420,607	10,473	667,288	16,837
LIABILITIES				
Accounts payable	802	3	832	667
Due to primary government	102	-	-	-
Due to other PERB plans	418	-	-	-
Due to component units	24	-	-	-
Advances from primary government	1,360	-	-	-
Deferred revenue	75	-	-	-
Amounts held in custody for others	-	-	800	16,168
Securities lending liability (Note 3)	133,607	29	10,741	2
Compensated absences payable	394	-	-	-
Total liabilities	136,782	32	12,373	16,837
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 7,283,825	\$ 10,441	\$ 654,915	\$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 143,922	\$ -	\$ -
Employee	152,872	-	-
Other contributions	17,461	-	1,174,981
Net investment earnings:			
Investment earnings	593,481	68	23,951
Administrative investment expense	(10,337)	-	-
Securities lending income	10,143	1	419
Securities lending expense	(9,908)	(1)	(418)
Grants/contractions/donations	-	527	-
Charges for services	432	-	-
Other additions	272	2,798	-
Payment from State of Montana	125,000	-	-
Transfers in	233	-	-
Total additions	<u>1,023,571</u>	<u>3,393</u>	<u>1,198,933</u>
DEDUCTIONS			
Benefits	379,923	-	-
Refunds	19,806	-	-
Distributions	-	2,480	1,124,365
Administrative expenses:			
Personal services	2,447	-	-
Contractual services	2,409	-	-
Supplies/materials	89	-	-
Depreciation	5	-	-
Amortization	407	-	-
Utilities/rent	257	-	-
Communications	173	-	-
Travel	63	-	-
Repair/maintenance	56	-	-
Grants	-	8	-
Interest expense	58	-	-
Other operating expenses	389	-	-
Local assistance	11	-	-
Transfers to ORP	183	-	-
Transfers to PERS-DCRP	1,064	-	-
Total deductions	<u>407,340</u>	<u>2,488</u>	<u>1,124,365</u>
Change in net assets	<u>616,231</u>	<u>905</u>	<u>74,568</u>
Net assets - July 1 - as previously reported	6,667,193	9,602	580,347
Prior period adjustments (Note 2)	401	(66)	-
Net assets - July 1 - as restated	<u>6,667,594</u>	<u>9,536</u>	<u>580,347</u>
Net assets - June 30	<u>\$ 7,283,825</u>	<u>\$ 10,441</u>	<u>\$ 654,915</u>

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

Facility Finance Authority

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

State Compensation Insurance Fund (New and Old)

This fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax.

Montana Surplus Lines

Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within the Montana State Auditors' Office. The Association was reactivated in 1989 to operate the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies.

Montana State University and University of Montana

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

COMBINING STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2006

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 7,870	\$ 1,874	\$ 14,919	\$ 8,676
Receivables (net)	17,869	318	15,854	680
Due from primary government	7	-	31	-
Due from other governments	-	-	-	-
Due from component units	-	-	575	-
Inventories	-	-	-	-
Long-term loans/notes receivable	710,946	560	35	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	203,654	-	738,858	43,252
Securities lending collateral (Note 3)	42	30	132,439	14,894
Deferred charges	7,758	-	-	-
Capital assets (net) (Note 5)	55	-	6,601	-
Other assets	232	-	17,313	-
Total assets	948,433	2,782	926,625	67,502
LIABILITIES				
Accounts payable	3,959	10	18,557	198
Due to primary government	22	2	1,171	-
Due to component units	-	-	-	575
Advances from primary government	-	-	-	-
Deferred revenue	-	-	2,107	-
Amounts held in custody for others	-	-	22,119	-
Securities lending liability (Note 3)	42	30	132,439	14,894
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	11,011	11	125,258	12,909
Due in more than one year	793,400	19	467,390	60,827
Total liabilities	808,434	72	769,041	89,403
NET ASSETS				
Invested in capital assets, net of related debt	55	-	6,601	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	139,944	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,710	150,983	(21,901)
Total net assets	\$ 139,999	\$ 2,710	\$ 157,584	\$ (21,901)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL	
\$	517	\$	98,208	\$	92,966	\$	225,030
	120		18,120		23,920		76,881
	-		2,547		1,670		4,255
	-		13,484		7,804		21,288
	-		24		429		1,028
	-		2,729		1,760		4,489
	-		16,665		9,664		737,870
	-		14,358		6,813		21,171
	78		177,358		161,085		1,324,285
	-		1,538		836		149,779
	-		-		1,662		9,420
	-		257,256		253,222		517,134
	-		5,729		2,788		26,062
	715		608,016		564,619		3,118,692
	339		25,275		17,401		65,739
	-		3,101		816		5,112
	-		429		24		1,028
	-		8,551		5,466		14,017
	9		7,791		12,503		22,410
	-		4,024		2,291		28,434
	-		1,538		836		149,779
	-		3,785		6,055		9,840
	-		16,926		13,958		180,073
	-		160,574		168,226		1,650,436
	348		231,994		227,576		2,126,868
	-		164,232		124,522		295,410
	-		18,820		14,775		33,595
	-		84,435		108,433		192,868
	-		-		-		139,944
	275		43,444		56,513		100,232
	92		65,091		32,800		229,775
\$	367	\$	376,022	\$	337,043	\$	991,824

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006
 (amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	\$ 44,104	\$ 323	\$ 240,157	\$ 9,061
PROGRAM REVENUES:				
Charges for services	381	444	211,953	-
Operating grants and contributions	45,773	105	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	46,154	549	211,953	-
Net (expenses) program revenues	2,050	226	(28,204)	(9,061)
GENERAL REVENUES:				
Other taxes	-	-	-	(10)
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	17,114	2,751
Payment from State of Montana	-	-	-	-
Miscellaneous	1	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	17,114	2,741
Change in net assets	2,051	226	(11,090)	(6,320)
Total net assets - July 1 - as previously reported	137,960	2,484	168,674	(15,581)
Prior period adjustments (Note 2)	(12)	-	-	-
Total net assets - July 1 - as restated	137,948	2,484	168,674	(15,581)
Total net assets - June 30	\$ 139,999	\$ 2,710	\$ 157,584	\$ (21,901)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 678	\$ 394,589	\$ 307,395	\$ 996,307
683	164,664	137,033	515,158
-	156,437	109,869	312,184
-	5,323	3,064	8,387
683	326,424	249,966	835,729
5	(68,165)	(57,429)	(160,578)
-	-	-	(10)
-	106	-	106
1	8,147	17,017	45,030
-	87,957	63,527	151,484
-	-	-	1
-	5,553	6,600	12,153
1	101,763	87,144	208,764
6	33,598	29,715	48,186
-	342,424	307,328	943,289
361	-	-	349
361	342,424	307,328	943,638
\$ 367	\$ 376,022	\$ 337,043	\$ 991,824