



A REPORT
TO THE
MONTANA
LEGISLATURE

FEDERAL SINGLE AUDIT

Montana Single Audit Report

*For the Two Fiscal Years Ended
June 30, 2019*

MARCH 2020

LEGISLATIVE AUDIT
DIVISION

18-02

FEDERAL SINGLE AUDIT

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Montana's federal Single Audit is a biennial audit that completes the reporting requirements of the Single Audit Act Amendments of 1996, and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The Single Audit Report is compiled from work performed by other annual or biennial individual agency audit engagements. Individual agency audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing these audits, the audit staff use standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office.

Government Auditing Standards, the Single Audit Act Amendments of 1996, and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports. The Single Audit Report complies with these reporting requirements and is intended for distribution to federal grantor agencies. The individual agency audit reports are not intended to comply with these reporting requirements and are therefore not intended for distribution to federal grantor agencies.

Audit staff members hold degrees with an emphasis in accounting. Many staff members hold Certified Public Accountant (CPA) certificates.

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Reports can be found in electronic format at:
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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

March 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2019. The Single Audit was conducted in accordance with *Government Auditing Standards* and Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). This document contains the Independent Auditor's Reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2019 (page A-5), and June 30, 2018 (page B-5). The Independent Auditor's Reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements.

The audit disclosed certain questioned costs and deficiencies in internal control and compliance, which are summarized in the Schedule of Findings and Questioned Costs (pages C-13 through C-117). The Independent Auditor's Reports on pages A-1 and on B-1 summarize control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 also identifies compliance issues which resulted in opinion modifications for various federal programs administered by the state.

Management at administering agencies have responded to the audit findings, and the responses are included in each finding and the Corrective Action Plan compiled by the Governor's Office of Budget and Program Planning (beginning on page D-1). The status of findings previously reported in state of Montana Single Audit Reports, for which continued reporting is required under Uniform Guidance, is included in the Summary Schedule of Prior Audit Findings (beginning on page E-1), which was also prepared by the Governor's Office of Budget and Program Planning.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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 MONTANA LEGISLATIVE AUDIT DIVISION

FEDERAL SINGLE AUDIT

Montana Single Audit Report

For the Two Fiscal Years Ended June 30, 2019

MARCH 2020

18-02

REPORT SUMMARY

The State of Montana reported approximately \$7.9 billion in federal funds for fiscal years 2018 and 2019. This is an increase over the prior biennium of approximately \$600 million. We identified over \$2.6 million in known questioned costs which are costs inappropriately charged to the federal programs due to violations of federal regulations. Additionally, we project likely questioned costs in excess of \$91.4 million based on our testing. Federal grantor agencies are responsible for resolution of these questioned costs, and have the authority to require funds be repaid.

Context

Montana's Federal Single Audit is a biennial audit that completes the audit and reporting requirements of the Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The report contents are compiled from the work we performed during our annual and biennial agency audits. Single Audits are intended to provide federal grantor agencies with consistent and uniform evaluations of grant recipient's management of federal funds.

The federal government provides extensive requirements for recipients of federal grants. Our audits of each state agency include determining compliance with these requirements when the federal grant is determined to be a major federal program under federal audit guidelines. The state of Montana spent approximately \$4.0 billion and \$3.9 billion in federal funds in fiscal years 2019 and 2018, respectively. Programs with expenditures totaling at least \$22.06 million during the 2019 biennium and not determined to be low risk were identified as major federal programs. The federal audit

guidelines establish criteria to consider when determining when a program is determined to be low risk. Among these requirements are whether the program was audited in one of the two most recent audits and whether any issues related to internal controls, compliance, or questioned costs were identified. After this determination is made, we were required to audit an additional 25 percent, or 1 program in this case, to replace these low risk programs with identified risky programs below the monetary threshold of \$22.06 million. We audited an additional low risk program because initial projections indicated the program would exceed the threshold.

The state of Montana had 23 major federal programs during the 2019 biennium, as listed on page C-14, which are administered by 10 different state agencies. During fiscal years 2019 and 2018, approximately 78 percent of the federal funds spent were related to Montana's major federal programs. Of the 78 percent, the Medicaid Cluster and the Highway Planning and Construction Cluster makes up approximately 52 percent and 16 percent, respectively.

(continued on back)

Results

Federal audit regulations specifically require the Single Audit to report whether each major federal program complied with selected federal requirements. Out of the 23 major federal programs tested, we identified 15 that did not comply with federal requirements in all material respects. We rendered an adverse opinion on 3 programs and a qualified opinion on 12 programs that did not materially comply with federal requirements. We also identified over \$2.6 million of known questioned costs, which are costs that resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Additionally, we project likely questioned costs in excess of \$91.4 million based on our testing.

Federal audit requirements also define varying degrees of deficiencies in internal controls. These include a control deficiency, a significant deficiency, and a material weakness, in order from least to most serious. The 40 recommendations contained in this report include 9 significant deficiencies and 26 material weaknesses.

Federal grantor agencies are the primary users of the Single Audit report, and the form of the audit report is designed to meet their oversight needs. Legislators and others may also find the report useful. In particular, the Schedules of Expenditures of Federal Awards

for fiscal years 2019 and 2018, included in the report provide an overview of the state's federal grant activity, by the Catalog of Federal Domestic Assistance number (CFDA#), and the Corrective Action Plan summarizes the efforts state agencies are taking to remediate identified noncompliance and internal control deficiencies.

FY19 FINANCIAL SECTION

FY19 FINANCIAL SECTION

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LEGISLATIVE AUDIT DIVISION

A-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2019, and the related notes to the financial statements, which collectively comprise the State of Montana's basic financial statements, and have issued our report thereon dated February 13, 2020. Our report includes qualified opinions on the General Fund and Federal Special Revenue Fund opinion units. We issued qualified opinions because the note disclosures do not include a material loss contingency between \$84 and \$163 million required by Generally Accepted Accounting Principles. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the State of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Montana's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We believe the deficiency described below is a material weakness.

The Department of Public Health and Human Services (DPHHS) did not design and maintain adequate internal control over eligibility determinations in the Medicaid and Children's Health Insurance Program (CHIP) during fiscal year 2019. Total expenditures under the programs were \$1.5 billion and \$104 million, respectively. The department's internal controls were not sufficiently designed to identify and remove participants from the Medicaid or CHIP programs when participants misrepresent their household composition, sources of income, and residency in order to circumvent the programs' eligibility requirements.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

The DPHHS does not have adequate internal controls to ensure transactions are processed in compliance with federal Supplemental Nutrition Assistance Program (SNAP) requirements. DPHHS did not receive a System and Organization Controls (SOC)-1 Type 2 report over their service provider that is responsible for settlement, or payment, to retailers that have agreed to accept Electronic Benefit Transactions (EBT) cards for food. EBT payments for SNAP for fiscal year 2019 were approximately \$149 million. Without the SOC-1 Type 2 report, the department has no assurance that system processing is complete, accurate, timely, and authorized which are necessary for adequate internal controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below.

The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans. The Montana Constitution and state law require all retirement systems to be actuarially sound. The actuarial valuations as of June 30, 2019, indicate the Game Wardens' and Peace Officers,' Highway Patrol Officers,' and Public Employees' retirement systems are not actuarially sound as they amortize in 53, 42, and 36 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law.

At DPHHS, a significant number of clients receiving benefits under the department's federal Medicaid and CHIP may not meet the applicable eligibility criteria. Likely questioned costs associated with payments made to ineligible recipients in fiscal year 2019 are projected to be between \$41.6 million and \$81.2 million.

State of Montana's Response to Findings

The State of Montana's response to the findings identified in the report are described in the separately issued Department of Public Health and Human Services audit report (19-14), the separately issued Public Employees' Retirement Administration audit report (18-08B), and on B-1 of this report. The responses in those reports were not subjected to the auditing procedures applied in those audits and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Montana's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Montana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 13, 2020

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying 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, 2019, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

- ◆ Statement of Net Position
- ◆ Statement of Activities
- ◆ Balance Sheet—Governmental Funds
- ◆ Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
- ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
- ◆ Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- ◆ Statement of Fund Net Position—Proprietary Funds
- ◆ Statement of Revenues, Expenses, and Changes in Fund Net Position—Proprietary Funds
- ◆ Statement of Cash Flows—Proprietary Funds
- ◆ Statement of Fiduciary Net Position—Fiduciary Funds
- ◆ Statement of Changes in Fiduciary Net Position—Fiduciary Funds

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 University (MSU) component units and the University of Montana (UM) component units, which represents 15.46 percent, 31.44 percent, and

5.51 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of 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 from material misstatement. The financial statements of the MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the state of Montana's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Qualified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Qualified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions

The Financial Statements do not disclose a loss contingency related to questioned costs between \$84,000,000 and \$163,100,000 of payments made to recipients who may not be eligible for the Medicaid and Children's Health Insurance Program for fiscal years 2018 and 2019 at the state of Montana's Department of Public Health and Human Services. The associated federal findings will be submitted to the Federal Audit Clearinghouse by March 31, 2020 as part of the State of Montana's Single Audit Report. Once submitted, the federal grantor agency is responsible for issuing a management decision regarding the findings and any expected repayment of disallowed costs.

Accounting principles generally accepted in the United State of America require a loss contingency of this magnitude be disclosed. The questioned costs represent a range of costs paid by the federal government which it could disallow, requiring the state to return the federal share. While a contingency is a future event or circumstance which is possible but cannot be predicted with certainty, the likelihood of loss of this contingency is more than remote and therefore disclosure is required.

The omitted disclosure affects both the Federal Special Revenue Fund and General Fund opinion units because the questioned costs are expenditures in the Federal Special Revenue Fund and the General Fund is the only immediate option as alternative funding source if repayment is required.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2019, and the results of operations of the General Fund and Federal Special Revenue Fund major funds of the state of Montana for the year then ended in accordance with the accounting principles generally accepted in the United State of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, State Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Postemployment Benefits (OPEB) Plan Information, and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing

the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2020, 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 grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 13, 2020

**The State of Montana's Basic Financial Statements,
Required Supplementary Information, and
Schedule of Expenditures of Federal Awards**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana are for the fiscal year ended June 30, 2019. 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

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2019 by \$9.7 billion compared with \$8.9 billion at the end of fiscal year 2018, representing a 9.0% increase in net position. Component units reported net position of \$2.1 billion at the end of fiscal year 2019 compared to \$2.1 billion at the end of fiscal year 2018, representing a 0.9% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2019, the State's governmental funds reported combined ending fund balances of \$4.5 billion compared with \$4.0 billion at fiscal year 2018. This represents a \$510.9 million (12.7%) increase in total fund balance. Of the 2019 balance, \$1.8 billion is not in spendable form, primarily as permanent fund principal. Thus, \$2.7 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: \$1.1 billion restricted, \$1.3 billion committed, \$18.0 million assigned, and \$348.6 million unassigned. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2019 in the amount of \$482.6 million compared with fiscal year 2018 net position of \$431.5 million. Of the 2019 business-type activity net position, \$21.3 million was reported as net investment in capital assets. Net position of \$461.3 million was in spendable form with \$19.0 million unrestricted and \$442.3 million restricted to expenditure for a specific purpose. This represents a \$51.2 million (12.5%) increase in spendable net position from the fiscal year 2018 balance of \$410.1 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by \$32.2 million, from \$159.3 million in fiscal year 2018 to \$127.1 million, a 20.2% decrease in fiscal year 2019.

Further detail relating to the State's long-term debt is provided in *notes to the financial statement's* Note 11.

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, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements*. These financial statements also include the

notes to the financial statements, which provide further detail and information related to the balances of the financial statements.

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. In other words, they follow methods that are similar to those used by most businesses, including 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 Position* and the *Statement of Activities*, as defined below.

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information related to the government's net position changes during the most recent fiscal year. All changes in net position 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. 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 activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including 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 and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions 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 Municipal Finance Programs, which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – Operations for which the State has financial accountability, but have certain independent qualities as well. In order to be considered component units, these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State's component units consist of one financing authority, one housing board, one nonprofit independent public corporation, and two universities.

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 can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted individually. The three categories of funds are as follows:

Governmental Funds – 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. 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 – 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. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas internal service funds report activities that provide supplies and services to the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. 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 fund statements use the full accrual basis of accounting.

Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential for a full understanding of the *government-wide* and the *fund financial statements*. The *notes to the financial statements* can be found immediately following the fiduciary fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and major special revenue funds as presented in the governmental *fund financial statements*. Required supplementary information also includes pension and other post employment benefits plan information, as well as additional risk management trend data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year, as reflected in the \$802.9 million increase (9.0%) in net position. This improvement resulted from continued economic growth, particularly related to tax revenue, capital grants and contributions, and investment earnings within the State.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled \$9.7 billion at the end of fiscal year 2019. Net position of both governmental and business-type activities increased by \$751.9 million (8.9%) and \$51.1 million (11.8%), respectively. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position 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 position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position 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 position.

At the end of the current fiscal year, the State reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The negative unrestricted net position is primarily due to the State's net pension liability. GASB Statements No. 68 and 71, related to pension liabilities and other balance sheet components, were implemented in fiscal year 2015 and are contributing factors to the negative net position. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2019	2018	2019	2018	2019
Current and other assets	\$ 5,262,514	\$ 5,762,815	\$ 582,328	\$ 629,612	\$ 5,844,842	\$ 6,392,427
Capital assets	6,190,693	6,480,485	21,627	21,283	6,212,320	6,501,768
Total assets	<u>11,453,207</u>	<u>12,243,300</u>	<u>603,955</u>	<u>650,895</u>	<u>12,057,162</u>	<u>12,894,195</u>
Deferred outflows of resources	<u>372,886</u>	<u>779,931</u>	<u>4,011</u>	<u>2,919</u>	<u>376,897</u>	<u>782,850</u>
Long-term liabilities						
Due in more than one year	2,279,169	2,639,113	23,527	20,277	2,302,696	2,659,390
Other liabilities	<u>1,029,316</u>	<u>976,135</u>	<u>152,122</u>	<u>147,328</u>	<u>1,181,438</u>	<u>1,123,463</u>
Total liabilities	<u>3,308,485</u>	<u>3,615,248</u>	<u>175,649</u>	<u>167,605</u>	<u>3,484,134</u>	<u>3,782,853</u>
Deferred inflows of resources	<u>73,544</u>	<u>212,056</u>	<u>831</u>	<u>3,641</u>	<u>74,375</u>	<u>215,697</u>
Net investment in capital assets	6,088,211	6,402,612	21,395	21,266	6,109,606	6,423,878
Restricted	2,998,805	3,216,332	397,588	442,306	3,396,393	3,658,638
Unrestricted	<u>(642,952)</u>	<u>(423,017)</u>	<u>12,503</u>	<u>18,996</u>	<u>(630,449)</u>	<u>(404,021)</u>
Total net position	<u>\$ 8,444,064</u>	<u>\$ 9,195,927</u>	<u>\$ 431,486</u>	<u>\$ 482,568</u>	<u>\$ 8,875,550</u>	<u>\$ 9,678,495</u>

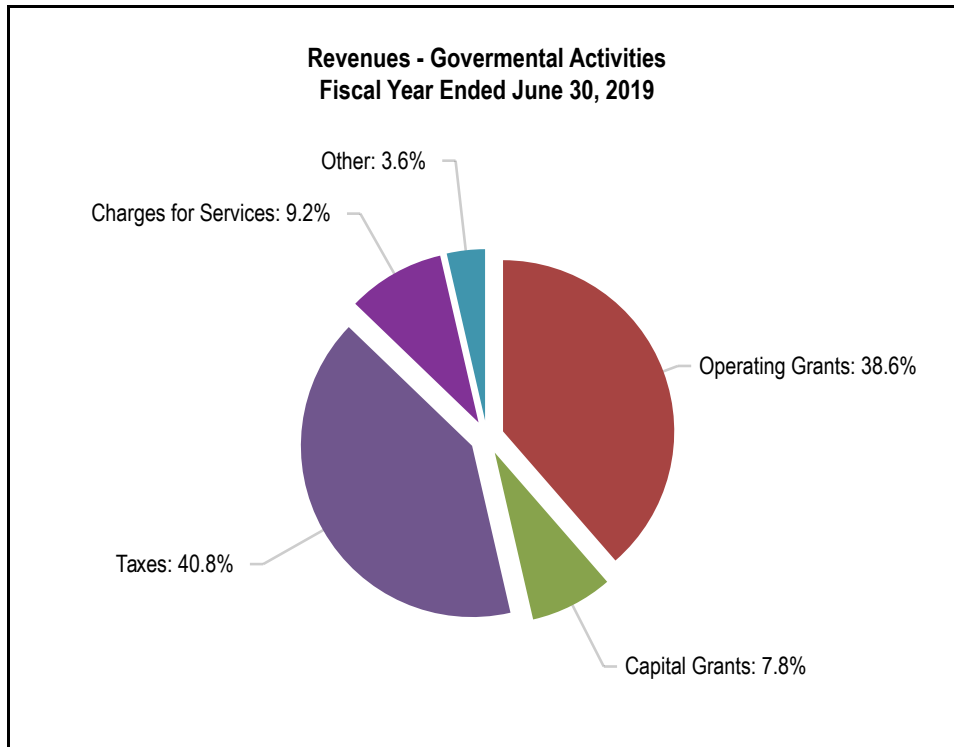
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

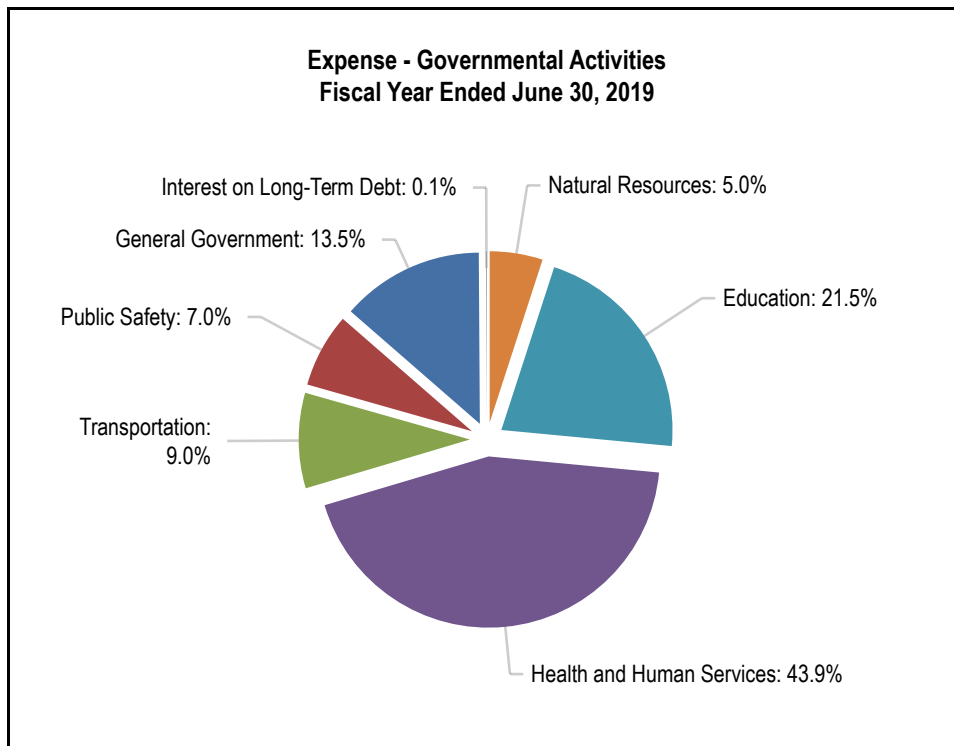
	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2019	2018	2019	2018	2019
Revenues:						
Program revenues						
Charges for services	\$ 594,814	\$ 623,732	\$ 404,890	\$ 426,701	\$ 999,704	\$ 1,050,433
Operating grants	2,555,898	2,611,941	65,885	68,243	2,621,783	2,680,184
Capital grants	447,018	527,900	685	512	447,703	528,412
General revenues						
Taxes	2,625,077	2,762,972	28,846	30,094	2,653,923	2,793,066
Other	69,101	248,070	4,019	2,398	73,120	250,468
Total revenues	<u>6,291,908</u>	<u>6,774,615</u>	<u>504,325</u>	<u>527,948</u>	<u>6,796,233</u>	<u>7,302,563</u>
Expenses:						
General government	674,329	829,657			674,329	829,657
Public safety	429,760	428,514			429,760	428,514
Transportation	527,927	547,907			527,927	547,907
Health and human service	2,681,151	2,680,251			2,681,151	2,680,251
Education	1,299,423	1,314,785			1,299,423	1,314,785
Natural resources	379,525	302,680			379,525	302,680
Interest on long-term debt	6,743	5,454			6,743	5,454
Unemployment Insurance			113,843	108,507	113,843	108,507
Liquor Stores			86,118	89,971	86,118	89,971
State Lottery			45,896	48,061	45,896	48,061
Municipal Finance Programs			2,648	2,937	2,648	2,937
Hail Insurance			576	933	576	933
Gen Govt Services			73,539	70,154	73,539	70,154
Prison Funds			9,130	9,307	9,130	9,307
MUS Group Insurance			88,912	88,330	88,912	88,330
MUS Workers Comp			2,738	3,887	2,738	3,887
Total expenses	<u>5,998,858</u>	<u>6,109,248</u>	<u>423,400</u>	<u>422,087</u>	<u>6,422,258</u>	<u>6,531,335</u>
Increase (decrease) in net position before transfers	293,050	665,367	80,925	105,861	373,975	771,228
Transfers	48,854	55,786	(48,854)	(55,786)	—	—
Change in net position	<u>341,904</u>	<u>721,153</u>	<u>32,071</u>	<u>50,075</u>	<u>373,975</u>	<u>771,228</u>
Net position, beg of year (as adjusted)	8,102,160	8,474,774	399,415	432,493	8,501,575	8,907,267
Net position, end of year	<u>\$ 8,444,064</u>	<u>\$ 9,195,927</u>	<u>\$ 431,486</u>	<u>\$ 482,568</u>	<u>\$ 8,875,550</u>	<u>\$ 9,678,495</u>

Governmental Activities

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

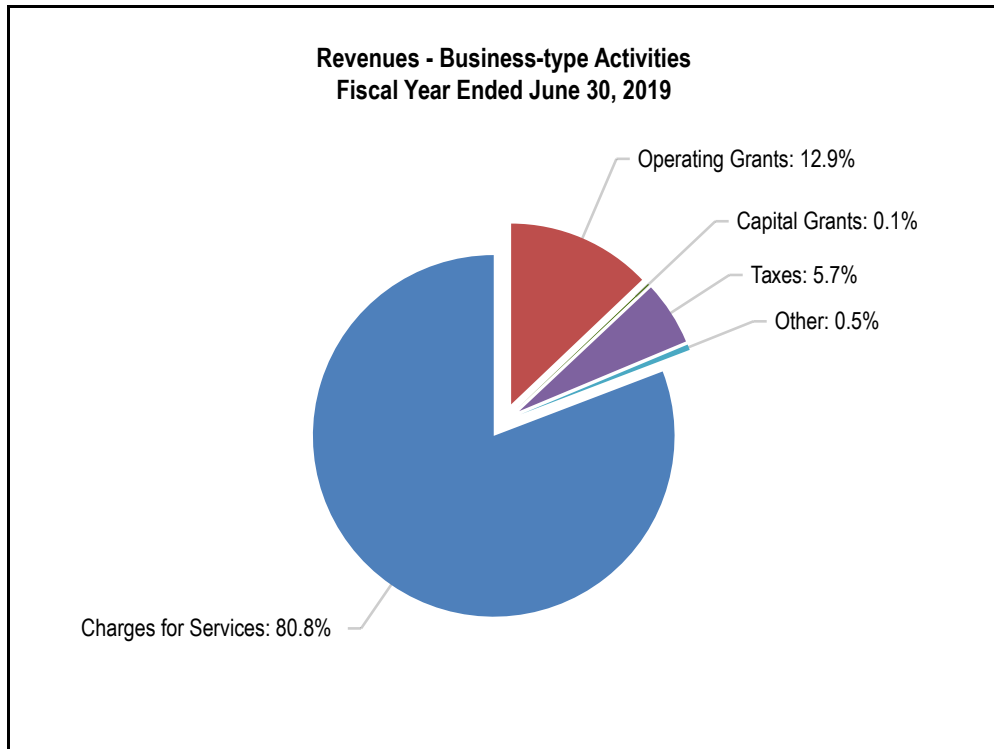


The following chart depicts expenses of the governmental activities for the fiscal year:

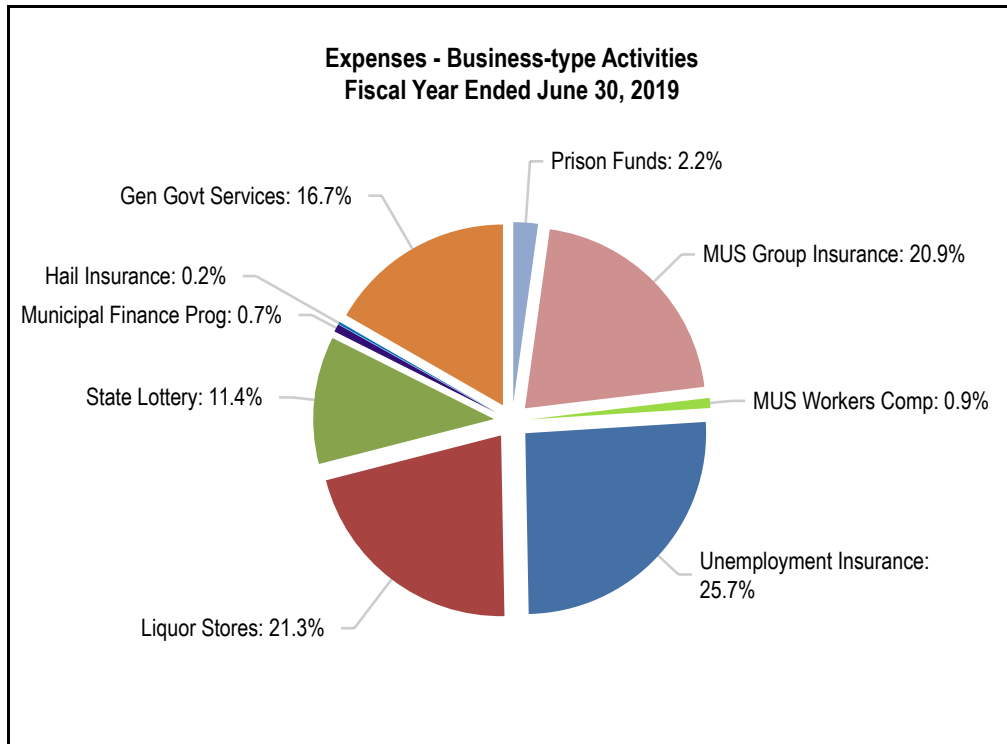


Business-type Activities

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 \$4.5 billion. Of this total, \$2.7 billion (60.6%) constitutes spendable fund balance and \$1.8 billion (39.4%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. For fiscal year 2019, the total fund balance of the General Fund was reported at approximately \$443.4 million. Of this balance, \$4.2 million is non-spendable. The remaining \$439.2 million is spendable with \$60.7 million committed, \$17.2 million assigned, and \$361.3 million unassigned. This represents 16.0% of the \$2.7 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, \$17.2 million relates to outstanding encumbrances at the end of the fiscal year. The committed fund balance of \$60.7 million relates to the balance of the Budget Stabilization Reserve Fund, which is combined with the General Fund for financial statement presentation. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance increased by \$244.1 million when compared to the previously reported fund balance of \$199.3 million. Changes in both expenditures and revenues are discussed in detail below. The Governor's Budget, as disclosed in the State of Montana Biennial Balance Sheet, dated November 15, 2018, showed enacted and proposed fund balance for the General Fund of \$168.5 million for fiscal year 2019, without regard to a fund balance spend down.

General Fund Revenues – Total General Fund revenues were \$2.5 billion for fiscal year 2019 (lower than legislative estimation), a 8.2% increase from the \$2.3 billion reported in 2018 (which were lower than legislative estimation). Fiscal year 2019 tax revenue increased by 8.3% in total over 2018, with corporate income tax collections up 11.8% and individual income tax collections increased by 10.5%. Other noted increases in revenues included investment earnings.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2019 increased by \$53.4 million (2.4%). This increase in expenditures occurred in the general government, health and human services, and education functions as follows:

- General Government expenditures increased by \$10.0 million (2.9%)
- Health and human services expenditures increased by \$9.2 million (1.8%)
- Education expenditures increased by \$28.6 million (2.8%)

The General Fund's actual revenues and expenditures in comparison to budgeted revenues and expenditures is provided in more depth on the Budgetary Comparison Schedule within the Required Supplementary Information section of this report. The same level of detail used to report the actual revenues and expenditures is not readily available for all budgetary revenues and expenditures, which may cause some variances.

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2019, general fund appropriations that reverted to 2020 were \$42.4 million.

The Department of Public Health and Human Services had unspent appropriations of \$19.1 million related to Medicaid savings and other operational costs.

The Office of Public Instruction had unspent appropriations of \$7.5 million related to operational transfers and education costs.

The Department of Corrections had unspent appropriations of \$5.8 million related to mitigation of expenditures and community placement into alternative programs.

The Judicial Branch had unspent appropriations of \$3.3 million related to supplemental transfers and operations costs.

The Department of Legislative Services had unspent appropriations of \$1.9 million related to operational costs and the reserve accounts.

The Department of Justice had unspent appropriations of \$1.2 million related to operational costs, retirement transfers, and sobriety testing program costs.

The Department of Administration had unspent appropriations of \$1.2 million, and these were attributable to supplemental transfers, banking charges, and other operational costs.

The remaining unspent appropriation of \$2.2 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund

The fund balance of the State Special Revenue Fund increased by \$112.8 million to \$1.7 billion. Revenues increased by \$85.9 million (8.9%) and expenditures increased \$13.9 million (1.3%), for fiscal year 2019. The largest increases in revenues are attributable to an increase in investment earnings, grants/contracts/donations, and charges for services, along with licenses and permits. The largest increases in expenditures are attributable to capital outlay expenditures for infrastructure and land easements. Other financing sources, such as insurance proceeds, increased due to claims for damage suffered to MSU buildings.

Federal Special Revenue Fund

The fund balance of the Federal Special Revenue Fund decreased by \$2.5 million (25.3%) to the balance of negative \$12.6 million. Revenues and expenditures increased by \$83.5 million (2.9%) and \$62.1 million (2.2%) respectively, for the fiscal year 2019. Revenue increases are attributable to increases in federal program revenue, while expenditure increases are attributable to increases in capital outlay related expenditures. The capital outlay expenditure increase of 21.1% is attributable to infrastructure expenditure increases by transportation.

Coal Severance Tax Permanent Fund

The fund balance of the Coal Severance Tax Permanent Fund increased by \$65.8 million (6.0%) to \$1.2 billion. Revenue increased by \$66.3 million (168.7%) to \$105.7 million, primarily due to an increase of investment revenue in the equity in pooled investments. Transfers out, which decreased by \$4.2 million (9.5%), and the increase in investment earnings helped lead to the increase in fund balance.

Land Grant Permanent Fund

The fund balance of the Land Grant Permanent Fund increased by \$64.0 million (9.0%) to \$774.2 million. Revenue increased by \$64.7 million to a total of \$129.7 million, and investment earnings made up \$54.6 million of the increase. Transfers out were \$66.4 million, which was an increase of \$4.2 million compared to 2018. The increase in revenue combined with the increase in transfers lead to an overall increase in fund balance.

Unemployment Insurance Enterprise Fund

Net position restricted for unemployment compensation increased by \$37.3 million (11.9%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2019, accompanied by an increase in the taxable wage base from \$32.0 thousand to \$33.0 thousand in 2019.

Municipal Finance Programs Fund

Net position increased by 6.0% to \$5.4 million in fiscal year 2019. Financing income revenue increased \$212.0 thousand, and investment earnings increased \$433.0 thousand, while expenses from interest expense increased \$349.0 thousand. Overall revenues and expenditures increased 25.0% and 10.9%, which resulted in an increase of \$304.0 thousand to net position.

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, 2019, amounted to \$8.9 billion, with related accumulated depreciation of \$2.4 billion, leaving a net book value of \$6.5 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, intangible assets, 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 \$289.4 million or 4.7% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the *notes to the financial statements*.

Debt Administration

Montana continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA), and Fitch Ratings (AA+), which remain unchanged from 2018.

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 \$84.5 million at June 30, 2018, to \$73.1 million at June 30, 2019. There is cash available, of \$7.5 million at the end of fiscal year 2019, in debt service funds to service general obligation debt.

The below table contains the ratio of general obligation debt and total State debt to personal income and to the amount of debt per capita:

	Amount (in thousands)	Percentage of Personal Income ⁽¹⁾	State Debt Per Capita ⁽²⁾
General obligation debt	\$ 73,090	0.15 %	\$ 69
Total State debt ⁽³⁾	\$ 132,228	0.30 %	\$ 125

⁽¹⁾ Based on personal income for calendar year 2018.
⁽²⁾ Based on estimated 2018 Montana population.
⁽³⁾ Based on total of general obligation bonds, special revenue bonds, notes payable, and lease/installment purchase payable for the percentage and state debt per capita.

More detailed information regarding the State's long-term obligations is provided in Note 11 of the notes to the financial statements and in the statistical tables.

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in nonresident travel, agriculture, and mining, as well as service-providing industries. Per the 2019 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 0.8% in 2019, which was faster than the rate of inflation. Montana's unemployment rate has continued to remain low, and the rate in July 2019 was 3.4% with the national rate around 3.7%. Montana added roughly 5,400 jobs in 2018, for a growth rate of 1.1%. Montana had an estimated 1,062,305 population as of July 1, 2018. The Montana labor market has total nonfarm workers of 484,700 in August 2019 as compared to 479,800 in September 2018. Montana's real GDP growth over the time period 2017 to 2018 was .09%, while the nation change was 2.9%. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2019, the Game Warden & Peace Officers' Retirement System (GWORS), the Highway Patrol Officers' Retirement System (HPORS), and the Public Employees' Retirement System - Defined Benefit Retirement System (PERS-DBRP) were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2019.

The actuarial condition of these retirement plans is disclosed in greater detail in Note 6 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

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, Statewide Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION
JUNE 30, 2019
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,612,746	\$ 494,837	\$ 2,107,583	\$ 470,957
Receivables (net) (Note 4)	519,928	43,731	563,659	149,579
Due from primary government	—	—	—	1,339
Due from other governments	338,388	209	338,597	29,945
Due from component units	1,075	3,228	4,303	204
Internal balances	9,860	(9,860)	—	—
Inventories	27,742	5,022	32,764	4,884
Advances to component units	14,476	22,119	36,595	—
Long-term loans/notes receivable	513,144	39,516	552,660	579,706
Equity in pooled investments (Note 3)	2,432,243	18,314	2,450,557	49,230
Investments (Note 3)	212,810	8,355	221,165	2,092,058
Securities lending collateral (Note 3)	27,994	211	28,205	669
Net pension asset (Note 6)	42,459	—	42,459	—
Other assets	9,950	3,930	13,880	68,103
Depreciable capital assets and infrastructure, net (Note 5)	4,303,317	9,956	4,313,273	862,632
Land and nondepreciable capital assets (Note 5)	2,177,168	11,327	2,188,495	112,661
Total assets	12,243,300	650,895	12,894,195	4,421,967
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	779,931	2,919	782,850	77,440
LIABILITIES				
Accounts payable (Note 4)	688,447	20,233	708,680	115,385
Lottery prizes payable	—	3,434	3,434	—
Due to primary government	—	—	—	4,303
Due to other governments	31,440	113	31,553	32
Due to component units	1,339	—	1,339	204
Due to pension trust funds	32,587	—	32,587	—
Advances from primary government	—	—	—	36,595
Unearned revenue	30,837	2,205	33,042	92,702
Amounts held in custody for others	23,303	30	23,333	14,804
Securities lending liability (Note 3)	27,994	211	28,205	669
Other liabilities	5,998	2,211	8,209	22,400
Short-term debt (Note 11)	—	105,065	105,065	—
Long-term liabilities (Note 11):				
Due within one year	134,190	13,826	148,016	184,054
Due in more than one year	364,339	7,327	371,666	1,688,809
Net pension liability (Note 6)	2,220,765	11,943	2,232,708	193,190
Total OPEB liability (Note 7)	54,009	1,007	55,016	39,694
Total liabilities	3,615,248	167,605	3,782,853	2,392,841
DEFERRED INFLOWS OF RESOURCES (Note 4)	212,056	3,641	215,697	35,704

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET POSITION				
Net investment in capital assets	\$ 6,402,612	\$ 21,266	\$ 6,423,878	\$ 685,339
Restricted for:				
General government	4,691	—	4,691	—
Transportation	85,939	—	85,939	—
Natural resources	589,869	—	589,869	—
Public safety	220,927	—	220,927	—
Education	7,214	—	7,214	—
Funds held as permanent investments:				
Nonexpendable	1,760,945	—	1,760,945	427,988
Expendable	546,747	—	546,747	—
Unemployment compensation	—	351,527	351,527	—
Montana Board of Housing	—	—	—	157,475
Other purposes	—	90,779	90,779	243,107
Unrestricted	(423,017)	18,996	(404,021)	556,953
Total net position	\$ 9,195,927	\$ 482,568	\$ 9,678,495	\$ 2,070,862

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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	\$ 829,657	\$ 185,120	\$ 132,246	\$ 936	\$ (511,355)
Public safety	428,514	180,998	55,948	—	(191,568)
Transportation	547,907	31,019	67,711	500,444	51,267
Health and human services	2,680,251	44,517	2,015,043	—	(620,691)
Education	1,314,785	2,106	199,726	495	(1,112,458)
Natural resources	302,680	179,972	141,267	26,025	44,584
Interest on long-term debt	5,454	—	—	—	(5,454)
Total governmental activities	6,109,248	623,732	2,611,941	527,900	(2,345,675)
Business-type activities:					
Unemployment Insurance	108,507	129,394	15,546	—	36,433
Liquor Stores	89,971	104,456	—	—	14,485
State Lottery	48,061	60,269	—	—	12,208
Municipal Finance Programs	2,937	41	3,199	—	303
Hail Insurance	933	1,032	44	—	143
Other Service	70,154	25,871	46,114	512	2,343
Prison Funds	9,307	7,864	—	—	(1,443)
MUS ¹ Group Insurance	88,330	97,774	2,722	—	12,166
MUS ¹ Workers Compensation	3,887	—	618	—	(3,269)
Total business-type activities	422,087	426,701	68,243	512	73,369
Total primary government	\$ 6,531,335	\$ 1,050,433	\$ 2,680,184	\$ 528,412	\$ (2,272,306)
Component units:					
Montana Board of Housing	\$ 22,715	\$ 1,802	\$ 24,873	\$ —	\$ 3,960
Facility Finance Authority	696	831	188	—	323
Montana State Fund	228,399	161,259	—	—	(67,140)
Montana State University	601,728	288,465	205,073	15,551	(92,639)
University of Montana	455,815	180,684	134,960	20,299	(119,872)
Total component units	\$ 1,309,353	\$ 633,041	\$ 365,094	\$ 35,850	\$ (275,368)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net position:				
Net (expense) revenue	\$ (2,345,675)	\$ 73,369	\$ (2,272,306)	\$ (275,368)
General revenues:				
Taxes:				
Property	305,126	—	305,126	—
Fuel	261,687	—	261,687	—
Natural resource	210,004	—	210,004	—
Individual income	1,416,716	—	1,416,716	—
Corporate income	186,172	—	186,172	—
Other (Note 1)	383,267	30,094	413,361	—
Unrestricted grants and contributions	471	—	471	109
Settlements	27,713	—	27,713	—
Unrestricted investment earnings	201,926	142	202,068	19,520
Transfers from primary government	—	—	—	231,480
Gain (loss) on sale of capital assets	7,320	7	7,327	(768)
Miscellaneous	10,640	2,249	12,889	479
Contributions to term and permanent endowments	—	—	—	35,873
Transfers between primary government	55,786	(55,786)	—	—
Total general revenues, contributions, and transfers	3,066,828	(23,294)	3,043,534	286,693
Change in net position	721,153	50,075	771,228	11,325
Total net position - July 1 - as previously reported	8,444,064	431,486	8,875,550	2,053,358
Adjustments to beginning net position (Note 2)	30,710	1,007	31,717	6,179
Total net position - July 1 - as adjusted	8,474,774	432,493	8,907,267	2,059,537
Total net position - June 30	\$ 9,195,927	\$ 482,568	\$ 9,678,495	\$ 2,070,862

¹Montana University System

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2019

(amounts expressed in thousands)

	<u>SPECIAL REVENUE</u>		
	<u>GENERAL</u>	<u>STATE</u>	<u>FEDERAL</u>
ASSETS			
Cash/cash equivalents (Note 3)	\$ 473,700	\$ 807,146	\$ 57,604
Receivables (net)	292,305	121,979	76,683
Interfund loans receivable (Note 12)	73,970	83,777	—
Due from other governments	11,894	843	325,648
Due from other funds (Note 12)	31,013	10,186	2,886
Due from component units	—	905	—
Inventories	3,501	19,910	—
Equity in pooled investments (Note 3)	—	366,834	—
Long-term loans/notes receivable	—	485,826	4,870
Advances to other funds (Note 12)	363	39,017	—
Advances to component units	—	6,888	—
Investments (Note 3)	6,559	33,125	746
Securities lending collateral (Note 3)	—	4,222	—
Other assets	2,684	6,174	177
Total assets	<u>\$ 895,989</u>	<u>\$ 1,986,832</u>	<u>\$ 468,614</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 257,045	\$ 174,448	\$ 237,821
Interfund loans payable (Note 12)	—	3,152	152,611
Due to other governments	221	29,481	1,739
Due to other funds (Note 12)	2,870	13,491	936
Due to component units	32,645	309	973
Advances from other funds (Note 12)	—	6,836	36,209
Unearned revenue	2,612	23,312	9,563
Amounts held in custody for others	6,720	12,546	3,981
Securities lending liability (Note 3)	—	4,222	—
Other liabilities	—	521	—
Total liabilities	<u>302,113</u>	<u>268,318</u>	<u>443,833</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>150,467</u>	<u>4,680</u>	<u>37,395</u>
Fund balances (Note 14):			
Nonspendable	4,197	20,806	119
Restricted	—	1,077,150	—
Committed	60,721	615,878	—
Assigned	17,178	—	—
Unassigned	361,313	—	(12,733)
Total fund balances	<u>443,409</u>	<u>1,713,834</u>	<u>(12,614)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 895,989</u>	<u>\$ 1,986,832</u>	<u>\$ 468,614</u>

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

PERMANENT				
	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
\$	53,851	\$ 16,870	\$ 64,881	\$ 1,474,052
	10,993	2,406	6,872	511,238
	—	—	—	157,747
	—	—	—	338,385
	5	—	1,619	45,709
	108	—	—	1,013
	—	—	—	23,411
	925,242	754,949	364,948	2,411,973
	—	—	22,448	513,144
	1,725	—	6,773	47,878
	7,589	—	—	14,477
	157,935	—	—	198,365
	10,649	8,689	4,200	27,760
	—	—	—	9,035
\$	1,168,097	\$ 782,914	\$ 471,741	\$ 5,774,187

\$	—	\$ —	2,668	\$ 671,982
	1,678	—	357	157,798
	—	—	—	31,441
	33	—	703	18,033
	—	—	—	33,927
	—	—	7,423	50,468
	—	—	—	35,487
	—	32	25	23,304
	10,649	8,689	4,200	27,760
	—	—	—	521
	12,360	8,721	15,376	1,050,721
	—	—	311	192,853
	622,645	774,193	362,256	1,784,216
	—	—	30,892	1,108,042
	533,092	—	62,129	1,271,820
	—	—	805	17,983
	—	—	(28)	348,552
	1,155,737	774,193	456,054	4,530,613
\$	1,168,097	\$ 782,914	\$ 471,741	\$ 5,774,187

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

JUNE 30, 2019

(amounts expressed in thousands)

Total fund balances - governmental funds	\$	4,530,613
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Amounts reported for governmental activities in the Statement of Net Position are different due to:

Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):

Depreciable capital assets and infrastructure, net	\$	4,303,317	
Land and nondepreciable capital assets		<u>2,177,168</u>	6,480,485

Deferred outflows of resources represent a consumption of net assets that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds.	779,931
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Other assets not available in the current period and therefore are not reported in the governmental funds:

Net pension asset	42,459
Long-term receivables	(363)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets and liabilities and of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets, deferred outflows of resources, deferred inflows of resources and long-term liabilities reported in specific areas.	166,913
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Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.	(11,605)
--	----------

A portion of deferred inflows of resources represents an acquisition of net assets that will be recognized as an inflow of resources in a future period, which differs than that reported in the governmental funds.	(19,203)
--	----------

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):

Other long-term liabilities	(498,529)	
Net pension liability	(2,220,765)	
Total OPEB liability	<u>(54,009)</u>	<u>(2,773,303)</u>

Total net position - governmental activities	<u>\$</u>	<u>9,195,927</u>
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The notes to the financial statements are an integral part of this statement.

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (amounts expressed in thousands)

	<u>SPECIAL REVENUE</u>		
	<u>GENERAL</u>	<u>STATE</u>	<u>FEDERAL</u>
REVENUES (Note 14)			
Licenses/permits	\$ 126,135	\$ 234,410	\$ —
Taxes:			
Natural resource	86,211	83,705	—
Individual income	1,419,959	—	—
Corporate income	186,012	—	—
Property	288,070	17,057	—
Fuel	—	261,290	—
Other	241,604	141,023	1
Charges for services/fines/forfeits/settlements	37,153	120,533	6,786
Investment earnings	23,647	40,606	599
Securities lending income	—	110	—
Sale of documents/merchandise/property	314	10,374	15
Rentals/leases/royalties	10	1,090	—
Contributions/premiums	5,833	28,745	—
Grants/contracts/donations	8,261	50,158	17
Federal	21,475	7,489	2,848,049
Federal indirect cost recoveries	157	54,411	82,051
Other revenues	5,863	3,488	1,306
Total revenues	<u>2,450,704</u>	<u>1,054,489</u>	<u>2,938,824</u>
EXPENDITURES			
Current:			
General government	360,596	196,219	90,512
Public safety	313,996	94,379	18,566
Transportation	—	242,915	116,829
Health and human services	526,712	168,847	2,006,938
Education	1,036,533	82,462	196,400
Natural resources	32,012	194,083	82,386
Debt service:			
Principal retirement	15	634	39
Interest/fiscal charges	216	226	6
Capital outlay	3,579	72,932	398,090
Securities lending	—	67	—
Total expenditures	<u>2,273,659</u>	<u>1,052,764</u>	<u>2,909,766</u>
Excess of revenue over (under) expenditures	<u>177,045</u>	<u>1,725</u>	<u>29,058</u>
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	234	555	19
Insurance proceeds	2	13,783	—
General capital asset sale proceeds	89	872	71
Refunding bond issued	—	—	—
Payment to refunding bond escrow agent	—	—	—
Energy conservation loans	—	271	—
Transfers in (Note 12)	122,579	175,613	2,368
Transfers out (Note 12)	(58,976)	(80,541)	(32,086)
Total other financing sources (uses)	<u>63,928</u>	<u>110,553</u>	<u>(29,628)</u>
Net change in fund balances	<u>240,973</u>	<u>112,278</u>	<u>(570)</u>
Fund balances - July 1 - as previously reported	199,319	1,601,060	(10,069)
Adjustments to beginning fund balance (Note 2)	2,819	(624)	(1,975)
Fund balances - July 1 - as adjusted	202,138	1,600,436	(12,044)
Increase (decrease) in inventories	298	1,120	—
Fund balances - June 30	<u>\$ 443,409</u>	<u>\$ 1,713,834</u>	<u>\$ (12,614)</u>

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

PERMANENT				
	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
\$	—	\$ 1,844	\$	—
	30,638	—	9,389	209,943
	—	—	—	1,419,959
	—	—	—	186,012
	—	—	—	305,127
	—	—	—	261,290
	—	—	1,585	384,213
	—	—	11,243	175,715
	74,764	56,691	39,122	235,429
	257	210	98	675
	—	11,717	—	22,420
	—	59,126	—	60,226
	—	—	—	34,578
	—	106	—	58,542
	—	—	—	2,877,013
	—	—	—	136,619
	—	19	—	10,676
	105,659	129,713	61,437	6,740,826
	—	—	105	647,432
	—	—	244	427,185
	—	—	—	359,744
	—	—	1,411	2,703,908
	—	—	12	1,315,407
	—	4,488	43	313,012
	—	—	27,180	27,868
	—	—	6,072	6,520
	—	1,722	16,744	493,067
	158	129	60	414
	158	6,339	51,871	6,294,557
	105,501	123,374	9,566	446,269
	—	—	—	808
	—	—	—	13,785
	—	6,976	8	8,016
	—	—	4,575	4,575
	—	—	(6,844)	(6,844)
	—	—	—	271
	275	5	39,984	340,824
	(39,989)	(66,359)	(20,450)	(298,401)
	(39,714)	(59,378)	17,273	63,034
	65,787	63,996	26,839	509,303
	1,089,950	710,197	429,241	4,019,698
	—	—	(26)	194
	1,089,950	710,197	429,215	4,019,892
	—	—	—	1,418
\$	1,155,737	\$ 774,193	\$ 456,054	\$ 4,530,613

**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, 2019

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	509,303
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):		
Capital outlay	\$	493,067
Depreciation expense and amortization		<u>(230,093)</u>
		262,974
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.		(1,635)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		9,660
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.		32,344
Some expenses 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. Some expenditures reported in the governmental funds either increase or decrease items reported in the Statement of Net Position.		<u>(91,493)</u>
Change in net position - governmental activities	\$	<u><u>721,153</u></u>

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

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**STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2019

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 347,980	\$ 27,724	\$ 119,133	\$ 494,837	\$ 138,695
Receivables (net) (Note 4)	4,738	8,367	30,626	43,731	9,056
Interfund loans receivable (Note 12)	—	—	22	22	44
Due from other governments	43	—	166	209	6
Due from other funds (Note 12)	—	1,846	2	1,848	40
Due from component units	—	3,228	—	3,228	63
Inventories	—	—	5,022	5,022	4,331
Short-term investments (Note 3)	—	2,684	—	2,684	—
Securities lending collateral (Note 3)	—	—	211	211	233
Other current assets	—	—	368	368	917
Total current assets	352,761	43,849	155,550	552,160	153,385
Noncurrent assets:					
Advances to other funds (Note 12)	—	5,961	—	5,961	—
Advances to component units	—	22,119	—	22,119	—
Long-term investments (Note 3)	—	701	23,284	23,985	34,714
Long-term notes/loans receivable	507	39,009	—	39,516	—
Other long-term assets	—	2,211	1,351	3,562	—
Capital assets (Note 5):					
Land	—	—	800	800	—
Land improvements	—	—	3,830	3,830	95
Buildings/improvements	—	—	10,199	10,199	6,069
Equipment	—	3	9,570	9,573	256,368
Infrastructure	—	—	1,175	1,175	—
Construction work in progress	—	—	6,887	6,887	6,159
Intangible assets	—	—	2,062	2,062	1,093
Other capital assets	—	—	3,640	3,640	—
Less accumulated depreciation	—	(3)	(16,880)	(16,883)	(160,856)
Total capital assets	—	—	21,283	21,283	108,928
Total noncurrent assets	507	70,001	45,918	116,426	143,642
Total assets	353,268	113,850	201,468	668,586	297,027
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	—	80	2,839	2,919	12,159

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2019
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 1,741	\$ 681	\$ 17,811	\$ 20,233	\$ 14,347
Lottery prizes payable	—	—	2,477	2,477	—
Interfund loans payable (Note 12)	—	—	—	—	15
Due to other governments	—	—	113	113	—
Due to other funds (Note 12)	—	—	17,691	17,691	1,842
Unearned revenue	—	—	2,205	2,205	1,380
Lease/installment purchase payable (Note 10)	—	—	18	18	3,336
Short-term debt (Note 11)	—	105,065	—	105,065	—
Bonds/notes payable - net (Note 11)	—	—	—	—	290
Amounts held in custody for others	—	—	30	30	—
Securities lending liability (Note 3)	—	—	211	211	233
Estimated insurance claims (Note 8)	—	—	12,717	12,717	23,296
Compensated absences payable (Note 11)	—	19	1,029	1,048	4,135
Arbitrage rebate tax payable (Note 11)	—	43	—	43	—
Total current liabilities	1,741	105,808	54,302	161,851	48,874
Noncurrent liabilities:					
Lottery prizes payable	—	—	957	957	—
Advances from other funds (Note 12)	—	—	—	—	3,371
Lease/installment purchase payable (Note 10)	—	—	—	—	8,119
Bonds/notes payable - net (Note 11)	—	—	—	—	409
Estimated insurance claims (Note 8)	—	—	6,352	6,352	11,757
Compensated absences payable (Note 11)	—	51	923	974	3,635
Arbitrage rebate tax payable (Note 11)	—	1	—	1	—
Net pension liability (Note 6)	—	344	11,599	11,943	52,086
Total OPEB liability (Note 7)	—	20	987	1,007	3,188
Other liabilities	—	2,211	—	2,211	—
Total noncurrent liabilities	—	2,627	20,818	23,445	82,565
Total liabilities	1,741	108,435	75,120	185,296	131,439
DEFERRED INFLOWS OF RESOURCES (Note 4)	—	82	3,559	3,641	11,768
NET POSITION					
Net investment in capital assets	—	—	21,266	21,266	92,265
Restricted for:					
Unemployment compensation	351,527	—	—	351,527	—
Other purposes	—	1,693	89,086	90,779	—
Unrestricted	—	3,720	15,276	18,996	73,714
Total net position	\$ 351,527	\$ 5,413	\$ 125,628	\$ 482,568	\$ 165,979

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	\$ 129	\$ 41	\$ 185,462	\$ 185,632	\$ 157,190
Investment earnings	8,036	683	3,798	12,517	3,432
Securities lending income	—	—	5	5	14
Financing income	—	2,516	—	2,516	—
Contributions/premiums	129,265	—	111,221	240,486	205,735
Grants/contracts/donations	7,510	—	45,856	53,366	3,380
Other operating revenues	—	—	2,833	2,833	10,154
Total operating revenues	144,940	3,240	349,175	497,355	379,905
Operating expenses:					
Personal services	—	402	15,489	15,891	62,255
Contractual services	—	85	22,089	22,174	37,911
Supplies/materials	—	8	92,234	92,242	21,660
Benefits/claims	108,507	35	137,756	246,298	182,211
Depreciation	—	—	1,013	1,013	16,285
Amortization	—	—	102	102	720
Utilities/rent	—	51	1,189	1,240	7,128
Communications	—	7	1,018	1,025	11,841
Travel	—	4	336	340	577
Repairs/maintenance	—	—	1,114	1,114	25,907
Grants	—	—	—	—	178
Lottery prize payments	—	—	34,492	34,492	—
Securities lending expense	—	—	3	3	7
Arbitrage rebate tax	—	27	—	27	—
Interest expense	—	2,255	14	2,269	512
Other operating expenses	—	63	3,125	3,188	5,695
Total operating expenses	108,507	2,937	309,974	421,418	372,887
Operating income (loss)	36,433	303	39,201	75,937	7,018
Nonoperating revenues (expenses):					
Tax revenues (Note 1)	—	—	30,094	30,094	—
Insurance proceeds	—	—	—	—	368
Gain (loss) on sale of capital assets	—	—	(656)	(656)	(208)
Federal indirect cost recoveries	—	—	—	—	10,660
Increase (decrease) value of livestock	—	—	(4)	(4)	—
Total nonoperating revenues (expenses)	—	—	29,434	29,434	10,820
Income (loss) before contributions and transfers	36,433	303	68,635	105,371	17,838
Capital contributions	—	—	622	622	1,687
Transfers in (Note 12)	—	—	94	94	14,371
Transfers out (Note 12)	—	—	(56,012)	(56,012)	(1,550)
Change in net position	36,433	303	13,339	50,075	32,346
Total net position - July 1 - as previously reported	314,210	5,109	112,167	431,486	133,629
Adjustments to beginning net position (Note 2)	884	1	122	1,007	4
Total net position - July 1 - as adjusted	315,094	5,110	112,289	432,493	133,633
Total net position - June 30	\$ 351,527	\$ 5,413	\$ 125,628	\$ 482,568	\$ 165,979

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, 2019
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL		TOTAL	INTERNAL SERVICE FUNDS
		FINANCE PROGRAMS	NONMAJOR		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	\$ 130,815	\$ 41	\$ 297,394	\$ 428,250	\$ 361,793
Payments to suppliers for goods and services	(462)	(240)	(117,386)	(118,088)	(107,870)
Payments to employees	—	(425)	(16,601)	(17,026)	(66,920)
Grant receipts (expenses)	7,489	—	45,784	53,273	3,198
Cash payments for claims	(109,510)	—	(137,049)	(246,559)	(174,849)
Cash payments for prizes	—	—	(34,858)	(34,858)	—
Other operating revenues	—	—	2,833	2,833	20,814
Other operating payments	—	—	(3,120)	(3,120)	(5,696)
Net cash provided by (used for) operating activities	28,332	(624)	36,997	64,705	30,470
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	—	—	30,094	30,094	—
Transfer to other funds	—	—	(56,015)	(56,015)	(1,552)
Transfer from other funds	—	—	274	274	14,371
Proceeds from interfund loans/advances	—	(1,788)	—	(1,788)	44
Payment of interfund loans and advances	—	—	(22)	(22)	(887)
Payment of principal and interest on bonds and notes	—	(435)	(14)	(449)	(1,291)
Net cash provided by (used for) noncapital financing activities	—	(2,223)	(25,683)	(27,906)	10,685
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	368
Acquisition of capital assets	—	—	(1,480)	(1,480)	(11,635)
Proceeds from sale of capital assets	—	—	495	495	723
Net cash provided by (used for) capital and related financing activities	—	—	(985)	(985)	(10,544)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	(8,448)	(1,665)	(10,113)	11,306
Proceeds (loss) on sales or maturities of investments	—	10,064	—	10,064	—
Proceeds (loss) from securities lending transactions/ investments	—	—	5	5	14
Interest and dividends on investments	8,036	666	3,800	12,502	3,432
Payment of securities lending costs	—	—	(3)	(3)	(7)
Collections of principal and interest on loans	—	31,181	—	31,181	—
Cash payment for loans	—	(26,977)	—	(26,977)	—
Net cash provided by (used for) investing activities	8,036	6,486	2,137	16,659	14,745
Net increase (decrease) in cash and cash equivalents	36,368	3,639	12,466	52,473	45,356
Cash and cash equivalents, July 1	311,612	24,085	106,667	442,364	93,339
Cash and cash equivalents, June 30	\$ 347,980	\$ 27,724	\$ 119,133	\$ 494,837	\$ 138,695

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL	NONMAJOR	TOTAL	ACTIVITIES
		FINANCE PROGRAMS			INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 36,433	\$ 303	\$ 39,201	\$ 75,937	\$ 7,018
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	—	—	1,013	1,013	16,285
Amortization	—	—	102	102	720
Securities lending expense	—	—	3	3	7
Investment earnings	(8,036)	(683)	(3,800)	(12,519)	(3,432)
Securities lending income	—	—	(5)	(5)	(14)
Financing income	—	(2,516)	—	(2,516)	—
Interest expense	—	2,255	14	2,269	512
Other revenue	—	—	—	—	10,660
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	417	—	1,273	1,690	(1,389)
Decr (Incr) in due from other funds	—	—	9	9	62
Decr (Incr) in due from component units	—	—	—	—	(27)
Decr (Incr) in due from other governments	(21)	—	(71)	(92)	(4)
Decr (Incr) in inventories	—	—	(170)	(170)	(790)
Decr (Incr) in other assets	—	5	(458)	(453)	291
Incr (Decr) in accounts payable	(461)	7	(3,098)	(3,552)	(366)
Incr (Decr) in due to other funds	—	—	4,046	4,046	125
Incr (Decr) in due to other governments	—	—	31	31	—
Incr (Decr) in lottery prizes payable	—	—	(366)	(366)	—
Incr (Decr) in unearned revenue	—	—	6	6	(95)
Incr (Decr) in compensated absences payable	—	8	(27)	(19)	266
Incr (Decr) in total OPEB liability	—	—	64	64	226
Incr (Decr) in estimated claims	—	—	109	109	2,148
Incr (Decr) in other payables	—	(6)	(213)	(219)	(1,648)
Incr (Decr) in net pension liability and related accounts	—	3	(666)	(663)	(85)
Net cash provided by (used for) operating activities	\$ 28,332	\$ (624)	\$ 36,997	\$ 64,705	\$ 30,470
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	\$ —	\$ —	\$ 622	\$ 622	\$ 1,687
Incr (Decr) in fair value of investments	—	(18)	(903)	(921)	(1,098)
Total noncash transactions	\$ —	\$ (18)	\$ (281)	\$ (299)	\$ 589

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 JUNE 30, 2019
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 384,487	\$ 76,957	\$ 1,375,776	\$ 14,747
Receivables (net):				
Accounts receivable	21,296	—	—	555
Interest	753	40	2,965	—
Due from primary government	32,587	—	—	—
Due from other PERB plans	606	—	—	—
Long-term loans/notes receivable	13	—	—	—
Total receivables	<u>55,255</u>	<u>40</u>	<u>2,965</u>	<u>555</u>
Investments at fair value:				
Equity in pooled investments (Note 3)	11,474,079	—	12,562	—
Other investments (Note 3)	805,378	170,992	—	—
Total investments	<u>12,279,457</u>	<u>170,992</u>	<u>12,562</u>	<u>—</u>
Securities lending collateral (Note 3)	54,541	—	145	—
Capital Assets:				
Land	36	—	—	—
Buildings/improvements	186	—	—	—
Equipment	96	—	—	—
Construction work in progress	1,505	—	—	—
Accumulated depreciation	(252)	—	—	—
Intangible assets	5,190	—	—	—
Total capital assets	<u>6,761</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other assets	—	39,486	—	254
Total assets	<u>12,780,501</u>	<u>287,475</u>	<u>1,391,448</u>	<u>15,556</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>466</u>	<u>—</u>	<u>—</u>	<u>—</u>
LIABILITIES				
Accounts payable	1,943	187	2,922	776
Due to other PERB plans	605	—	—	—
Unearned revenue	434	—	—	—
Amounts held in custody for others	—	—	—	14,780
Securities lending liability (Note 3)	54,541	—	145	—
Compensated absences payable	554	—	—	—
Net pension liability (Note 6)	1,469	—	—	—
Total OPEB liability (Note 7)	238	—	—	—
Total liabilities	<u>59,784</u>	<u>187</u>	<u>3,067</u>	<u>15,556</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>324</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION				
Held in trust for pension benefits	12,704,134	—	—	—
Held in trust for other purposes	16,725	287,288	1,388,381	—
Total net position	<u>\$ 12,720,859</u>	<u>\$ 287,288</u>	<u>\$ 1,388,381</u>	<u>\$ —</u>

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST FUNDS
ADDITIONS			
Contributions/premiums:			
Employer	\$ 258,436	\$ —	\$ —
Employee	244,080	—	—
Other contributions	115,393	18,439	1,497,949
Net investment earnings:			
Investment earnings	770,064	3,997	30,704
Administrative investment expense	(73,253)	—	—
Securities lending income	2,916	—	3
Securities lending expense	(1,463)	—	(2)
Charges for services	567	—	—
Other additions	868	7,034	—
Total additions	<u>1,317,608</u>	<u>29,470</u>	<u>1,528,654</u>
DEDUCTIONS			
Benefits	928,849	—	—
Refunds	25,585	—	—
Distributions	—	29,337	1,373,628
Administrative expenses:			
Personal services	5,495	—	—
Contractual services	3,534	848	—
Supplies/materials	260	—	—
Depreciation	10	—	—
Amortization	1,288	—	—
Utilities/rent	374	—	—
Communications	209	—	—
Travel	52	—	—
Repair/maintenance	10	—	—
Other operating expenses	281	—	—
Local assistance	11	—	—
Transfers to MUS-RP	232	—	—
Transfers to PERS-DCRP	1,969	—	—
Total deductions	<u>968,159</u>	<u>30,185</u>	<u>1,373,628</u>
Change in net position	<u>349,449</u>	<u>(715)</u>	<u>155,026</u>
Net position - July 1 - as previously reported	12,371,361	288,003	1,233,355
Adjustments to beginning net position (Note 2)	49	—	—
Net position - July 1 - as adjusted	<u>12,371,410</u>	<u>288,003</u>	<u>1,233,355</u>
Net position - June 30	<u>\$ 12,720,859</u>	<u>\$ 287,288</u>	<u>\$ 1,388,381</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana (State) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State includes funds that comprise the primary government and its component units. The component units are entities that the State is financially accountable for, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The condensed financial statements, presented in Note 18, include the financial data of the entities listed below.

Complete financial statements for each of the individual discretely presented component units may be obtained at the following addresses:

Montana Board of Housing
301 South Park, Room 240
PO Box 200528
Helena, MT 59620-0528

Montana State Fund
855 Front Street
PO Box 4759
Helena, MT 59604-4759

Facility Finance Authority
2401 Colonial Drive, 3rd Floor
PO Box 200506
Helena, MT 59620-0506

Universities and Colleges
Commissioner of Higher Education
560 North Park Ave, 4th Floor
PO Box 203201
Helena, MT 59620-3201

Montana Board of Housing (MBOH) – MBOH, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The State of Montana has the ability to modify or approve: the budget; the rate or fee changes affecting revenues; and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of MBOH. It was created in 1975 to facilitate the availability of safe and affordable housing to persons and families of lower income. MBOH issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. MBOH is audited annually by the State's Legislative Audit Division.

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The State of Montana has the ability to modify or approve: the budget; the rate or fee changes affecting revenues; and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of FFA. FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State

of Montana may be pledged for the amounts so issued. FFA is attached to the State of Montana, Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Title 39, Chapter 71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor with the advice and consent of the Senate. This Board has full power, authority, and jurisdiction in the administration of MSF. MSF's results are included in the State's Comprehensive Annual Financial Report because of the significance of MSF's financial relationship with the State. MSF's board is allocated to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State's Legislative Audit Division and is also regulated by the Montana State Auditor's Office as an authorized insurer that is subject to the provisions of Title 33, Montana Insurance Code.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. If MSF is dissolved by an act of law, the assets held by MSF are subject to the disposition provided by the Legislature enacting the dissolution with due regard given to obligations incurred and existing (Section 39-71-2322, MCA).

MSF handles the administration of the claims of Montana State Fund and State of Montana (Old Fund) including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid. Old Fund covers workers' compensation claims that were incurred before July 1, 1990, and is reported within the governmental activities of the primary government, on the government-wide financial statements.

Universities and Colleges – The Montana Constitution, Article X, Section 9, grants governance authority over the Montana University System (MUS) to the Board of Regents (Board), with seven members appointed by the Governor and confirmed by the Senate. All state funds appropriated by the Legislature to the Board for the support of the MUS are channeled through the Office of the Commissioner of Higher Education (OCHE). The Constitution charges the Board with hiring a Commissioner of Higher Education who serves as its executive staff. OCHE is the state-level administrative organization of the MUS.

The Board has responsibility for the following institutions: Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and Great Falls College Montana State University; and University of Montana - Missoula and the units under it including Montana Technological University, University of Montana - Western, and Helena College University of Montana. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division.

Though the following organizations perform functions related to the MUS, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private nonprofit corporation; and (3) the Student Assistance Foundation of Montana, a private nonprofit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The state and federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund, and Federal Special Revenue Fund.

Fiduciary Fund Component Units

Complete financial statements for each of the individual fiduciary fund component units may be obtained at the following addresses:

Teachers' Retirement System
100 North Park Avenue, Suite 110
PO Box 200139
Helena, MT 59620-0139

Public Employees' Retirement Board
100 North Park, Suite 200
PO Box 200131
Helena, MT 59620-0131

Teachers' Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to benefit recipients of Montana's public teaching profession. The plan is funded from employer and employee contributions, investment earnings, and the State's General Fund. The benefit payments and administrative costs of the Teachers' Retirement System are paid from the same funding sources. The system is audited annually by the State's Legislative Audit Division. Further detail related to the Teachers' Retirement System is provided in Note 6.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The Public Employees' Retirement Board (PERB) is appointed by the Governor and administers ten separate plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; the Firefighters' Unified Retirement Systems; the Volunteer Firefighters' Compensation Act; and the State of Montana Deferred Compensation Program (457 Plan) retirement plans. The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

PERB is responsible for the ten separate public employee plans, which includes the Deferred Compensation Program, and a separate Other Post Employment Benefit plan. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Further detail related to the PERB is provided in Note 6 and its OPEB plan information is provided in Note 7.

B. Government-wide and Fund Financial Statements

The government-wide financial statements, Statement of Net Position and Statement of Activities, report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the impact of interfund activity has been removed from these statements. Governmental activities, which are normally supported by fees, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues. The State does not allocate indirect expenses to functions in the Statement of Activities.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary fund statements are reported only in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

As a general rule, material interfund revenues and expenses have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue available if it is expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences, claims, and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts for activities funded from state resources used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately an \$90.8 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a \$25.3 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the State Special Revenue Fund.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government. One specific fund is defined in statute as an Enterprise Fund, however, per GASB 34, this

fund should be reported within Internal Service Funds. The respective effect on net position is approximately a \$4.8 million increase.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – To account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans, and other post employment benefit plan. Plan members receive retirement, disability, death, and lump-sum payments from the fund. Further detail related to the individual plans is provided in Note 6 and Note 7.

Private-Purpose Trust Funds – 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. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation, and bonds held in trust.

Investment Trust Fund – To account for the receipt of monies and the distribution of related investment earnings to local government agencies by the Montana Board of Investments for investment in the Short Term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP).

Agency Funds – To account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds

The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Severance Tax Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

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.

The Board of Investments (BOI) Municipal Finance Programs Fund accounts for the programs created under the Municipal Finance Consolidation Act (MFCA) and the Economic Development Act. Primarily, this involves a MFCA revolving loan program that provides variable low interest rate loans to eligible Montana State agencies, universities, and local governments for a variety of projects statutorily defined. The funding for the revolving loan program is

from the issuance of put bonds. The MFCA program also provides local government entities access to tax-exempt funds through the issuance of conduit (no-commitment) debt. In previous years this activity was referred to as the Economic Development Bonds Fund. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. Further detail related to cash and cash equivalents is provided in Note 3.

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided, short-term loans and notes, interest and dividends, taxes due within 60 days of fiscal year-end, and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail related to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are reported at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method generally to be appropriate for most agencies. Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, inventory balances are shown as nonspendable, indicating they do not constitute available expendable resources. Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Equity in Pooled Investments

To account for equity in pooled investments, BOI uses one internal investment pool and one external investment pool. The internal investment pool is the Consolidated Asset Pension Pool (CAPP). The State's nine defined benefit pension trust funds are the only participants in CAPP. The external investment pool is the Trust Funds Investment Pool (TFIP). State agencies and qualifying local government can participate in TFIP. Current State agency TFIP participation is within the enterprise funds, internal service funds, permanent funds, investment trust funds, Montana University System Units, and specific accounts established within the State and Federal Special Revenue Funds. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to cash and cash equivalents and investments is provided in Note 3.

I. Investments

For agencies whose investment needs are not met by BOI's established investment pools, BOI provides separate investments, which are combined and reported as Separately Managed Investments (SMI). SMI participants have direct fixed income, equity, and Montana mortgage and loan investments. SMI investments are reported at fair value. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Other State agencies, on a limited basis by statute, may administer other long-term investments. Most investments are reported at fair value on the Statement of Net Position. Further detail related to investments is provided in Note 3.

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds is capitalized. Interest incurred during the construction of capital assets for higher education component units is expensed. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation on the Statement of Net Position and depreciation expense on the Statement of Activities for these assets. Further detail related to capital assets is provided in Note 5.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated or amortized. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 10 to 50 years for infrastructure, 7 to 20 years for building improvements, and 3 to 10 years for equipment. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate. Amortization is on a straight-line basis with estimated useful lives of 4 years for software (internally and externally generated), 30 years for land use rights, and 20 years for other intangibles.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure and internally-generated software is \$500,000. The capitalization threshold for intangible assets is \$100,000. The capitalization limit for other capital assets is \$5,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

K. Deferred Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investment, OPEB, and pension related components and are reported on the government-wide, proprietary fund, and fiduciary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue is recognized as a liability on government-wide, governmental and proprietary fund financial statements. Further detail related to deferred outflows of resources and deferred inflows of resources is provided in Note 4.

L. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported on the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund on the fund financial statements. The remaining portion of such obligations is reported on the government-wide financial statements. Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. Further detail related to leases/installment purchases payable and long-term liabilities is provided in Note 10 and Note 11, respectively.

M. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, on the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. On the governmental fund financial statements no asset or liability is recorded related to assets under capital leases. Rather, on the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditures, and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to capital leases is provided in Note 10.

N. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the period they are incurred. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds payable are recorded net of any applicable premium or discount. Further detail related to long-term debt is provided in Note 11.

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2018, was 19,310 hours. For fiscal year 2019, 1,708 sick leave hours, 152 annual leave hours, and 305 excess annual leave hours were contributed to the sick leave pool, and 3,491 hours were withdrawn, leaving a balance of 17,984 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only on the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. Further detail related to compensated absences is provided in Note 11.

P. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA), a discretely presented component unit of the State. BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$88.9 million as of June 30, 2019. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

Q. Fund Balance/Net Position

Fund Balance

The classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is legally or contractually required to remain intact or is not in spendable form such as inventories, and, in the General Fund, long-term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State Constitution or external parties, such as the federal government, or through enabling legislation. For the purpose of determining restricted amounts, enabling legislation does not include commitments resulting from State legislation if these constraints can be removed or changed by a similar legislative action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the State's Legislature, through legislation passed into law.

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the

remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. There is not a projected spend down for fiscal year 2020, thus a related assignment of fund balance is not reported at 2019 fiscal year-end.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the General Fund. When resources meeting more than one of these spendable classifications are commingled in an account on the State's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-General Fund money be spent first whenever possible so any related available unassigned balance would be spent last.

General Fund - Fund Balance

As of June 30, 2019, the State maintains a Budget Stabilization Reserve Fund as required by statute. For financial reporting purposes, this fund is combined with the General Fund as it does not meet the GASB 54 requirements to be a special revenue fund as the Legislature prescribed. The June 30, 2019, committed fund balance in the General Fund of \$60.7 million, represents the Budget Stabilization Reserve Fund balance. Additionally, another \$57.1 million was transferred to the Budget Stabilization Reserve Fund after the close of fiscal year 2019, in accordance with 2019 Session House Bill requirements.

Additionally, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions or allow transfers from the Budget Stabilization Reserve Fund if a projected ending fund balance drops below minimum statutory requirements.

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance is in compliance with the minimum ending fund balance of General Fund appropriations for the biennium. Under circumstances when a deficit of this level is projected during a biennium, the Governor may direct reductions from any General Fund expenditure not exempted by Section 17-7-140, MCA, including House Bill (HB) 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of General Fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on State debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately one-third of General Fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of \$3.7 billion.

Certain investments of the Municipal Finance Programs Fund are classified as restricted net position on the Statement of Fund Net Position for proprietary funds because their use is limited by applicable bond indenture agreements. Net position associated with the Unemployment Insurance Fund is also classified as restricted.

R. Property Taxes

Real property taxes are normally levied in October and are usually payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Property tax payments are recognized as deferred inflows of resources if received prior to levy or availability.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Activities, the revenue category “Other Taxes” consists of the following taxes (in thousands):

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	\$ 27,389	\$ 36,590	\$ —	\$ 26	\$ 64,005
Agriculture	—	10,406	—	—	10,406
Car rental	4,376	1,459	—	—	5,835
Cigarette/tobacco/etc.	33,307	43,886	1,585	—	78,778
Contractors gross receipts	3,597	—	—	—	3,597
Energy tax	7,456	38	—	—	7,494
Fire protection	—	3,921	—	—	3,921
Hospital benefit assessment	4,350	—	—	—	4,350
Insurance premium	76,108	31,162	—	—	107,270
Light vehicle registration	—	4,234	—	—	4,234
Liquor tax	5,517	2,227	—	30,068	37,812
Livestock	—	4,896	—	—	4,896
Other taxes	154	742	—	—	896
Public service commission	—	2,296	—	—	2,296
Railroad car companies	3,595	—	—	—	3,595
Telephone license	10,804	—	—	—	10,804
Video gaming	63,168	4	—	—	63,172
Total other taxes	\$ 239,821	\$ 141,861	\$ 1,585	\$ 30,094	\$ 413,361

T. Tax Abatements

In the Montana Board of Investment’s (BOI) Commercial Loan Program within the SMI, by statute, the infrastructure loan program is funded by an \$80.0 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to BOI for the loan repayment. BOI reviews each loan and, only upon verification that the entities meet the loan requirements, is the loan approved by BOI. The local government entity must pass a resolution authorizing the acceptance of the commitment agreement. BOI indemnifies the local government regarding repayment of the loan.

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is \$16.7 thousand times the number of full-time jobs created and the minimum loan size is \$250.0 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job creation. The reduction will be reflected in the user fee rate charged to the basic sector business upon BOI review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. BOI may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must annually provide payroll documentation to BOI.

Pursuant to statute, a business that is created or expanded as the result of an Infrastructure Loan is entitled to a credit against either their State individual income taxes or corporate income taxes for the portion of the fees attributable to the use of the infrastructure. The total amount of tax credit claimed may not exceed the amount of the loan. The credit may be carried forward for seven years or carried back for three years.

During the fiscal year ended June 30, 2019, basic sector business entities made total user fee payments of \$6.6 million, representing \$5.9 million of principal and \$723.0 thousand in interest. During the fiscal year ended June 30, 2019, a total of \$3.8 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2019 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed			
	Tax Year 2018	Tax Year 2017	Total
Corporate income tax	\$ —	\$ 319	\$ 319
Individual income tax	164	3,286	3,450
Total amount claimed	<u>\$ 164</u>	<u>\$ 3,605</u>	<u>\$ 3,769</u>

U. Irrevocable Split Interest Agreements

Irrevocable split-interest agreements are used by donors to provide resources to two or more beneficiaries, including governments. These agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. The University of Montana campuses have three irrevocable split interest agreements during the fiscal year ended June 30, 2019. Further detail related to these agreements are provided in Note 3.

NOTE 2. OTHER ACCOUNTING CHANGES**A. New Accounting Guidance Implemented**

For the year ended June 30, 2019, the State of Montana implemented the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset that has future legal obligations required to be performed. This Statement establishes criteria for measuring and recognizing a liability and a corresponding deferred outflow of resources for an ARO. The objective of this Statement is to enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the usefulness of the information provided to financial statement users by requiring related disclosures.

For the year ended June 30, 2019, the State of Montana implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). This Statement establishes a definition of debt for purposes of note disclosures to financial statements. This Statement requires that additional essential information related to debt be disclosed, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The objective of this Statement is to improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

B. Adjustments to Beginning Net Position

For the year ended June 30, 2019, there were no material adjustments to beginning net position.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$	4,452,168
Equity in pooled investments	\$	13,986,428
Investments	\$	3,346,082

Carrying amounts for the bank balance for cash deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

Outside of statutory requirements, the State does not maintain a statewide risk policy for cash/cash equivalents or investments, held outside of the Montana Board of Investments (BOI). The investment risk policy for State cash/cash equivalents and investments, including the BOI Municipal Finance Programs Fund deposits and investments managed by BOI, have been detailed below.

(1) **BOI** was created by the Legislature to manage the Unified Investment Program (UIP) established by the State Constitution. The UIP is comprised of involuntary participating state funds, including pensions, trusts, insurance, operating funds and by statute voluntarily participating local government funds. BOI manages the UIP pursuant to the “Prudent Expert Principle” mandated by State law, which requires an investment manager to:

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the Unified Investment Program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
3. discharge the duties solely in the interest of and for the benefit of the funds forming the Unified Investment Program.

BOI is not registered with the US Securities and Exchange Commission as an investment company. BOI’s investment program is governed by Investment Policy Statements (IPS) approved by BOI.

Currently, only the nine retirement funds that participate in the Consolidated Asset Pension Pool (CAPP), the Defined Contribution Disability Plan, and the Montana State Fund (MSF) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and Separately Managed Investments (SMI) participant, which provides BOI staff a broad strategic framework under which the investments are managed. The IPS’s also reflect BOI approved asset allocation ranges. By statute, local government entities can voluntarily invest in the Short Term Investment Pool (STIP). By statute, with a qualifying event, local government entities may also voluntarily invest in the Trust Funds Investment Pool (TFIP).

As of June 30, 2019, BOI separately managed investments outside of the pools on behalf of 16 participants. The investments are combined for reporting purposes in the SMI portion of the UIP. In prior years, the SMI portion of the UIP was referred to as All Other Funds (AOF). SMI participants include the State Treasurer's Cash Fund, State agency insurance reserves, and other State agencies. SMI participation is at the discretion of BOI staff for State agencies allowed to participate in the UIP.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMI.

Separately issued investment pool financial statements may be obtained by contacting:

Montana Board of Investments
 2401 Colonial Drive, 3rd Floor
 PO Box 200126
 Helena, MT 59620-0126

BOI's separately issued Unified Investment Program financial statements include the activity for MSF within SMI on a June 30, 2019, basis. MSF, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents and investments.

(a) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in STIP, cash held by trustees, undeposited cash held by individual State agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by BOI in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. BOI also manages STIP, which provides individual State agencies and local governments an opportunity to invest excess cash in a pool that is managed to preserve principal while providing 24-hour liquidity. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

(b) Investment securities are reported by investment portfolio and type in Table 2 – Cash Equivalents, Table 3 – Equity in Pooled Investments, and Table 4 – Investments. Unrealized gains and losses are included as a component of investment income. Unrealized gains and losses are computed based on changes in the fair value of investments held from the beginning of the year, but unsold at the fiscal year-end. The net change in fair value of investments also consists of the realized gains or losses. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Investments reported at fair value are on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market prices representing estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices are determined using unobservable inputs.

(c) Security Lending - BOI is authorized by law to lend its securities and has contracted with the custodial bank, to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102.0% of the fair value of domestic securities and 105.0% of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the custodial bank split the earnings, 80/20 respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies BOI's credit risk exposure to the borrowers.

During fiscal year 2019, the custodial bank lent BOI's public securities and received as collateral: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2019. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2019 resulting from a borrower default. As of June 30, 2019, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in an investment fund, the Navigator Securities Lending Government Money Market (Navigator) portfolio.

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 36 days and the average weighted final maturity was 109 days within the Navigator portfolio.

(d) Investment Pools and SMI are described in the following paragraphs.

CAPP

The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by BOI. BOI annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Due to a longer-term focus, CAPP's asset classes differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Equities
- Natural Resources
- Real Estate
- US Treasury Inflation-Protected Securities (TIPS)
- Broad Fixed Income
- US Treasury/Agency
- Investment Grade
- Mortgage Backed Securities
- High Yield
- Cash
- Diversifying Strategies

The CAPP IPS is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class, and High Yield Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made.

TFIP

The TFIP IPS provides for a 2.0% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations, also known as Yankee bonds, and a 3.0% portfolio limit in non-agency mortgage pass-through (MBS) securities. TFIP invests primarily in investment grade, US dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

STIP

The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3.0% in any issuer except for US Treasury and US Agency securities as well as any repurchase agreements with a financial institution.

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 60 days or less. STIP is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

BOI maintains a reserve account that may be used to offset losses within the STIP portfolio. The STIP reserve for the year ending June 30, 2019, is detailed as follows:

	STIP Reserve (in thousands)	
Beginning STIP Reserve	\$	32,565
STIP Reserve activity		
Investment Earnings:		
Net increase (decrease) on fair value of investments		49
Interest income		774
Transfer of daily STIP income		4,927
Recoveries from write offs		9,055
Credit enhancement fees		158
Total STIP Reserve activity		<u>14,963</u>
Ending STIP Reserve	\$	<u><u>47,528</u></u>

SMI

SMI invests primarily in investment grade, US dollar denominated fixed income securities. However, one participant portfolio has exposure to core real estate. The SMI portfolio also includes Veteran's Home Loan Mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute.

(e) Investment Risk Disclosures are described in the following paragraphs, with more detail provided in later sections.

Custodial Credit Risk

Custodial credit risk for cash and cash equivalents and investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial bank must hold short-term and long-term credit ratings by at least one Nationally Recognized Statistical Rating Organization (NRSRO) with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

As of June 30, 2019, all the public securities, as well as securities held by the separate public equity account managers, were registered in the nominee name for BOI and held in the possession of BOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI. Therefore, BOI is not subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. Concentration of credit risk for 2019 is addressed within all IPS as set by BOI.

Credit Risk and Interest Rate Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for US government securities, the pools' fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The US government guarantees its securities directly or

indirectly. Obligations of the US government, or obligations explicitly guaranteed by the US government, are not considered to have credit risk and do not require disclosure of credit risk.

As of June 30, 2019 the CAPP's cash equivalents' position held at the custodial bank included \$566.4 million unrated held in money market funds and \$9.8 million was invested in an overnight repurchase agreement collateralized at 102.0%.

As a matter of STIP investment policy, BOI can only purchase securities from a pre-approved Approved Issuer list. By STIP policy, permitted money market investments include only SEC registered 2a-7 institutional money market funds that are considered US Treasury or US Government money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30, 2019, all the STIP money market investments were in US Governmental money markets.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses effective duration as a measure of interest rate risk for all fixed income portfolios. CAPP, TFIP, and SMI at fair value investments are categorized to disclose credit and interest rate risk for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using the weighted effective duration. NRSRO provides the credit ratings. According to the STIP investment policy, "The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account."

CAPP, TFIP, SMI, and STIP may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example the Secured Overnight Financing Rate (SOFR).

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2019. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months or years) weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 41 days for the portfolio. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BOI's foreign currency exposure by denomination and investment type are reported, in US dollars, at fair value and is limited to CAPP.

Counterparty Credit Risk - Investment Derivatives

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. The following table depicts BOI's counterparty credit risk exposure to its investment derivatives.

Counterparty Credit Risk - Credit Default Swaps - as of June 30, 2019
(in thousands)

Maximum loss before/after netting and collateral		
Maximum amount of loss BOI would face in case of default of all counterparties, i.e. aggregated (positive) fair value of OTC positions	\$	310
Effect of collateral reducing maximum exposure		—
Liabilities subject to netting arrangements reducing exposure		—
Resulting net exposure		<u>310</u>

Other Policy Considerations

For other risk, BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the TIPS PAC, US Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage-Backed PAC, average duration will be maintained in a range within 20.0% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25.0% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20.0% of the benchmark duration. Interest rate risk for SMI is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

Fair Value of Derivative Instruments

The UIP invests in currency forward contract, credit default swaps, index futures (long duration) and warrants which are classified as investment derivatives. The derivatives increased in fair value for the year ended June 30, 2019, by \$698.0 thousand. The contracts had a fair value of \$400.0 thousand, and the notional amount of the contracts was \$14.4 million as of June 30, 2019.

(2) The BOI Municipal Finance Programs Fund deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. The bond trust indenture addresses custodial credit risk, concentration of credit risk, credit risk, interest rate and credit quality risk, by detailing the permitted investments. BOI's STIP IPS details custodial credit risk, concentration of credit risk, and credit risk. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial bank must hold short-term and long-term credit rating by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial bank, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by the trustee in the name of BOI.

Investments – As of June 30, 2019, the Municipal Finance Programs securities were recorded by the trustee in the name of BOI by specific account.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The Municipal Finance Programs investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits concentration of credit risk by limiting portfolio investment types to 3.0% in any issuer with the exception of US Treasury and US Agency securities, as well as, any repurchase agreements with a financial institution. As of June 30, 2019, STIP concentration risk was within the policy as set by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Municipal Finance Programs US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed

by the US government are not considered to have credit risk and do not require disclosure of credit quality. Permitted investments, as described in the indenture, include, “Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor’s Corporation or Moody’s Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC).”

BOI’s STIP IPS specifies that STIP securities have a minimum of two credit ratings as provided by nationally recognized statistical rating organizations, to assist in the monitoring and management of credit risk. The purchase of STIP securities other than US government or US agency obligations are restricted to those which are pre-approved. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Permitted investments as described in the Indenture details the allowable investments, including those in STIP. STIP interest rate risk is determined using the WAM method. According to the STIP IPS, “The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account.”

The Municipal Finance Program investments are categorized to disclose credit and interest rate risk as of June 30, 2019. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. The credit quality ratings have been calculated excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as BOI determined that these securities did not contain these risk elements. There were no derivative transactions during the 2019 fiscal year for investments held by the trustee. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value as of June 30, 2019, BOI deemed the cash equivalents to have little discernible interest rate risk.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, state statutes require collateralization at 50.0% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$ 72,193
Uninsured and uncollateralized cash	9,920
Undeposited cash	577
Cash in US Treasury	353,632
Cash in MSU component units	7,935
Cash in UM component units	16,200
Less: outstanding warrants	(49,688)
	<u>\$ 410,769</u>

As of June 30, 2019, the carrying amount of deposits for component units was \$207.2 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer’s pooled cash account, and in identifiable securities and investments considered to be

cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less that are measured at cost. Cash equivalents may be under the control of BOI or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value
Treasuries ⁽¹⁾	\$ 174,733
Corporate commercial paper ⁽²⁾	200,145
Corporate notes ⁽²⁾	448,909
Certificates of deposit ⁽²⁾	325,235
Agency or government related ⁽²⁾	873,181
Money market fund unrated	150,638
STIP cash and cash equivalents ⁽²⁾	1,995,098
Less: STIP Adjustments ⁽³⁾	(126,540)
Total cash equivalents	<u>\$ 4,041,399</u>

(1) A portion is also included in the Investments Measured at Fair Value and NAV table.

(2) Also included in the Investments Measured at Fair Value and NAV table.

(3) Includes adjustments for STIP Reserve, STIP included in pooled investments, and holding classification differences.

As of June 30, 2019, local governments had invested \$1.4 billion and component units of the State of Montana had invested \$551.1 million in STIP.

STIP Cash Equivalent Credit Quality Ratings as of June 30, 2019
(in thousands)

	Total Cash Equivalents	Credit Quality Rating
Treasuries	\$ 310,466	A-1+
Agency or government related	356,614	A-1+
Asset backed commercial paper	1,116,921	A-1+
Corporate commercial paper	189,596	A-1+
Certificates of deposit	21,501	A-1+
Total cash equivalents	<u>\$ 1,995,098</u>	

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2019
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	\$ 129,877	A-1+	20
Agency or government related	873,181	A-1+	69
Corporate:			
Commercial paper	200,145	A-1+	16
Notes	448,909	A-1+	61
Certificates of deposit	325,235	A-1+	45
Total STIP fixed income investments at fair value	<u>\$ 1,977,347</u>		

C. Equity in Pooled Investments

These securities consist of investments held by BOI in pooled investment funds. The Consolidated Asset Pension Pool (CAPP) and Trust Funds Investment Pool (TFIP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated “Prudent Expert Principle” (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	<u>Fair Value ⁽¹⁾</u>
CAPP:	
Consolidated asset pension pool	\$ 11,495,868
TFIP:	
Trust funds investment pool	2,456,087
Total pooled investments	<u>13,951,955</u>
Pool adjustments (net)	34,473
Total equity in pooled investments	<u>\$ 13,986,428</u>

⁽¹⁾ Includes cash/cash equivalents and investments.

As of June 30, 2019, the fair value of the underlying securities on loan was \$595.2 million. Collateral provided for the securities on loan totaled \$606.9 million, consisting of \$83.4 million in cash and \$523.5 million in securities.

As of June 30, 2019, local governments invested \$12.3 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2019, as required for applicable pools.

Credit Quality Rating and Effective Duration as of June 30, 2019
Fair Value (in thousands)

Security Investment Type	CAPP	TFIP	SMI	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Duration (Years)
Treasuries	\$ 1,337,688	\$ 481,464	\$ 346,460	\$ 2,165,612	AAA	3.21-8.08
Agency or Government Related	218,805	340,285	150,949	710,039	AAA	2.97-4.22
Asset Backed Securities	33,332	75,392	57,708	166,432	AAA	1.88-1.99
Mortgage Backed Securities:						
Noncommercial	356,424	248,265	55,083	659,772	AAA	3.60-4.24
Commercial	162,244	220,519	27,312	410,075	AA+ to AAA	4.69-7.34
Corporate:						
Financial	248,750	324,236	270,351	843,337	BBB+ to A-	3.25-4.14
Industrial	492,119	500,951	356,212	1,349,282	BB to A-	3.63-6.44
Utility	24,490	21,222	21,630	67,342	BB+ to BBB+	1.94-3.07
High Yield Bond Fund	—	51,966	—	51,966	BB-	2.40
Commingled Asset Allocation Funds	104,686	—	—	104,686	NR	NA
Total fixed income investments at fair value	<u>\$ 2,978,538</u>	<u>\$ 2,264,300</u>	<u>\$ 1,285,705</u>	<u>\$ 6,528,543</u>		

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – *Fair Value Measurement and Application*, as defined below.

Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted.

Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraisal value.

Investments measured at cost are included to account for all investments within each pool and SMI. These assets represent cash equivalents and Montana Mortgages and Loans.

Each of the investment pools and SMI has the following fair value measurements as of June 30, 2019:

	Investments Measured at Fair Value (in thousands)			
	June 30, 2019	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by fair value level</u>				
Fixed income investments:				
Treasuries	\$ 2,295,489	\$ 2,295,489	\$ —	\$ —
Agency or Government Related	1,583,220	—	1,583,220	—
Asset Backed Securities	166,431	—	166,431	—
Mortgage Backed Securities:				
Noncommercial	659,772	—	659,772	—
Commercial	410,075	—	410,075	—
Corporate:				
Commercial Paper	200,145	—	200,145	—
Commercial Notes	448,909	—	448,909	—
Certificates of Deposit	325,235	—	325,235	—
Financial	843,337	—	843,337	—
Industrial	1,349,282	—	1,349,282	—
Utility	67,342	—	67,342	—
Equity investments	3,632,285	3,632,285	—	—
International equity investments	1,967,247	1,967,247	—	—
Direct Real Estate	19,185	—	—	19,185
Residential Mortgages	3,358	—	—	3,358
Investment derivate instruments:				
Credit default swaps	310	—	310	—
Total investments by fair value level	13,971,622	7,895,021	6,054,058	22,543
<u>Investments measured at the net asset value (NAV)</u>				
Commingled Asset Allocation Funds	104,686			
Private Equity Partnerships	1,551,573			
Core Real Estate	620,022			
Non-Core Real Estate	405,296			
Timber	106,902			
High Yield Bond Fund	51,966			

Investments Measured at Fair Value
(in thousands)

	June 30, 2019	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Total investments measured at NAV	2,840,445			
Total investments measured at fair value	16,812,067			
<u>Investments at cost</u>				
Cash and cash equivalents held at custodial bank	2,594,018			
SMI Montana Mortgages and Loans	167,356			
Total investments not categorized	2,761,374			
Total investments	<u>\$ 19,573,441</u>			

The investments measured at NAV for the year ended June 30, 2019, are detailed below.

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Asset Allocation Funds	\$ 104,686	\$ —	Daily	1 day
Private Equity Partnerships	1,551,573	919,698		
Core Real Estate	620,022	—	Monthly, quarterly	45-90 days
Non-Core Real Estate	405,296	257,589		
Timber	106,902	14,225		
High Yield Bond Fund	51,966	—	Monthly	30 days
Total investments measured at the NAV	<u>\$ 2,840,445</u>	<u>\$ 1,191,512</u>		

STIP and \$1.7 billion of SMI are included, and also reported in Tables 2 and 4, respectively.

Commingled Asset Allocation Funds – This type consists of institutional investment funds that invest in global tactical asset allocation funds. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

Private Equity Partnerships – This type includes investments in limited partnerships. Generally, the types of partnership strategies included in this portfolio are: venture capital, growth equity, buyouts, special situations, mezzanine, energy, and distressed debt. These investments are considered long-term. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of BOI's ownership interest in partners' capital.

Core Real Estate – This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial, and hotel), through commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Non-Core Real Estate – This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds in order to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. These investments can never be redeemed. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Timber – This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 12 to 20 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

High Yield Bond Fund – This type consists of predominantly US corporate credits, whether in the form of bonds or loans, that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

As of the June 30, 2019, exchange date, BOI's foreign currency exposure by denomination and investment type are reported, in US dollars, at fair value in the table below and is limited to CAPP. Excluded are the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs), sovereign debt, and commingled index funds.

Foreign Currency Exposure by Country

Investment Type in US Dollar Equivalent

(in thousands)

Foreign Currency Denomination	Currency	International Equities	Private Equity	Real Estate Equity
Australian Dollar	\$ —	\$ 29,752	\$ —	\$ —
Brazilian Real	58	19,314	—	—
Canadian Dollar	76	56,063	—	—
Czech Koruna	—	799	—	—
Danish Krone	—	10,939	—	—
EMU – Euro	110	180,950	18,510	1,422
Hong Kong Dollar	67	36,067	—	—
Hungarian Forint	18	1,873	—	—
Indonesian Rupiah	2	1,120	—	—
Japanese Yen	276	100,630	—	—
Korean Fortnit	2	15,948	—	—
Malaysian Ringgit	1	1,596	—	—
Mexican Peso	4	4,976	—	—
New Israeli Sheqel	—	6,704	—	—
New Zealand Dollar	—	211	—	—
Norwegian Krone	—	6,243	—	—
Philippine Peso	3	70	—	—
Polish Zloty	—	2,238	—	—
Pound Sterling	121	93,259	—	—
Singapore Dollar	1	12,220	—	—
South African Rand	19	11,715	—	—
South Korean Won	(97)	15,390	—	—
Swedish Krona	1	28,927	—	—
Swiss Franc	1	32,154	—	—
New Taiwan Dollar	8	4,178	—	—
Thailand Baht	—	5,142	—	—
Yuan Renminbi	316	8,898	—	—
Total cash and securities	\$ 987	\$ 687,376	\$ 18,510	\$ 1,422

Investments in alternative equity are usually made through limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to CAPP alternative equity managers by pension asset class (PAC), as of June 30, 2019.

Commitments to Fund Managers

(in thousands)

Pension Asset Class	Original Commitment	Commitment Remaining
Private Equities PAC	\$ 2,570,722	\$ 761,179
Real Estate PAC	1,511,666	257,589
Natural Resources PAC	464,412	172,744
Total	\$ 4,546,800	\$ 1,191,512

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes BOI to manage the State's Unified Investment Program. Long-term investments are administered by the following agencies, as allowed by state law, Section 17-6-201, MCA:

Long-term Investments	
Department	Percent Administered
Board of Investments	50.00%
Universities	18.60
MPEPA (Montana Public Employee Retirement Administration)	23.71
College Savings Plan	4.78
Montana Board of Housing	1.39
Other ⁽¹⁾	1.52
Total	100.00%

⁽¹⁾ Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Commerce, the Department of Natural Resources and Conservation, the Department of Revenue, and State Auditor.

BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to BOI's custodial bank or trustee. State investments are categorized within the fair value hierarchy established by GASB Statement No. 72.

The PERS Defined Contribution Retirement Plan (DCRP) and the Deferred Compensation Plan's Montana Fixed Fund is a stable value investment option administered and monitored by the Public Employees' Retirement Board (PERB) with input from the Employee Investment Advisory Committee and the investment consultant. The PERB has established an investment policy for the Montana Fixed Fund to identify objectives, investment guidelines, and outline the responsibility of the outside vendors: stable value manager Pacific Investment Management Company LLC (PIMCO), custodial bank State Street Bank and Trust Company (State Street), and third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential), and Voya Retirement Insurance and Annuity Company (Voya). All money invested in the Montana Fixed Fund of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The third party record keeper, Empower™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2019	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	\$ 3,959	\$ 3,959	\$ —	\$ —
Agency/Government Related ⁽¹⁾	26,663	—	26,663	—
Government Securities	3,600	3,600	—	—
Stocks	6,258	6,258	—	—
Other	22,749	—	22,749	—
Total investments at fair value	63,229	13,817	49,412	—
<u>Investments at cost</u>				
Montana Mortgages and Loans ⁽³⁾	157,935			

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2019	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total investments at cost	157,935			
Total primary government	221,164			
Component units/fiduciary funds				
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	317,615	317,615	—	—
Agency/Government Related ⁽¹⁾	124,286	—	124,286	—
Asset Backed Securities ⁽¹⁾	57,708	—	57,708	—
Mortgage Backed Securities ⁽¹⁾	55,083	—	55,083	—
Commercial Mortgage Backed Securities ⁽¹⁾	27,312	—	27,312	—
Financial-Corporate ⁽¹⁾	270,351	—	270,351	—
Industrial-Corporate ⁽¹⁾	356,212	—	356,212	—
Utility-Corporate ⁽¹⁾	21,630	—	21,630	—
Equity Investments	169,265	169,265	—	—
529 College Savings Plan	160,074	—	160,074	—
VEBA	7,466	7,466	—	—
State Auditor	10,919	6,464	4,455	—
MSU Investments ⁽²⁾	23,546	—	23,546	—
MSU Component Unit Investments ⁽²⁾	161,675	158,066	2,346	1,263
UM Component Unit Investments ⁽²⁾	186,536	136,896	38,839	10,801
Board of Housing ⁽²⁾	41,971	8,323	33,648	—
Total investments at fair value	1,991,649	804,095	1,175,490	12,064
<u>Investments at net asset value (NAV)</u>				
Core Real Estate	85,053			
Deferred Compensation ⁽²⁾	532,205			
Defined Contribution ⁽²⁾	260,973			
MSU Component Unit Investments ⁽²⁾	96,693			
UM Component Unit Investments ⁽²⁾	124,344			
UM Other Investments ⁽²⁾	363			
UM Interest in Split Interest ⁽²⁾	4,399			
Total investments at NAV	1,104,030			
<u>Investments at cost</u>				
MSU Component Unit Investments ⁽²⁾	24,875			
Board of Housing ⁽²⁾	4,364			
Total Investments at Cost	29,239			
Total component unit/fiduciary investments	3,124,918			
Total investments	\$ 3,346,082			
Securities lending investment pool	\$ 8,047			

(1) The credit quality rating and duration are included in above sections for the rated investments.

(2) For more detail, refer to component unit separately issued financial statements.

(3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included on SMI financial statements. This amount of \$9.4 million is considered advances to other funds/component units and amounts due from component units in the Coal Tax Severance column of the governmental fund financial statements.

As of June 30, 2019, the fair value of the investments on loan was \$128.5 million. Collateral provided for the investments on loan totaled \$131.2 million consisting of \$8.1 million in cash and \$123.1 million in securities.

\$1.7 billion of SMI is included, and also reported in the Investments Measured at Fair Value and NAV table.

Municipal Finance Programs – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2019
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating ⁽¹⁾	Effective Duration ⁽¹⁾
Short-term investments			
US Treasury obligations	\$ 2,684	AA+	0.15
Restricted investments			
US Treasury obligations	701	AA+	1.45
Total investments	<u>\$ 3,385</u>		

⁽¹⁾ Credit Quality Rating and Effective Duration are weighted.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2019, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	\$ —	\$ 5,509	\$ 1,919	\$ 776	\$ —	\$ —	\$ 10,025
Contributions/premiums	—	—	—	8,043	—	—	2,040
Grants/contracts/donations	—	—	—	—	—	16	304
Investment income	3,596	—	2,260	249	2,406	4,256	4,245
License and permits	—	—	—	—	—	—	8,524
Other receivables	—	72,891	6,797	4	—	—	667
Reimbursements/overpayments	—	348	19,337	—	—	—	15,039
Taxes	7,398	—	387,046	—	—	2,600	98,663
Total receivables	10,994	78,748	417,359	9,072	2,406	6,872	139,507
Less: allowance for doubtful accounts	—	(2,065)	(125,058)	(16)	—	—	(17,891)
Receivables, net	\$ 10,994	\$ 76,683	\$ 292,301	\$ 9,056	\$ 2,406	\$ 6,872	\$ 121,616

	Business-type Activities		
	Municipal Finance Programs	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	\$ —	\$ 27,985	\$ —
Contributions/premiums	—	2,776	5,387
Loans/investment income	8,367	265	—
Other receivables	—	64	—
Reimbursements/overpayments	—	—	2,279
Total receivables	8,367	31,090	7,666
Less: allowance for doubtful accounts	—	(464)	(2,928)
Receivables, net	\$ 8,367	\$ 30,626	\$ 4,738

B. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred outflows ⁽¹⁾	\$ —	\$ 5,032	\$ 239	\$ —	\$ —
Pension deferred outflows ⁽²⁾	28	760,165	11,920	—	86
Refunding deferred outflows	—	—	—	2,461	—
Total deferred outflows	\$ 28	\$ 765,197	\$ 12,159	\$ 2,461	\$ 86

	Business-type Activities	
	Municipal Finance Programs	Nonmajor Enterprise Funds
OPEB deferred outflows ⁽¹⁾	\$ 1	\$ 65
Pension deferred outflows ⁽²⁾	79	2,774
Total deferred outflows	\$ 80	\$ 2,839

⁽¹⁾ Further detail regarding OPEB related deferred outflows of resources is provided in Note 7.

⁽²⁾ Further detail regarding pension related deferred outflows of resources is provided in Note 6.

C. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued interest	\$ 6	\$ 387	\$ 27	\$ 1,668	\$ 58
Payroll	8,554	21,965	3,829	6	20,567
Tax refunds	—	161,767	—	—	—
Vendors/individuals	229,267	73,312	10,491	2,663	153,880
Payables, net	\$ 237,827	\$ 257,431	\$ 14,347	\$ 4,337	\$ 174,505

	Business-type Activities		
	Municipal Finance Programs	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued interest	\$ 655	\$ 3	\$ —
Payroll	19	986	—
Vendors/individuals	7	16,822	1,741
Payables, net	\$ 681	\$ 17,811	\$ 1,741

D. Deferred Inflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred inflows ⁽¹⁾	\$ —	\$ 3,998	\$ 257	\$ —	\$ —
Pension deferred inflows ⁽²⁾	57	195,919	11,511	—	79
Refunding deferred inflows	—	—	—	235	—
Total deferred inflows	<u>\$ 57</u>	<u>\$ 199,917</u>	<u>\$ 11,768</u>	<u>\$ 235</u>	<u>\$ 79</u>

	Business-type Activities	
	Municipal Finance Programs	Nonmajor Enterprise Funds
OPEB deferred inflows ⁽¹⁾	\$ 2	\$ 77
Pension deferred inflows ⁽²⁾	80	3,482
Total deferred inflows	<u>\$ 82</u>	<u>\$ 3,559</u>

⁽¹⁾ Further detail regarding OPEB related deferred inflows of resources is provided in Note 7.

⁽²⁾ Further detail regarding pension related deferred inflows of resources is provided in Note 6.

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2019, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 719,083	\$ 18,281	\$ (339)	\$ 737,025
Construction work in progress	927,077	447,886	(269,145)	1,105,818
Easements	192,587	26,226	—	218,813
Museum and art	85,440	230	—	85,670
Other	29,282	560	—	29,842
Total capital assets not being depreciated	<u>1,953,469</u>	<u>493,183</u>	<u>(269,484)</u>	<u>2,177,168</u>
Capital assets being depreciated:				
Infrastructure	5,429,950	246,256	(102,648)	5,573,558
Land improvements	65,508	3,743	—	69,251
Buildings/improvements	591,294	18,362	(4,019)	605,637
Equipment	397,503	23,249	(10,491)	410,261
Easements - amortized	1,450	—	(73)	1,377
Other	5,402	164	—	5,566
Total capital assets being depreciated	<u>6,491,107</u>	<u>291,774</u>	<u>(117,231)</u>	<u>6,665,650</u>
Less accumulated depreciation for:				
Infrastructure	(1,615,849)	(186,967)	102,648	(1,700,168)
Land improvements	(30,431)	(3,035)	28	(33,438)
Buildings/improvements	(383,435)	(18,986)	3,397	(399,024)
Equipment	(253,624)	(25,772)	8,734	(270,662)
Other	(4,042)	(266)	—	(4,308)
Total accumulated depreciation	<u>(2,287,381)</u>	<u>(235,026)</u>	<u>114,807</u>	<u>(2,407,600)</u>
Total capital assets being depreciated, net	<u>4,203,726</u>	<u>56,748</u>	<u>(2,424)</u>	<u>4,258,050</u>
Intangible assets	<u>33,498</u>	<u>41,595</u>	<u>(29,826)</u>	<u>45,267</u>
Governmental activities capital assets, net	<u>\$ 6,190,693</u>	<u>\$ 591,526</u>	<u>\$ (301,734)</u>	<u>\$ 6,480,485</u>

⁽¹⁾ The increases and decreases noted above include adjustments related to prior periods and correction of errors.

Business-type Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 800	\$ —	\$ —	\$ 800
Construction work in progress	7,791	878	(1,782)	6,887
Other	4,251	46	(657)	3,640
Total capital assets not being depreciated	<u>12,842</u>	<u>924</u>	<u>(2,439)</u>	<u>11,327</u>
Capital assets being depreciated:				
Infrastructure	1,175	—	—	1,175
Land improvements	3,830	—	—	3,830
Buildings/improvements	10,146	53	—	10,199
Equipment	9,546	159	(132)	9,573
Total capital assets being depreciated	<u>24,697</u>	<u>212</u>	<u>(132)</u>	<u>24,777</u>
Less accumulated depreciation for:				
Infrastructure	(727)	(19)	—	(746)
Land improvements	(1,915)	(149)	—	(2,064)
Buildings/improvements	(6,503)	(296)	—	(6,799)
Equipment	(6,845)	(549)	120	(7,274)
Total accumulated depreciation	<u>(15,990)</u>	<u>(1,013)</u>	<u>120</u>	<u>(16,883)</u>
Total capital assets being depreciated, net	<u>8,707</u>	<u>(801)</u>	<u>(12)</u>	<u>7,894</u>
Intangible assets	78	2,086	(102)	2,062
Business-type activities capital assets, net	<u>\$ 21,627</u>	<u>\$ 2,209</u>	<u>\$ (2,553)</u>	<u>\$ 21,283</u>

⁽¹⁾ The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Depreciation ⁽²⁾
General government	\$ 8,190
Public safety	7,570
Transportation, including depreciation of the highway system maintained by the State	189,740
Health and human services	2,480
Education	191
Natural resources, including depreciation of the state's dams	10,569
Depreciation on capital assets held by the internal service funds	16,286
Total depreciation expense – Governmental Activities	<u>\$ 235,026</u>

Depreciation expense was charged to business-type activities as follows (in thousands):

	Depreciation ⁽²⁾
Liquor Stores	\$ 108
State Lottery	52
Prison Funds	566
West Yellowstone Airport	233
Other Enterprise Funds	54
Total depreciation expense – Business-type Activities	<u>\$ 1,013</u>

⁽²⁾ Depreciation expenses noted above include adjustments related to prior periods and correction of errors.

NOTE 6. RETIREMENT PLANS

A. General

The funding policies for each plan provide for periodic employee, employer, and State nonemployer contributions at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payroll expense. Benefits are established by state law and can only be amended by the Legislature.

Montana State Fund, a discretely presented component unit of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for some pension related items.

Public Employees' Retirement Board

The Public Employees' Retirement Board (PERB) oversees eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Sheriffs' Retirement System (SRS); Game Wardens' and Peace Officers' Retirement System (GWORS); Municipal Police Officers' Retirement System (MPORS); Firefighters' Unified Retirement System (FURS); and Volunteer Firefighters' Compensation Act (VFCA). The PERB also oversees two defined contribution plans: Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the 457-Deferred Compensation Plan (457 Plan). The PERB also oversees education funds related to the pension plans. All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be obtained here: <http://mpera.mt.gov/>. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

The PERB is an independent, seven-member board, appointed by the Governor. The members are assigned five-year, staggered terms. The PERB consists of two members at large, two active defined benefit public employees, one active defined contribution public employee, one member experienced in investments, and one retired public employee. The PERB approves the annual operating budget, developed by MPERA management, before the beginning of the fiscal year. As governed by statute, the PERB's defined benefit administrative expenses may not exceed 1.5% of the total defined benefit plan retirement benefits paid. In addition, the PERB decides legislative policy and priorities, hires the executive director, establishes the policies and procedures that govern operations at MPERA, and hear and rule on appeal matters of disabilities, retirees, and members. PERB members do not receive compensation for their service to the MPERA, but are reimbursed for necessary expenses incurred while serving.

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability OPEB Plan provides a defined benefit for disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations, and experience studies can be obtained at 100 N Park Avenue, Suite 110, PO Box 200139, Helena, MT 59620-0319; or can be found online at <https://trs.mt.gov/>.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB

members are appointed from the public at large. TRB members serve staggered, five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2019, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	546	320	57	33	27	235	366
Nonemployer contributing entity	—	1	—	—	1	1	1	1
Total Participants	7	547	320	57	34	28	236	367

There are 685 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using fund accounting principles and the accrual basis of accounting. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. Plan member contributions, employer contributions, and related receivables are recognized as revenues in the accounting period in which they are earned and become measurable, pursuant to formal commitments and statutory requirements. Benefit payments and refunds/distributions are recognized in the accounting period in which they are due and payable in accordance with the terms of each plan. Administrative and other expenses, and the associated liabilities, are recognized in the period the liability is incurred. Administrative expenses are financed through investment earnings on the pension trust fund for the defined benefit plans. Interfund receivables and payables exist at year-end for defined benefit administrative expenses that are accounted for within PERS-DBRP and allocated to the other defined benefit plans at year-end. Costs specifically related to the computer system upgrades are charged directly to the individual plans. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

The TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources, and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS, and additions to/deductions from TRS's fiduciary net position, the items have been determined on the same accrual basis as they are reported by the TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The TRS adheres to all applicable GASB statements.

The pension trust fund financial statements presented in this report are prepared using the accrual basis of accounting in the same manner as that described for the pension plan administrators above.

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2019, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution		
	Plan Designation	JRS	HPORS ⁽¹⁾	GWPORS	PERS-DBRP ⁽²⁾	SRS	MPORS ⁽¹⁾	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member												
Active		58	232	1,021	28,908	1,454	806	722	2,249	19,686	2,871	4,922
Inactive entitled to, but not yet receiving, benefits or a refund:												
Vested		2	18	138	3,943	135	94	36	777	1,791	559	4,618
Non-vested		1	25	447	19,316	633	164	67	—	14,261	713	—
Inactive members and beneficiaries currently receiving benefits:												
Service retirements ⁽³⁾		68	324	332	22,592	673	786	632	1,484	15,589	111	—
Disability retirements		—	6	4	146	29	32	10	1	199	10	—
Survivor benefits ⁽⁴⁾		5	12	10	507	24	32	19	3	468	2	—
Total membership		134	617	1,952	75,412	2,948	1,914	1,486	4,514	51,994	4,266	9,540

(1) Includes DROP in the Active count.

(2) The inactive Non-vested count includes dormant accounts that were previously not counted.

(3) Includes "Alternative Payees" and "Death After Retirement" benefit payments. As of Fiscal Year 2019, the TRS plan stopped reporting separate benefit recipient categories.

(4) Includes "Death Before Retirement" benefit payments.

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity for primary government and component units reported as of June 30, 2019, based on a June 30, 2018, actuarial valuation, follows with amounts presented in thousands:

Aggregate Pension Amounts - All Plans (State as employer)

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	\$ 60,192	\$ 102,651	\$ (42,459)	\$ (2,392)	\$ 2,363	\$ 3,116
HPORS	227,581	149,199	78,382	8,880	11,830	777
GWPORS	234,470	193,523	40,947	7,533	16,098	1,450
PERS-DBRP	3,111,159	2,285,772	825,387	69,675	189,135	182,664
SRS	21,151	17,488	3,663	(274)	2,798	4,041
FURS	12,634	9,984	2,650	485	1,227	47
TRS	153,359	105,952	47,407	11,538	32,691	1,725
Totals	\$ 3,820,546	\$ 2,864,569	\$ 955,977	\$ 95,445	\$ 256,142	\$ 193,820

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides

retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's current salary¹ or highest average compensation (HAC)²

¹Hired prior to July 1, 1997, and non-Guaranteed Annual Benefit Adjustment (GABA) – monthly compensation at time of retirement;

²Hired on or after July 1, 1997, or electing GABA – HAC during any consecutive 36 months;

²Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Age 60, 5 years of membership service;

Any age with 5 years of membership service – involuntary termination, actuarially reduced.

Vesting

5 years of membership service.

Monthly benefit formula

3.33% of current salary¹ (non-GABA) or HAC² (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)

If hired prior to July 1, 1997, and member did not elect GABA – current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Plan members are required to contribute 7.0% of the member's monthly compensation.

Employer contributions to the system – As the employer, the State was required to contribute 25.81% of a member's compensation until January 1, 2018, at which time the contribution rate was reduced to 0% temporarily until June 30, 2019.

Actuarial Assumptions

The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.18%

- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases None
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member’s benefit:
 - 3% for members electing GABA or hired on or after July 1, 1997
 - Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the JRS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2105. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the JRS’s target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of 7.65%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
JRS net pension (asset)	\$ (36,544)	\$ (42,459)	\$ (47,564)

Net Pension Asset

In accordance with GASB 68, the employer is required to recognize and report certain amounts associated with its participation in the JRS. GASB 68 became effective June 30, 2015, and includes requirements for participant to record and report its net pension asset (NPA), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability (Asset) as of 6/30/17	Net Pension Liability (Asset) as of 6/30/18	Percent of NPA
Employer's proportionate share	\$ (35,855)	\$ (42,459)	100%

At June 30, 2019, the employer reported a net pension asset of \$42.5 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of the JRS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other input that affected the measurement of the total pension liability (asset).

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the net pension asset and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the net pension asset.

Other Items Related to and Changes in Net Pension Asset

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2017	\$ 60,798	\$ 96,653	\$ (35,855)
Service costs	1,664	—	1,664
Interest	4,503	—	4,503
Difference between expected and actual experience	(2,901)	—	(2,901)
Contributions – employer	—	1,085	(1,085)
Contributions – member	—	575	(575)
Net investment income	—	8,467	(8,467)
Refunds of contributions	(149)	(149)	—
Benefit payments	(3,723)	(3,723)	—
Administrative expense	—	(264)	264
Other changes	—	7	(7)
Net changes	(606)	5,998	(6,604)
Balances at 6/30/2018	\$ 60,192	\$ 102,651	\$ (42,459)

Pension Expense

At June 30, 2019, the employer recognized pension expense/(income) of \$(2.4) million for the JRS.

Deferred Outflows and Inflows

At June 30, 2019, the employer recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$1.1 million.

As of the fiscal year ended June 30, 2019, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ —	\$ 605
Changes of assumptions	1,932	—
Differences between expected and actual experience	431	2,511
Totals	\$ 2,363	\$ 3,116

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2020	\$	679
2021		485
2022		(1,683)
2023		(234)
2024		—
Thereafter		—

Highway Patrol Officers' Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established in July 1, 1945, and governed by Title 19, chapters 2 & 6, MCA. This plan provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their statutory beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other member rights are vested after 5 or 10 years of service.

Section 19-6-709, MCA provides eligible members retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the General Fund. Factors impacting eligibility include the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19, MCA.

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2019, the balance held by MPERA for HPORS DROP participants was approximately \$2.0 million.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2013 – HAC during any consecutive 36 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.

Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Second Retirement (applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired):

a. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:

- is not awarded service credit for the period of reemployment;
- is refunded the accumulated contributions associated with the period of reemployment;
- starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
- does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following the second retirement.

b. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:

- is awarded service credit for the period of reemployment;
- starting the first month following termination of service, receives:
 - the same retirement benefit previously paid to the member; and
 - a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
- does not accrue post-retirement benefit adjustments during the term of reemployment but receive a GABA:
 - on the initial retirement benefit starting January immediately following second retirement; and
 - on the second retirement benefit starting in January after receiving that benefit for at least 12 months

c. A member who returns to covered service is not eligible for a disability benefit.

Vesting

Hired prior to July 1, 2013 – 5 years of membership service.

Hired on or after July 1, 2013 – 10 years of membership service.

Monthly benefit formula

Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.

Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 – after the member has completed 36 full months of retirement, the member's benefit increase by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

Minimum Monthly Benefit (non-GABA)

If hired prior to July 1, 1997, and member did not elect GABA – the minimum monthly benefit is equal to 2% of the service credit multiplied by the current base compensation of a probationary highway patrol officer. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.

Hired prior to July 1, 1997, and not electing GABA – Plan members are required to contribute 13.00%.

Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 13.05%.

Employer contributions to the system – As the employer, the State is required to contribute 38.33% of a member's compensation. The first 28.15% is payable from the same sources used to pay a member's compensation. The remaining amount, equal to 10.18%, is payable from the General Fund through a statutory appropriation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.30%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
 - If electing GABA or hired on or after July 1, 1997 – 3.00%
 - Hired on or after July 1, 2013 – 1.50%

- Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2129. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the HPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the HPORS's target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
HPORS net pension liability	\$ 110,323	\$ 78,382	\$ 52,575

Net Pension Liability

In accordance with GASB 68, employer is required to recognize and report certain amounts associated with its participation in the HPORS. GASB 68 became effective June 30, 2015, and includes requirements for participant to record and report its net pension liability (NPL), pension expense, deferred inflows or resources, and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of NPL
Employer's proportionate share	\$ 78,385	\$ 78,382	100%

At June 30, 2019, the employer reported a liability of \$78.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of the HPORS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the net pension liability.

Other Items Related to and Changes in Net Pension Liability

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2017	\$ 218,922	\$ 140,537	\$ 78,385
Service costs	3,643	—	3,643
Interest	16,294	—	16,294
Difference expected and actual experience	590	—	590
Contributions – employer	—	5,858	(5,858)
Contributions – non-employer (State)	—	250	(250)
Contributions – member	—	2,387	(2,387)
Net investment income	—	12,283	(12,283)
Refund of contributions	(322)	(322)	—
Benefit payments	(11,546)	(11,546)	—
Administrative expense	—	(256)	256
Other changes	—	8	(8)
Net changes	8,659	8,662	(3)
Balances at 6/30/2018	\$ 227,581	\$ 149,199	\$ 78,382

Pension Expense

At June 30, 2019, the employer recognized pension expense of \$8.9 million for the HPORS.

Deferred Outflows and Inflows

At June 30, 2019, the employer recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$6.1 million.

As of the fiscal year ended June 30, 2019, remaining deferred outflows of resources and deferred inflows of resources related to the HPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,833	\$ —
Changes of assumptions	3,946	—
Net difference between projected and actual earnings on pension plan investments	—	777
Contributions paid to HPORS subsequent to the measurement date – FY 2019 contributions	6,051	—
Totals	\$ 11,830	\$ 777

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2020	\$	3,680
2021		2,891
2022		(1,235)
2023		(334)
2024		—
Thereafter		—

Game Wardens' & Peace Officers' Retirement System – The GWPORS, administered by the MPERA, is a multi-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

The State of Montana and its discretely presented component units are the only employers who participate in the GWPORS. Therefore, while the plan is considered to be a multi-employer, cost-sharing defined benefit plan for actuarial valuation purposes, in accordance with GASB 68, the plan is treated as if it were a single-employer defined benefit pension plan type for financial reporting.

Summary of Benefits

Member’s highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
 Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
 Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s HAC.

Eligibility for benefit

Service Retirement
 Age 50, 20 years of membership service.

Early Retirement (reduced benefit)

Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting

5 years of membership service.

Monthly benefit formula

2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member’s benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member’s salary and remitted by participating employers. Plan members are required to contribute 10.56% of member’s compensation.

Employer contributions to the system – State agency and university employers are required to contribute 9.0% of a member’s compensation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage each January, inclusive of other adjustments to the member’s benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the GWPORS’s target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	<u>100.00%</u>	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Primary government employer GWPORS net pension liability	\$ 72,781	\$ 38,851	\$ 11,194
Discretely presented component units employer GWPORS net pension liability	3,927	2,096	604
Total employer GWPORS net pension liability	<u>\$ 76,708</u>	<u>\$ 40,947</u>	<u>\$ 11,798</u>

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the GWPORS. Statement 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
Primary government employer proportionate share	\$ 35,297	\$ 38,851	94.880929%
Discretely presented component units employer proportionate share	2,063	2,096	5.119071%
Total employer GWPORS proportionate share	<u>\$ 37,360</u>	<u>\$ 40,947</u>	<u>100%</u>

At June 30, 2019, the employer reported a total liability of \$40.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of GWPORS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date, there were no changes in proportion that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

The State, as the primary government employer, has the following balances and changes related to the GWPORS's Net Pension Liability:

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2017	\$ 201,284	\$ 165,987	\$ 35,297
Service costs	7,683	—	7,683
Interest	15,198	—	15,198
Difference between expected and actual experience	4,536	—	4,536
Contributions – employer	—	4,377	(4,377)
Contributions – member	—	5,230	(5,230)
Net investment income	—	14,776	(14,776)
Refunds of contributions	(1,049)	(1,049)	—
Benefit payments	(6,189)	(6,189)	—
Administrative expense	—	(350)	350
Other changes ⁽¹⁾	1,004	834	170
Net changes	21,183	17,629	3,554
Balances at 6/30/2018	<u>\$ 222,467</u>	<u>\$ 183,616</u>	<u>\$ 38,851</u>

⁽¹⁾ The Changes in Net Pension Liability table is only provided at the system level. The ending balances and the components of the changes are derived from the primary government's proportionate share of the total plan balances and the discretely presented component unit's proportionate share of the total plan balances. Due to the change in proportionate share in each year, the other changes line item includes the difference between the proportionate share of the balances and the preliminary calculated balances.

The State's discretely presented component units, as employers, have the following balances and changes related to the GWPORS's Net Pension Liability:

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2017	\$ 11,917	\$ 9,854	\$ 2,063
Service costs	415	—	415
Interest	820	—	820
Difference between expected and actual experience	245	—	245
Contributions - employer	—	236	(236)
Contributions - member	—	282	(282)
Net investment income	—	797	(797)
Refunds of contributions	(56)	(56)	—
Benefit payments	(334)	(334)	—
Administrative expense	—	(19)	19
Other changes ⁽¹⁾	(1,004)	(853)	(151)
Net changes	86	53	33
Balances at 6/30/2018	<u>\$ 12,003</u>	<u>\$ 9,907</u>	<u>\$ 2,096</u>

⁽¹⁾ The Changes in Net Pension Liability table is only provided at the system level. The ending balances and the components of the changes are derived from the primary government's proportionate share of the total plan balances and the discretely presented component unit's proportionate share of the total plan balances. Due to the change in proportionate share in each year, the other changes line item includes the difference between the proportionate share of the balances and the preliminary calculated balances.

Pension Expense

At June 30, 2019, the employer recognized a total pension expense of \$7.5 million for its proportionate share of the GWPORS pension expense: \$7.2 million related to the primary government and \$360.3 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2019, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$4.3 million.

As of the fiscal year ended June 30, 2019, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,340	\$ —
Net difference between projected and actual earnings on pension plan investments	—	1,195
Changes in assumptions	3,346	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	191	111
Contributions paid to GWPORS subsequent to the measurement date – FY 2019 contributions	4,419	—
Totals	\$ 15,296	\$ 1,306

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2020	\$	4,114
2021		3,270
2022		1,664
2023		523
2024		—
Thereafter		—

The State’s discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$234.2 thousand.

As of the fiscal year ended June 30, 2019, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 396	\$ —
Net difference between projected and actual earnings on pension plan investments	—	64
Changes in assumptions	181	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	80
Contributions paid to GWPORS subsequent to the measurement date – FY 2019 contributions	225	—
Totals	\$ 802	\$ 144

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2020	\$	195
2021		150
2022		63
2023		25
2024		—
Thereafter		—

(2) State as an Employer and/or a Nonemployer Contributing Entity to Cost-Sharing Multiple-Employer Plans

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, MCA. This plan covers employees of the State and local governments, and certain employees of the Montana University System and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System-Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – HAC during any consecutive 36 months;

Hired on or after July 1, 2011 – HAC during any consecutive 60 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011 –

Age 60, 5 years of membership service;

Age 65, regardless of membership service; or

Any age, 30 years of membership service.

Hired on or after July 1, 2011 –

Age 65, 5 years of membership service;

Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 –

Age 50, 5 years of membership service; or

Any age, 25 years of membership service.

Hired on or after July 1, 2011 – Age 55, 5 years of membership service.

Second retirement (all require retuning to PERS-covered employment or PERS service):

Retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit:

- A refund of member's contributions from second employment plus regular interest (0.77%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on laws in effect at second retirement; and
- GABA starts the January after receiving recalculated benefit for 12 months

Retire on or after January 1, 2016 and accumulate 5 or more years of additional service credit:

- The same retirement benefit as prior to their return to service;
- A second retirement benefit for second period of service based on laws in effect at second retirement;
- GABA starts on both benefits in the January after receiving the original and new benefit for 12 months

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011 –

Less than 25 years of membership service: 1.785% of HAC per year of service credit;

25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 –

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA) – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Contributions are deducted from each member's salary and remitted by participating Employers. Plan members are required to contribute 7.90% of member's compensation. The 7.90% member contribution rate is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional Employer and additional member contribution rates.

Employer contributions to the system

State and University System employers are required to contribute 8.67% of member compensation. Local government entities are required to contribution 8.57% of member compensation. School district employers contributed 8.30% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. As of January 1, 2019, the additional contributions will not be terminated.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employer's reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non-Employer Entity Contributions

Special Funding

- The State contributes 0.1% of member compensation on behalf of local government entities.
- The State contributes 0.37% of member compensation on behalf of school district entities.
- The State contributes a Statutory Appropriation from General Fund. Funding provided for the year ended June 30, 2019, totaled \$33.5 million.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.26%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 4.8%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member’s benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.50% for each year PERS is funded at or above 90%
 - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes a Statutory Appropriation from the General Fund. Based on those assumptions, the PERS-DBRP’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the PERS-DBRP's target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an employer in PERS-DBRP – net pension liability	\$ 1,193,700	\$ 825,387	\$ 522,943
State as a nonemployer contributing entity to PERS-DBRP – net pension liability	752,125	520,058	329,495

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity special funding.

In accordance with GASB 68, the PERS-DBRP has a special funding situation where the State is legally responsible for making contributions directly to the PERS-DBRP on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
State's proportionate share as an employer entity	\$ 1,033,200	\$ 825,387	39.546272%
State's proportionate share as a nonemployer contributing entity	19,622	520,058	24.917247%
State of Montana totals	\$ 1,052,822	\$ 1,345,445	64.463519%

Per Section 19-3-320, MCA, effective July 1, 2017, the State provided the state statutory appropriation directly to the PERS-DBRP. The state statutory appropriation is considered a special funding situation and increased the state's proportionate share. All PERS-DBRP participating employers' proportionate shares have decreased as a result of the increased state proportion as compared to prior years.

At June 30, 2019, the State reported a liability of \$1.3 billion for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2017, through June 30, 2018, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

At June 30, 2019, the State as an employer recognized a pension expense of \$69.7 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of \$1.1 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with local government and school district participants in the plan. The State as a nonemployer contributing entity recognized grant expense of \$33.6 million for special funding support provided by the General Fund as a statutory appropriation for all participating employers in the plan. The State as a nonemployer contributing entity recognized pension expense of \$132.1 million that is actuarially allocated to the State as a nonemployer. The total pension expense recognized by the State as a nonemployer was \$166.8 million. Total pension related expenses recognized by the State, both as employer and nonemployer contributing entity at June 30, 2019, were \$236.5 million.

Deferred Outflows and Inflows

At June 30, 2019, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$54.8 million.

As of the fiscal year ended June 30, 2019, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 62,765	\$ —
Net difference between projected and actual earnings on pension plan investments	—	12,818
Change of assumptions	70,187	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	169,846
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2019 contributions	56,183	—
Totals	\$ 189,135	\$ 182,664

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2020	\$	14,048
2021		2,003
2022		(60,496)
2023		(5,267)
2024		—
Thereafter		—

At June 30, 2019, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$34.7 million.

As of the fiscal year ended June 30, 2019, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 39,547	\$ —
Net difference between projected and actual earnings on pension plan investments	—	8,077
Change of assumptions	44,223	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	296,154	—
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2019 contributions	34,642	—
Totals	\$ 414,566	\$ 8,077

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2020	\$	144,020
2021		135,594
2022		95,552
2023		(3,319)
2024		—
Thereafter		—

Sheriffs' Retirement System – The SRS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service Retirement: 20 years of membership service, regardless of age.

Early Retirement: Age 50, 5 years of membership service, actuarially reduced.

Second Retirement (applies to retirement system members re-employed in a SRS position on or after July 1, 2017):

- a. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - is not awarded service credit for the period of reemployment;
 - is refunded the accumulated contributions associated with the period of reemployment;
 - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following the second retirement.
- b. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - is awarded service credit for the period of reemployment;
 - starting the first month following termination of service, receives:
 - the same retirement benefit previously paid to the member; and

- a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - do not accrue post-retirement benefit adjustments during the term of reemployment but receive a GABA:
 - on the initial retirement benefit starting in January immediately following second retirement; and
 - on the second retirement benefit starting in January after receiving that benefit for at least 12 months
- c. A member who returns to covered service is not eligible for a disability benefit.

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions and are a percentage of the member's compensation. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 10.495% of member's compensation.

Employer contributions to the system – The employers are required to contribute 13.115% of member compensation. Employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.21%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. SRS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2118. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the SRS’s target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer’s SRS net pension liability	\$ 6,666	\$ 3,663	\$ 1,204

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the SRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record

and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
Employer proportionate share	\$ 3,696	\$ 3,663	4.872800%

At June 30, 2019, the State as an employer reported a liability of \$3.7 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of SRS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the Employer's proportionate share of the collective net pension liability.

Pension Expense

At June 30, 2019, the employer recognized a pension expense/(income) of \$(274.0) thousand for its proportionate share of the SRS pension expense/(income).

Deferred Outflows and Inflows

At June 30, 2019, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$495.8 thousand.

As of the fiscal year ended June 30, 2019, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 202	\$ 8
Net difference between projected and actual earnings on pension plan investments	—	102
Changes of assumptions	2,083	3,464
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	467
Contributions paid to SRS subsequent to the measurement date – FY 2019 contributions	513	—
Totals	<u>\$ 2,798</u>	<u>\$ 4,041</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2018, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2020	\$ (470)
2021	(557)
2022	(741)
2023	12
2024	—
Thereafter	—

Municipal Police Officers’ Retirement System – The MPORS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan that was established in 1974 and is governed by Title 19, chapters 2 & 9, MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation.

Deferred Retirement Option Plan (DROP)

Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member’s DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member’s DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2019, the balance held by MPERA for MPORS DROP participants was approximately \$9.5 million.

The State is not an employer participant in the MPORS plan. However, because the PERB is a fiduciary component unit of the State, this CAFR presents certain information to help ensure compliance with GASB 67. In addition, the State provides nonemployer entity contributions classified as special funding in accordance with GASB 68. Disclosures made in this financial report for MPORS are meant to reflect the aforementioned relationships.

Summary of Benefits

Member’s final average compensation (FAC)

- Hired prior to July 1, 1977 – average monthly compensation of final year of service;
- Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s FAC.

Eligibility for benefit

Service Retirement: Age 50, with 5 years of membership service, or 20 years of membership service, regardless of age.

Second Retirement: Age 50, reemployed in a MPORS position

Vesting

Death and disability rights are vested immediately.

5 years of membership service.

Monthly benefit formula

2.5% of FAC per year of service credit.

Second retirement benefit formula for members re-employed in a MPORS position after July 1, 2017:

- 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - a. Is not awarded service credit for the period of reemployment;
 - b. Is refunded the accumulated contributions associated with the period of reemployment;
 - c. Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- 2) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - a. Is awarded service credit for the period of reemployment;
 - b. Starting the first month following termination of service, receives:
 - i. The same retirement benefit previously paid to the member, and
 - ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - i. On the initial retirement benefit in January immediately following second retirement, and
 - ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- 3) A member who returns to covered service is not eligible for a disability benefit.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA) If hired before July 1, 1997, and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed officer of the employer where the member was last employed.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member’s salary and remitted by the participating Employer. For fiscal year 2019:

- If hired prior to July 1, 1975, member contributions as a percentage of salary are 5.80%
- If hired after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.00%;
- If hired after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.50%; and,
- If hired on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary are 9.00%.

Employer Contributions – Employers are required to contribute 14.41% of a member’s compensation.

Nonemployer Entity Contributions – The State contributes 29.37% of a member’s compensation from the General Fund. These amounts are considered a special funding situation in accordance with GASB 68.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin expense as a % of Payroll 0.24%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.60%
- Postretirement Benefit Increases
 - GABA
 - Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit
 - Minimum benefit adjustment (non-GABA)
 - If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor’s benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2132. Therefore, the long-term expected rate of return on pension plan investments was applied to

all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a nonemployer entity net pension liability	\$ 174,579	\$ 114,956	\$ 67,274

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the MPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the MPORS has a special funding situation in which the State is legally responsible for making contributions directly to the MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
State as a nonemployer contributing entity – proportionate share	\$ 119,354	\$ 114,956	67.124706%

At June 30, 2019, the State as a nonemployer contributing entity reported a liability of \$115.0 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2017, through June 30, 2018, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State recognized grant expense of \$13.0 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2019, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$15.3 million.

As of the fiscal year ended June 30, 2019, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 322	\$ 2,293
Net difference between projected and actual earnings on pension plan investments	—	871
Change of assumptions	5,374	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	358	—
Contributions paid to MPORS subsequent to the measurement date – FY 2019 Contributions	15,941	—
Totals	\$ 21,995	\$ 3,164

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	<i>(in thousands)</i>	
<u>Year ended June 30:</u>	<u>Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense</u>	
2020	\$	3,072
2021		2,479
2022		(2,149)
2023		(512)
2024		—
Thereafter		—

Firefighters' Unified Retirement System – The FURS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation.

Summary of Benefits

Member's compensation

Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);

Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Part-time firefighter – 15% of regular compensation of a newly confirmed full-time firefighter.

Eligibility for benefit

Service retirement: 20 years of membership service, regardless of age.

Early Retirement: Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately

5 years of membership service.

Monthly benefit formula

Members hired prior to July 1, 1981, and not electing GABA are entitled to the greater of:

2.5% of HMC per year of service; **or**

- if less than 20 years of service – 2% of HMC for each year of service;
- if more than 20 years of service – 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years.

Members hired on or after July 1, 1981, and those electing GABA: 2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit.

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor’s benefit may not be less than 50% of the compensation of a newly confirmed active firefighter of the employer that last employed the member.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan. Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Member contributions to the system – Contributions are deducted from each member’s salary and remitted by the participating Employer. For members:

Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;

Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

Employer contributions to the system – Employers are required to contribute 14.36% of member’s compensation.

Nonemployer entity contributions to the system – The State contributes 32.61% of a member’s compensation from the General Fund.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.23%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases
 - GABA

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member’s benefit.
 - Minimum Benefit Adjustment (non-GABA)

Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor’s benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.

- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2134. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the FURS's target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an employer in FURS – net pension liability	\$ 4,542	\$ 2,650	\$ 1,126
State as a nonemployer contributing entity to FURS – net pension liability	134,175	78,285	33,263

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the FURS. GASB 68 became effective June 30, 2015, and includes

requirements to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the FURS has a special funding situation in which the State is legally responsible for making contributions directly to the FURS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or fire district's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
State's proportionate share as an employer entity	\$ 2,525	\$ 2,650	2.300917%
State's proportionate share as a nonemployer contributing entity	76,724	78,285	67.972164%
State of Montana totals	<u>\$ 79,249</u>	<u>\$ 80,935</u>	<u>70.273081%</u>

At June 30, 2019, the State reported a liability of \$80.9 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2017, through June 30, 2018, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2019, the State as an employer recognized pension expense of \$485.0 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of \$11.7 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2019, was \$12.2 million.

Deferred Outflows and Inflows

At June 30, 2019, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$517.9 thousand.

As of the fiscal year ended June 30, 2019, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 297	\$ 15
Net difference between projected and actual earnings on pension plan investments	—	32
Change of assumptions	259	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	177	—
Contributions paid to FURS subsequent to the measurement date – FY 2019 contributions	494	—
Totals	\$ 1,227	\$ 47

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2018, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2020	\$ 265
2021	217
2022	22
2023	114
2024	68
Thereafter	—

At June 30, 2019, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2018 contributions of \$15.3 million.

As of the fiscal year ended June 30, 2019, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 8,788	\$ 431
Net difference between projected and actual earnings on pension plan investments	—	950
Change in assumptions	7,665	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	117	—
Contributions paid to FURS subsequent to the measurement date – FY 2019 contributions	16,209	—
Totals	\$ 32,779	\$ 1,381

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer’s contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	<i>(in thousands)</i>	
	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2020	\$	5,204
2021		3,784
2022		1,314
2023		3,195
2024		1,692
Thereafter		—

Volunteer Firefighters’ Compensation Act – The VFCA, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan that was established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. The VFCA also provides limited benefits for death or injuries incurred in the line of duty. A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit

- Age 55, 20 years of credited service;
- Age 60, 10 years of credited service.

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive \$7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member’s benefit will be capped at \$250 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting

10 years of credited service.

Monthly benefit formula (effective January 1, 2016)

- \$8.75 per year of credited service up to 20 years;
- \$7.50 per year of credited service after 20 years

Contributions to the Plan

The State, as a nonemployer contributing entity, is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. This requires the plan to be treated as a special funding situation in accordance with GASB 68. The State Auditor makes annual payments from the General Fund to the VFCA fund. Rates are specified by state law for contributions to the VFCA plan. The State legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

- Investment Return 7.65%
- Inflation at 2.75%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

For VFCA, administrative expenses are assumed to equal \$89.3 thousand. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2110. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the VFCA. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2018, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	<u>100.00%</u>	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.65%, as well as

what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a nonemployer entity net pension liability	\$ 12,207	\$ 7,667	\$ 3,821

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the VFCA. GASB 68 became effective June 30, 2015, and includes requirements to record and report proportionate shares of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the VFCA has a special funding situation in which the State is legally responsible for making contributions directly to the VFCA on behalf of volunteer employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a volunteer fire company’s collective net pension liability that is associated with the non-State volunteer employer.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
State as a nonemployer proportionate share	\$ 10,087	\$ 7,667	100%

At June 30, 2019, the State reported a liability of \$7.7 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The nonemployer’s proportion of the net pension liability was based on the nonemployer’s contributions received by the VFCA during the measurement period, July 1, 2017, through June 30, 2018, relative to total contributions received.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the nonemployer’s reporting date that are expected to have a significant effect on the nonemployer’s proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of \$664.1 thousand for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2019, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$2.2 million.

As of the fiscal year ended June 30, 2019, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ —	\$ 884
Change of assumptions	761	—
Net difference between projected and actual earnings on pension plan investments	—	33
Contributions paid to VFCA subsequent to the measurement date – FY 2019 contributions	2,361	—
Totals	\$ 3,122	\$ 917

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2020	\$	476
2021		(236)
2022		(323)
2023		(73)
2024		—
Thereafter		—

Teachers' Retirement System – The TRS is administered by the Teachers' Retirement Board (TRB), which is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan that provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college, or unit of the university system. The TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

The TRB is the governing body of the TRS and the TRS's staff administer the TRS in conformity with the laws set forth in Title 19, chapter 20, MCA, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Benefits are established by state law and can only be amended by the Legislature.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation—1.85% of the AFC multiplied by the years of creditable service—for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1 of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier 1 members is 1.5% of the benefit payable as of January 1. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system’s funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Contributions to the System

All active employees in the TRS, regardless of employer type, are required to provide a contribution equal to 8.15% of their compensation.

All State and University employers are required to contribute 11.35% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.97% of an active, nonreemployed, member's compensation to the System.

Section 19-20-605, MCA, requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to Section 19-20-609, MCA, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of reemployed retiree compensation.

The TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The System receives 0.11% of earned compensation from the General Fund for all TRS members. The TRS also receives 2.38% of earned compensation from the General Fund for TRS members employed at school districts, community colleges, educational cooperatives, and counties in Montana. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1 of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability as of June 30, 2018, is based on the results of an actuarial valuation date of July 1, 2018. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2018, valuation were based on the results of the last actuarial experience study, dated May 2018. Among those assumptions were the following:

- Total Wage Increases (includes 3.25% general wage increase assumption) 3.25% to 7.76% for non-university members
4.25% for university members
- Merit Increases 0 to 4.51% for non-university members
1.00% for university members
- Investment Return 7.50%
- Price Inflation 2.50%
- Admin Expense as a % of Payroll 0.36%
- Postretirement Benefit Increases (starting three years after retirement)
 - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.

- Tier Two members: The retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90.0% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85.0%.
- Mortality among contributing members, service retired members, and beneficiaries:
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvements which is expected to occur in the future.
- Mortality among disabled members
 - For Males: RP-2000 Disabled Mortality Table for Males, set back three years, with mortality improvements projected by Scale BB to 2022.
 - For Females: RP-2000 Disabled Mortality Table for Females, set forward two years, with mortality improvements projected by Scale BB to 2022.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute \$25.0 million annually to the TRS payable July 1 of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, is outlined in a report dated May 3, 2018. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation). Estimates of variability and correlations for each asset class, were developed by the TRS's investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The long-term rate of return assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The average long term capital market assumptions published in the Survey of Capital Market Assumptions 2017 Edition by Horizon Actuarial Service, LLC, yield a median real return of 5.07%. The TRS's recommended assumption of 5.00% for the real return reflects granting each source some degree of credibility. Combined with the 2.50% inflation assumption, the resulting nominal return is 7.50%. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2018, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	35.00%	6.68%
Broad International Equity	18.00%	6.98%
Private Equity	10.00%	10.15%
Natural Resources	3.00%	4.09%
Core Real Estate	7.00%	5.38%
TIPS	3.00%	1.78%
Intermediate Duration Bonds	19.00%	2.15%
High Yield Bonds	3.00%	4.36%
Cash	2.00%	0.81%
Total	100.00%	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.50%)	Current Discount Rate	1.0% Increase (8.50%)
State as an employer in TRS – net pension liability	\$ 65,186	\$ 47,407	\$ 32,515
State as a nonemployer contributing entity to TRS – net pension liability	963,094	700,417	480,403

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the TRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. In accordance with GASB 68, the TRS has a special funding situation in which the State is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of the TRS. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/18	Percent of Collective NPL
State's as an employer entity	\$ 48,227	\$ 47,407	2.554088%
State's as a nonemployer entity	642,958	700,417	37.735743%
State of Montana totals	<u>\$ 691,185</u>	<u>\$ 747,824</u>	<u>40.289831%</u>

At June 30, 2019, the State reported a liability of \$747.8 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2017, through June 30, 2018, relative to all contributions received from the TRS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: As a result of the recent actuarial experience study, dated May 2018, the following changes to the actuarial assumptions were made since the previous measurement date:

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvement which is expected to occur in the future.
- Mortality among disabled members was updated to the following:
 - For Males: RP-2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
 - For Females: RP-2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated
- Termination rates were updated
- Rates of salary increases were updated

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2019, the State as an employer recognized a pension expense of \$11.5 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of \$41.4 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension related expenses for fiscal year 2019 was \$52.9 million.

Deferred Outflows and Inflows

At June 30, 2019, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$17.3 million.

As of the fiscal year ended June 30, 2019, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 338	\$ 29
Net difference between projected and actual earnings on pension plan investments	—	428
Change of assumptions	3,864	70
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,951	1,198
Contributions paid to TRS subsequent to the measurement date – FY 2019 contributions	16,538	—
Totals	\$ 32,691	\$ 1,725

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2020	\$	7,677
2021		5,309
2022		1,663
2023		(221)
2024		—
Thereafter		—

At June 30, 2019, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2018 contributions of \$43.7 million.

As of the fiscal year ended June 30, 2019, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,998	\$ 437
Net difference between projected and actual earnings on pension plan investments	—	6,322
Changes of assumptions	57,095	1,037
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,910	29,044
Contributions paid to TRS subsequent to the measurement date – FY 2019 Contributions	44,333	—
Totals	<u>\$ 112,336</u>	<u>\$ 36,840</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in grant expense as follows:

	(in thousands)	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2020	\$	18,583
2021		16,529
2022		(688)
2023		(3,261)
2024		—
Thereafter		—

D. Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15, and Section 19-2-409, MCA state that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

A traditional funding actuarial valuation of each of the defined benefit plans is performed annually. The purpose of the traditional funding actuarial valuation is to measure funding progress, and to determine the actuarial determined contribution, contribution sufficiency or deficiency, and other actuarial information necessary for monitoring funding position. The most recent actuarial valuation was performed for fiscal year ended June 30, 2019. The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2019, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), and the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002,

and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2019, is \$7.5 million and contribution forfeitures were \$414.7 thousand.

Local government entities contribute 8.57% of member compensation. School district employers contributed 8.30% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.67% of member compensation.

The total contribution rate of 8.67%, referenced in the preceding paragraph, is allocated as follows: 8.33% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. Refer to PERB's annual financial report for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 53 non-state entity employers participate in the 457-Plan.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Empower Retirement™ is the record keeper for the plan. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association (TIAA). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21, MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per Section 19-21-203, MCA. Combined contributions to the classified staff plan are 16.57% per Section 19-3-316, MCA and Section 19-3-315, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA. Individuals are immediately vested with all contributions. The Montana University System records employee/ employer contributions, and remits monies to TIAA. Total contributions made to the plan by the employer were \$16.7 million and the total employee contributions were \$19.3 million for the fiscal year ended June 30, 2019.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at either fair value or cost, depending on the underlying investment type. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Mortgages are present value adjusted. The fair value of direct real estate investments is based on the latest appraised value. Investment valuation not classified within the fair value measurement levels are reported at Net Asset Value. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

Per Section 19-2-706, MCA, the Montana Legislature enacted a provision of the Employee Protection Act (EPA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. In fiscal year 2019, there were 260 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by MPERA on the unpaid balance. Total contributions received (including interest) during fiscal year 2019 totaled \$136.7 thousand. The outstanding balance at June 30, 2019, totaled \$12.8 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action in the eighth Judicial District of Montana against the State of Montana on October 6, 2015, alleging the inappropriate advising, reporting, and withholding of state and federal income taxes on certain line-of-duty disability benefits before conversion to a normal retirement benefit. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Jean Faure and Jason Holden of the Faure Holden law firm in Great Falls, Montana. On June 11, 2019, the Court issued an Order granting Plaintiff's Motion to Certify Class. The Court has defined the prospective class of plaintiffs in this matter and the parties were instructed by the Court to meet and confer to agree on the class form of notice and notice plan concerning the matter.

Murnion v. MPERA AND PERB. A retired member of the Public Employees' Retirement System appealed a Final Order of the PERB upholding the Hearing Examiner's Proposed Findings of Fact and Conclusions of Law determining that the retired member was not entitled to full-time PERS service credit for his part-time years of employment. On March 15, 2019, the retired member filed a Petition for Appeal of Agency Action and Complaint in the first Judicial District of Montana in order to appeal the PERB's Final Order under the provisions of the Montana Administrative Procedure Act (MAPA). On June 26, 2019, MPERA filed a motion to vacate any forthcoming Scheduling Order, set a briefing schedule to control the judicial review of this matter, and dismiss the retired member's Count II and III for failure to state a claim within the Court's jurisdiction, or, in the alternative, confine any review of each claim to the administrative record. On July 12, 2019, a Scheduling Order was issued by the Court calling for additional periods for discovery and setting a date for a two-day non-jury bench trial beginning on July 8, 2020. On July 15, 2019, Petitioner filed a response to MPERA's motion, and MPERA filed a reply on July 19, 2019. A notice of submittal was filed by MPERA on July 22, 2019. An estimate of the potential liability for the Murnion case cannot be made.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information Non-trust Plans

The State of Montana (State) and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and MUS offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan. Further detail on State Retirement Plans are provided in Note 6. MUS provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from their plan, or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. They must elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for both plans.

Montana State Fund, a discretely presented component of the State and participant in the State OPEB plan, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for OPEB related information.

B. Plan Descriptions

Both healthcare OPEB plans for the State and MUS are reported as single employer plans. In addition to the primary government, the participating employers under the State OPEB plan are: Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS OPEB plan are: Office of Commissioner of Higher Education (OCHE), Montana State University - Billings (MSU-Billings), Montana State University - Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University - Northern (MSU-Northern), Montana Technological University, Helena College UM, University of Montana - Missoula (UM-Missoula), and University of Montana - Western (UM-Western). Participating employers under MUS, but excluded from the total OPEB liability due to not qualifying as component units, are: Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), and Miles Community College (Miles CC). Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The State and MUS pay for post employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

As of December 31, 2018, the State OPEB plan's administratively established retiree medical premiums vary between \$439.00 and \$1,633.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and \$70.00 per month and vision hardware premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

As of June 30, 2019, the MUS OPEB plan's administratively established retiree medical premiums vary between \$327.00 and \$2,403.00 per month. Retiree dental premiums vary between \$52.00 and \$156.00 per month while vision premiums vary from \$9.71 to \$28.31, depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

C. Basis of Accounting

Total OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements, and the component unit financial statements. Total OPEB liability is not reported on the governmental fund financial statements, as it is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Both OPEB plans state that an employee enrolled in the OPEB plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with their respective benefit office, within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost, and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2019.

The number of State Plan participants as of March 31, 2018⁽¹⁾, follows:

Enrollment	State Plan Participants						Total
	State ⁽²⁾	Facility Finance Authority ⁽³⁾	Montana Board of Housing ⁽³⁾	Public Employee Retirement Board ⁽³⁾	Montana State Fund ⁽³⁾	Teachers Retirement System ⁽³⁾	
Active employees	12,210	1	15	46	293	20	12,585
Retired employees, spouses, and surviving spouses	2,846	2	3	1	14	7	2,873
Total	15,056	3	18	47	307	27	15,458

The number of MUS Plan participants as of March 31, 2018⁽¹⁾, follows:

Enrollment	MUS Plan Participants									Total
	MSU-GFC ⁽³⁾	UM-HC ⁽³⁾	MSU-Billings ⁽³⁾	MSU-Bozeman ⁽³⁾	MSU-Northern ⁽³⁾	OCHE ⁽²⁾	UM-Missoula ⁽³⁾	UM-MT Tech ⁽³⁾	UM-Western ⁽³⁾	
Active employees	120	97	462	3,094	176	61	2,143	437	188	6,778
Retired employees, spouses, and surviving spouses	7	20	136	578	42	23	579	102	61	1,548
Total	127	117	598	3,672	218	84	2,722	539	249	8,326

⁽¹⁾ Due to roll-forward of the actuary report, Plan Participants are the same as the previous measurement date.

⁽²⁾ Primary Government

⁽³⁾ Discrete Component Units of Primary Government

D. Schedule of Changes in Total OPEB liability

The following table presents the other items related to and changes in the total OPEB liability:

Annual OPEB Cost & Changes in Total OPEB liability
(in thousands)

	State Plan			MUS Plan		
	Primary Government Total OPEB Liability	Discrete Component Unit Total OPEB Liability	Total State Plan	Primary Government Total OPEB Liability	Discrete Component Unit Total OPEB Liability	Total MUS Plan
Balances at 6/30/2018 ⁽¹⁾	\$ 49,473	\$ 986	\$ 50,459	\$ 401	\$ 35,037	\$ 35,438
Changes for the year:						
Service cost	2,017	45	2,062	12	1,940	1,952
Interest	1,947	43	1,990	9	1,486	1,495
Changes of assumptions or other inputs	2,828	67	2,895	8	1,343	1,351
Benefit payments	(1,672)	(37)	(1,709)	(5)	(883)	(888)
Net changes	5,120	118	5,238	24	3,886	3,910
Balances at 6/30/2019 ⁽²⁾	\$ 54,593	\$ 1,104	\$ 55,697	\$ 425	\$ 38,923	\$ 39,348

⁽¹⁾ Primary Government and Discrete Component Unit beginning balance for the Total OPEB Liability of the State Plan includes a prior period adjustment of \$3.0 thousand between the State and Facility Finance Authority.

⁽²⁾ State and discretely presented component units proportion of the collective total OPEB liability as of the measurement date for fiscal years 2018 and 2019 for the State Plan was 100% both years and for the MUS Plan is 95.62% and 95.59%, respectively.

E. Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The schedule of changes in the State's and MUS's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the State's and MUS's TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The State's OPEB Plan TOL on December 31, 2017, rolled forward to March 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Other Postemployment Benefits State Single Employer Plan		
	Retiree/Surviving Spouse	Spouse
	<hr/>	<hr/>
Contributions (in thousands):		
Before Medicare eligibility	\$ 13,572	\$ 5,268
After Medicare eligibility	5,271	4,403
Actuarial valuation date	December 31, 2017	
Experience study period	January 1, 2015 through December 31, 2017	
Actuarial measurement date ⁽¹⁾	March 31, 2019	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.79%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial assumptions include interest rate based upon the March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

Changes in benefit terms since last measurement date: None.

Additional information as of the latest actuarial valuation for MUS OPEB plan follows:

	Other Postemployment Benefits MUS Single Employer Plan	
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	\$ 11,264	\$ 4,728
After Medicare eligibility	4,806	3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date ⁽¹⁾	March 31, 2019	
Experience study period	January 1, 2015 through December 31, 2017	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 year period	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.79%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS and MUS-RP, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS and MUS-RP, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial assumptions include interest rate based upon the March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

Changes in benefit terms since last measurement date: None.

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (2.79 percent) or 1-percentage-point higher (4.79 percent) than the current discount rate:

	State OPEB plan (in thousands)		
	Current Discount Rate		
	1.0% Decrease (2.79%)	(3.79%)	1.0% Increase (4.79%)
Primary Government	\$ 67,045	\$ 54,593	\$ 45,078
Discrete Component Units	1,422	1,104	865
Total OPEB liability	\$ 68,467	\$ 55,697	\$ 45,943

	MUS OPEB plan (in thousands)		
	Current Discount Rate		
	1.0% Decrease (2.79%)	(3.79%)	1.0% Increase (4.79%)
Primary Government	\$ 518	\$ 425	\$ 353
Discrete Component Units	47,107	38,923	32,564
Total OPEB liability	\$ 47,625	\$ 39,348	\$ 32,917

Sensitivity of the TOL to changes in the healthcare cost trend rates

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current healthcare cost trend rates:

	State Plan (in thousands)		
	Current Healthcare Cost		
	1.0% Decrease (6.0%)	Trend Rate (7.0%)	1.0% Increase (8.0%)
Primary Government	\$ 44,316	\$ 54,593	\$ 68,535
Discrete Component Unit	847	1,104	1,460
Total OPEB liability	\$ 45,163	\$ 55,697	\$ 69,995

	MUS Plan (in thousands)		
	Current Healthcare Cost		
	1.0% Decrease (6.0%)	Trend Rate (7.0%)	1.0% Increase (8.0%)
Primary Government	\$ 347	\$ 425	\$ 528
Discrete Component Unit	31,821	38,923	48,321
Total OPEB liability	\$ 32,168	\$ 39,348	\$ 48,849

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the State OPEB plan's OPEB expense is \$2.0 million and MUS OPEB plan's OPEB expense is \$2.3 million.

At June 30, 2019, the State OPEB plan deferred outflows and inflows of resources are from the following sources:

	State Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 4,064
Changes of assumptions or other inputs	2,828	254
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	2,496	—
Total	<u>\$ 5,324</u>	<u>\$ 4,318</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ 105	\$ 373
Changes of assumptions or other inputs	74	23
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	40	—
Total	<u>\$ 219</u>	<u>\$ 396</u>

At June 30, 2019, MUS OPEB plan deferred outflows and inflows of resources are from the following sources:

	MUS Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 14
Changes of assumptions or other inputs	8	2
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	5	—
Total	<u>\$ 13</u>	<u>\$ 16</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ —	\$ 1,198
Changes of assumptions or other inputs	1,343	166
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	264	—
Total	<u>\$ 1,607</u>	<u>\$ 1,364</u>

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense				
State Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units	State Plan Total	
2020	\$ (141)	\$ (20)	\$ (161)	
2021	(141)	(20)	(161)	
2022	(141)	(20)	(161)	
2023	(141)	(20)	(161)	
2024	(141)	(20)	(161)	
Thereafter	(783)	(119)	(902)	

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense				
MUS Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units	MUS Plan Total	
2020	\$ (1)	\$ (5)	\$ (6)	
2021	(1)	(5)	(6)	
2022	(1)	(5)	(6)	
2023	(1)	(5)	(6)	
2024	(1)	(5)	(6)	
Thereafter	(5)	6	1	

F. General Information Trust Plan

General Information

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description

The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

Public Employees' Retirement Board
100 North Park, Suite 200
P.O. Box 200131
Helena, MT 59620-0131

G. Termination Benefits

During the year ended June 30, 2019, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for thirty-five employees provided for up to six months, one-time lump-sum incentive payments for thirty-six employees, and paid administrative leave for nine employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2019, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for seventeen employees.

During the year ended June 30, 2019, the cost of termination benefits for the fiscal year was \$510.2 thousand and \$673.9 thousand for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 641 policies during the 2019 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5.0% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2019 growing season, with an 80.0% share of premiums and losses allotted to the Reinsurer and a 20.0% share of each allotted to the State Hail Insurance. The fund recorded a liability of \$17.4 thousand which is 20.0% of the estimated claims (\$79.9 thousand) plus adjustment expenses through June 30, 2019. The amount deducted from the estimated claims as of June 30, 2019, for reinsurance was \$63.9 thousand (80.0% of estimated claims). The premiums ceded to the reinsurer through June 30, 2019 were \$990.6 thousand which was 80.0% of total premiums of \$1.2 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Board of Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and Navitus is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$10.0 million as of June 30, 2019, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers'

compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of \$750.0 thousand per occurrence (\$500.0 thousand for claims occurring prior to July 1, 2013) and \$1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1.0 million above the self-insured amount of \$750.0 thousand (\$500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2019, the program ceded \$311.5 thousand in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers' Compensation Program Committee based on actuarial calculations of premium need and composite premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$6.8 million for estimated claims at June 30, 2019. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by limiting workers' compensation exposure for employers who hire SIF-certified individuals. The program is funded through an annual assessment for Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The Employment Relations Division sets the assessment and surcharge rates annually. The amount assessed is calculated by adding the amount of paid losses reimbursed by SIF from April 1 of the previous calendar year through March 31 of the current calendar year, plus the expenses of administration, less other income earned. Employers share in the reimbursement in two ways: (1) If self-insured, the reimbursement is based on their share of overall paid losses in the previous calendar year. (2) If insured through a private carrier or Montana State Fund, the reimbursement is based on both overall paid losses in the previous calendar year and the amount of the employer's premium paid for their business.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. For an insured employer, since the insurer's liability is limited to 104 weeks on the claim, this can favorably impact the employer's modification factor, which in turn could keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2019, the amount of this liability was estimated to be \$2.3 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2019	2018	2019	2018	2019	2018
Unpaid claims and claim adjustment expenses at beginning of year	\$ 35	\$ 2	\$ 10,200	\$ 10,000	\$ 5,831	\$ 7,298
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	422	120	88,473	86,485	2,523	2,794
Less excess insurance reimbursement	-	-	-	-	-	-
Increase (decrease) in provision for insured events of prior years	96	12	-	-	93	(1,273)
Total incurred claims and claim adjustment expenses	518	132	88,473	86,485	2,616	1,521
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(405)	(85)	(88,673)	(86,285)	(644)	(605)
Claims and claim adjustment expenses attributable to insured events of prior years	(131)	(14)	-	-	(1,014)	(2,383)
Total payments	(536)	(99)	(88,673)	(86,285)	(1,658)	(2,988)
Total unpaid claims and claim adjustment expenses at end of year	\$ 17	\$ 35	\$ 10,000	\$ 10,200	\$ 6,789	\$ 5,831

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and State-administered foreclosure of housing units. The State self-insures the \$1.5 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below \$1.5 million of value, with State agencies paying the first \$1.0 thousand. Commercial property insurance protects approximately \$5.8 billion of State-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$2.0 million for earthquake and \$2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Willis Towers Watson Company, and issued for the accident period July 1, 2009, through June 30, 2019, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2019, estimated claims liability was \$16.2 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. Navitus is the administrator for the pharmacy program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2019, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$18.9 million as

provided by Actuaries Northwest, a consulting actuarial firm. In fiscal year 2020, \$18.7 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers’ compensation claims that were incurred before July 1, 1990. Old Fund was originally a risk financing insurance entity, but upon depletion of all of its assets, is now financed by the General Fund. The participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Willis Towers Watson, as of June 30, 2019, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2019, \$44.3 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	<u>Administration Insurance Plans</u>		<u>Employers Group Benefits Plan</u>		<u>State of Montana Old Fund</u>	
	2019	2018	2019	2018	2019	2018
Amount of claims liabilities at the beginning of each fiscal year	\$ 15,180	\$ 16,054	\$ 17,723	\$ 17,696	\$ 31,109	\$ 32,212
Incurred claims:						
Provision for insured events of the current year	4,803	4,714	175,435	171,930	-	-
Increase (decrease) in provision for insured events of prior years	12,348	11,070	(1,672)	(4,013)	22,193	6,002
Total incurred claims	17,151	15,784	173,763	167,917	22,193	6,002
Payments:						
Claims attributable to insured events of the current year	(2,167)	(1,852)	(156,695)	(154,468)	-	-
Claims attributable to insured events of prior years	(14,007)	(14,806)	(15,895)	(13,422)	(9,036)	(7,105)
Total payments	(16,174)	(16,658)	(172,590)	(167,890)	(9,036)	(7,105)
Total claims liability at end of each fiscal year	\$ 16,157	\$ 15,180	\$ 18,896	\$ 17,723	\$ 44,266	\$ 31,109

NOTE 9. COMMITMENTS**A. Highway Construction**

At June 30, 2019, the Department of Transportation had contractual commitments of approximately \$294.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2019, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$30.4 million for capital projects construction. The primary government will fund \$3.7 million of these projects, with the remaining \$26.8 million funding coming from the Montana University System.

At June 30, 2019, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately \$4.6 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans, residential mortgages and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2019, BOI had committed, but not yet purchased, \$38.7 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$23.9 million for loans as of June 30, 2019. As of June 30, 2019, another \$1.7 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2019, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2019, totaled \$33.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2019, the outstanding tax-exempt bonds distributed by the Facility Finance Authority were issued in the amount of \$12.6 million of which \$1.7 million in principal payments are scheduled to be paid by June 30, 2020. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds. These costs are then recovered through the center's monthly billing for inmate room and board.

E. Department of Labor and Industry Commitments

At June 30, 2019, Department of Labor and Industry, had \$1.8 million contractual commitments for Montana State AmeriCorps Programs and a \$2.3 million commitment for IT contracts. The funding for these programs is federal grants and state special revenue funds.

F. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

<u>Enterprise Funds</u>	<u>Amount</u>
Hail Insurance	\$ 13
Liquor Warehouse	219
Prison Industries	3
Secretary of State Business Services	1,957
West Yellowstone Airport	4
Subtotal - Enterprise funds	<u>\$ 2,196</u>
<u>Internal Service Funds</u>	
Aircraft Operations	\$ 195
Commerce Centralized Services	5
Labor Central Services	1,048
Admin Central Services	2
Print and Mail Services	70
Buildings and Grounds	80
Subtotal - Internal Service funds	<u>\$ 1,400</u>

G. Encumbrances

As of June 30, 2019, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	<u>Federal Special Revenue Fund</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
Encumbrances	\$ 47,391	\$ 17,178	\$ 431	\$ 60,810	\$ 125,810

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2019, were as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2020	\$ 3,939	\$ 18
2021	3,598	—
2022	2,877	—
2023	1,710	—
2024	774	—
2025 - 2029	229	—
Total minimum payments	<u>13,127</u>	<u>18</u>
Less: interest	(582)	—
Present value of minimum payments	<u>\$ 12,545</u>	<u>\$ 18</u>

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	\$ 1,596
Equipment	21,496
Less: Accum Depreciation	<u>(9,901)</u>
Net Book Value	<u>\$ 13,191</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2019 totaled \$27.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2020	\$ 23,746	\$ 584
2021	18,961	592
2022	17,689	559
2023	19,012	563
2024	13,239	563
2025 - 2029	47,159	1,656
2030 - 2034	26,741	744
Thereafter	15,392	888
Total future rental payments	<u>\$ 181,939</u>	<u>\$ 6,149</u>

NOTE 11. STATE SHORT-TERM DEBT AND LONG-TERM LIABILITIES

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2019, the State issued two bond anticipation notes. The proceeds of Water/Wastewater 2019B and Drinking Water 2019A will be used to fund water and wastewater system improvements and rehabilitation. The State issued three bond anticipation notes during fiscal year 2016, the last of which was paid off during fiscal year 2019. The State issued one bond anticipation note in fiscal year 2017 and two bond anticipation notes in fiscal year 2018, all of which were paid off during fiscal year 2019. The following schedule summarizes the activity for the year ended June 30, 2019 (in thousands):

BANS	Beginning Balance	Additions	Reductions	Ending Balance
Drinking Water – 2015B	350	—	350	—
Coal Severance Tax – 2016E	1,180	520	1,700	—
Water/Wastewater – 2017B	450	1,050	1,500	—
Drinking Water – 2017C	900	1,600	2,500	—
Drinking Waste – 2019A ⁽¹⁾	—	1,400	—	1,400
Water/Wastewater – 2019B ⁽¹⁾	—	1,190	—	1,190

⁽¹⁾ These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2019, were as follows (in thousands):

Series	Amount		Balance
	Issued		June 30, 2019
2000	\$ 15,000	\$	14,255
2003	15,000		14,330
2004	18,500		18,000
2007	15,000		14,650
2010	12,000		11,900
2013	12,000		11,970
2017	20,000		19,960
			<u>105,065</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2019 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$ 105,110	\$ —	\$ 45	\$ 105,065

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2019, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2019
				Fiscal Year 2020	In Year of Maturity ⁽²⁾	
General obligation bonds						
Hard Rock Mining Reclamation	2002C	\$ 2,500	3.5-4.7	\$ 170	200 (2023)	\$ 740
CERCLA Program ⁽⁵⁾	2005D	2,000	3.25-4.3	110	140 (2026)	875
Energy Conservation Program ⁽⁴⁾	2006B	3,750	4.0-6.0	305	330 (2022)	955
Long-Range Bldg Program	2008D	3,100	3.375-4.35	150	220 (2028)	1,645
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	685	710 (2021)	1,395
Drinking Water Revolving Fund Refunding ⁽³⁾	2010B	5,400	2.0-4.0	510	110 (2026)	1,750
Trust Land (Taxable)	2010F	21,000	1.55-4.9	970	1,450 (2031)	14,235
Long-Range Bldg Program	2010G	550	1.5-2.7	60	60 (2021)	120
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	650	720 (2023)	2,735
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	670	115 (2025)	3,680
Water Pollution Control Revolving Fund (Taxable) ⁽³⁾	2013D	1,035	0.4-3.7	105	120 (2024)	555
Water Pollution Control Revolving Fund ⁽³⁾	2013E	5,000	2.0-3.0	300	300 (2024)	1,500
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,035	820 (2028)	19,590
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	1,260	1,260 (2020)	1,260
Water Pollution Control Revolving Fund ⁽³⁾	2015C	24,365	3.0-5.0	870	1,860 (2036)	22,055
Total general obligation bonds		<u>\$ 139,605</u>		<u>\$ 8,850</u>		<u>\$ 73,090</u>
Special revenue bonds						
State Hospital Project ⁽⁶⁾	2018	\$ 4,575	4.0-5.05	\$ 1,095	1,165 (2022)	\$ 3,390
Renewable Resource Program ⁽⁷⁾	2003A	3,000	1.05-4.05	180	215 (2024)	985
Renewable Resource Program ⁽⁷⁾	2010B	1,730	2.0-3.6	80	115 (2031)	1,145
Renewable Resource Program (Taxable) ⁽⁷⁾	2010C	6,720	0.9-4.2	395	170 (2031)	3,935
U.S. Highway 93 GARVEE ⁽⁸⁾	2012	50,915	0.9-1.9	11,040	11,040 (2020)	11,040
Renewable Resource Program ⁽⁷⁾	2013A	2,255	2.0-3.625	140	185 (2029)	1,600
Renewable Resource Program (Taxable) ⁽⁷⁾	2013B	3,390	1.0-4.75	205	290 (2029)	2,420
U.S. Highway 93 GARVEE Refunding ⁽⁸⁾	2016	22,540	0.74-1.86	3,225	3,740 (2023)	13,910
Total special revenue bonds		<u>\$ 95,125</u>		<u>\$ 16,360</u>		<u>\$ 38,425</u>

Governmental Activities	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2019
			Fiscal Year 2020	In Year of Maturity ⁽²⁾	
Notes Payable					
Middle Creek Dam Project ⁽⁹⁾	\$ 3,272	8.125	\$ 92	226 (2034)	\$ 1,945
Tongue River Dam Project ⁽¹⁰⁾	11,300	—	290	290 (2038)	5,506
ITSD IBM Mainframes Maintenance	500	1.07	127	127 (2020)	127
ITSD IBM Professional Services	758	0.19	163	72 (2023)	572
Total notes payable	<u>\$ 15,830</u>		<u>\$ 672</u>		<u>\$ 8,150</u>
Subtotal governmental activities, before unamortized balances					119,665
Unamortized discount					(7)
Unamortized premium					7,461
Total governmental activities	<u>\$250,560</u>		<u>\$ 25,882</u>		<u>\$ 127,119</u>

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(5) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(6) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.

(7) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(8) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(9) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.

(10) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2019, were as follows (in thousands):

Year Ended June 30:	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 8,850	\$ 2,990	\$ 16,360	\$ 1,657	\$ 672	\$ 54
2021	7,825	2,706	5,555	974	552	48
2022	7,080	2,485	5,790	729	560	45
2023	6,825	2,145	4,860	472	466	41
2024	6,155	1,870	1,165	238	398	40
2025 - 2029	22,205	5,706	4,140	561	2,067	204
2030 - 2034	10,520	2,045	555	27	2,276	204
2035 - 2039	3,630	184	—	—	1,159	—
Total	<u>\$ 73,090</u>	<u>\$ 20,131</u>	<u>\$ 38,425</u>	<u>\$ 4,658</u>	<u>\$ 8,150</u>	<u>\$ 636</u>

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2019, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$ 84,460	\$ —	\$ 11,370	\$ 73,090	\$ 8,850	\$ 64,240
Special revenue bonds	56,435	—	18,010	38,425	16,360	22,065
Notes payable	9,307	—	1,157	8,150	672	7,478
	150,202	—	30,537	119,665	25,882	93,783
Unamortized discount	(8)	1	—	(7)	—	(7)
Unamortized premium	9,095	—	1,634	7,461	—	7,461
Total bonds/notes payable ⁽²⁾	159,289	1	32,171	127,119	25,882	101,237
Other liabilities						
Lease/installment purchase payable	13,698	2,458	3,611	12,545	3,684	8,861
Operating lease rent holiday	17	—	9	8	8	—
Pension benefits payable	4	—	—	4	2	2
Compensated absences payable ⁽¹⁾	101,759	54,683	54,757	101,685	54,443	47,242
Arbitrage rebate tax payable ⁽¹⁾	83	—	83	—	—	—
Estimated insurance claims ⁽¹⁾	64,013	213,107	197,802	79,318	30,662	48,656
Pollution remediation	198,645	—	20,795	177,850	19,509	158,341
Net pension liability ⁽³⁾	1,831,200	564,245	174,680	2,220,765	—	2,220,765
Total OPEB liability	48,930	5,079	—	54,009	—	54,009
Total other liabilities	2,258,349	839,572	451,737	2,646,184	108,308	2,537,876
Total governmental activities long-term liabilities	\$ 2,417,638	\$ 839,573	\$ 483,908	\$ 2,773,303	\$ 134,190	\$ 2,639,113
Business-type activities						
Lease/installment purchase payable	\$ 231	\$ —	\$ 213	\$ 18	\$ 18	\$ —
Compensated absences payable	2,042	1,030	1,050	2,022	1,048	974
Arbitrage rebate tax payable	17	70	43	44	43	1
Estimated insurance claims	18,960	91,609	91,500	19,069	12,717	6,352
Net pension liability ⁽³⁾	16,371	123	4,551	11,943	—	11,943
Total OPEB liability	942	65	—	1,007	—	1,007
Total business-type activities long-term liabilities	\$ 38,563	\$ 92,897	\$ 97,357	\$ 34,103	\$ 13,826	\$ 20,277

⁽¹⁾ The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

⁽²⁾ Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

⁽³⁾ The total net pension liability beginning balances were restated due to a prior period adjustment.

F. Refunded and Early Retired Debt

Refunded

On July 24, 2018, the Facility Finance Authority (FFA) issued revenue refunding bonds in the amount of \$4.6 million to make a current refunding of \$6.8 million Series 1997 Montana State Hospital Revenue Bonds. The refunding resulted in an economic gain of \$174.9 thousand and a difference in cash flow requirements of \$2.6 million.

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make a prepayment of \$180.0 thousand on Series 2010H general obligation bond, resulting in a payoff.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)

BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2019, QZAB debt outstanding aggregated \$5.0 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2019, QSCB debt outstanding aggregated \$4.5 million.

Beginning Farm Loan Program

The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The remaining balance of this bond was paid in full during 2019.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2019, was \$177.8 million. Of this liability, \$6.2 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$165.4 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$88.9 million as of June 30, 2019. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI receives a credit enhancement fee at FFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. BOI and FFA have entered into an agreement detailing repayment to BOI. The credit enhancement fee received during the fiscal year was \$133.5 thousand. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2019 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 81,451	\$ 11,000	\$ 3,510	\$ 88,941

NOTE 12. INTERFUND BALANCES AND TRANSFERS**A. Balances Due From/To Other Funds**

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Municipal Finance Programs to other funds, under the Board of Investments' INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2019, consisted of the following (in thousands):

	Due to Other Funds							Total
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds ⁽³⁾	Nonmajor Governmental Funds	State Special Revenue	
Due from Other Funds								
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ 5
Municipal Finance Programs	—	—	—	1,842	—	4	—	1,846
Federal Special Revenue	—	—	2,418	—	—	—	468	2,886
General Fund	—	863	—	—	17,422	—	12,728	31,013
Internal Service Funds	33	—	—	—	—	—	7	40
Nonmajor Enterprise Funds	—	2	—	—	—	—	—	2
Nonmajor Governmental Funds ⁽¹⁾	—	71	331	—	—	—	288	690
State Special Revenue ⁽²⁾	—	—	121	—	—	694	—	815
Total	\$ 33	\$ 936	\$ 2,870	\$ 1,842	\$ 17,422	\$ 703	\$ 13,491	\$ 37,297

⁽¹⁾ Total due from other funds to the non-major governmental funds on the financial statements is reported as \$1.6 million. The difference of \$929.0 thousand between the amount reported above of \$690.0 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

⁽²⁾ Total due from other funds to the state special revenue fund on the fund financial statement is reported as \$10.2 million. The difference of \$9.4 million between the amount reported above of \$815.0 thousand and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

⁽³⁾ Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as \$17.7 million. The difference of \$268.5 thousand between the amount reported above of \$17.4 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide statement and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2019, consisted of the following (in thousands):

	Interfund Loans Payable					
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
General Fund	\$ 1,678	\$ 68,792	\$ —	\$ 357	\$ 3,143	\$ 73,970
Internal Service Funds	—	44	—	—	—	44
Nonmajor Enterprise Funds	—	13	—	—	9	22
State Special Revenue	—	83,762	15	—	—	83,777
Total	\$ 1,678	\$ 152,611	\$ 15	\$ 357	\$ 3,152	\$157,813

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Municipal Finance Programs to other funds, under the Board of Investments' INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2019, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax	\$ —	\$ —	\$ 1,725	\$ —	\$ 1,725
General Fund	300	—	—	63	363
Municipal Finance Programs	—	3,371	2,590	—	5,961
Nonmajor Governmental Funds	—	—	—	6,773	6,773
State Special Revenue	35,909	—	3,108	—	39,017
Total	\$ 36,209	\$ 3,371	\$ 7,423	\$ 6,836	\$ 53,839

Additional detail for certain advance balances at June 30, 2019, follows (in thousands):

Advances from the Municipal Finance Programs under the INTERCAP Loan Program	
Departmental Function	Balance
Natural Resources and Conservation	\$ 2,590
Transportation	3,371
Total	\$ 5,961

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2019, consisted of the following (in thousands):

	Transfers Out								Total
	Coal Severance Tax	Federal Special Revenue	General Fund ⁽¹⁾	Internal Service Funds ⁽²⁾	Land Grant	Nonmajor Enterprise Funds ⁽³⁾	Nonmajor Governmental Funds	State Special Revenue	
Transfers In									
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 275	\$ —	\$ 275
Federal Special Revenue	—	—	—	—	—	—	—	2,368	2,368
General Fund ⁽¹⁾	18,172	135	—	638	6	48,212	—	55,416	122,579
Internal Service Funds	—	—	1,241	—	—	—	—	13,130	14,371
Land Grant	—	—	5	—	—	—	—	—	5
Nonmajor Enterprise Funds	—	—	—	69	—	—	—	25	94
Nonmajor Governmental Funds	635	17,814	9,664	160	1,601	—	508	9,602	39,984
State Special Revenue	21,182	14,137	48,066	20	64,752	7,789	19,667	—	175,613
Total	\$ 39,989	\$ 32,086	\$ 58,976	\$ 887	\$ 66,359	\$ 56,001	\$ 20,450	\$ 80,541	\$ 355,289

- ⁽¹⁾ \$60.7 million was transferred from the General Fund to the Budget Stabilization Reserve Fund, however, those funds are combined for reporting purposes. Therefore the transfer is not accounted for in the above table as both the transfer-in and the respective transfer-out have been eliminated as required for proper financial reporting.
- ⁽²⁾ Total transfers-out for internal service funds on the fund financial statements is reported as \$1.6 million. The difference of \$663.2 thousand between the amount reported above of \$887.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.
- ⁽³⁾ Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as \$56.0 million. The difference of \$10.7 thousand between the amount reported above of \$56.0 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2019, as follows (in thousands):

Fund Type/Fund	Deficit ⁽¹⁾
Governmental Funds	
Federal Special Revenue ⁽²⁾	\$ (12,614)
Federal/Private Construction Grants	(28)
Internal Service Funds	
Information Tech Services	\$ (15,163)
Building and Grounds	(1,111)
Admin Central Services	(1,594)
Labor Central Services	(5,433)
Commerce Central Services	(1,256)
OPI Central Services	(1,948)
DEQ Indirect Cost Pool	(3,460)
Payroll Processing	(1,626)
Investment Division	(2,941)
Aircraft Operation	(617)
Justice Legal Services	(491)
Personnel Training	(170)
Other Internal Services	(444)
SABHRS Finance & Budget Bureau	(404)
Enterprise Fund	
State Lottery	\$ (1,855)
Subsequent Injury	(811)

⁽¹⁾ The allocation of net pension liability and total OPEB liability is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7 respectively.

⁽²⁾ The primary reason causing fund deficit in Federal Special Revenue Fund is due to CY2017 and CY2018 fire season federally reimbursable costs. The federal fund reimbursement was unavailable to receive within 60 days of 6/30/2019, creating a deferred inflow and a fund deficit in the same amount.

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2019.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	\$ 77,119	\$ 44,902	\$ 23,331	\$ 3,498	\$ 160	\$ 85,400	\$ 234,410
Taxes	221,994	4,238	261,298	—	1	15,544	503,075
Charges for services	40,467	21,023	6,638	33,845	1,935	16,625	120,533
Investment earnings	833	13,158	442	455	1,529	24,189	40,606
Securities lending income	—	44	—	1	5	60	110
Sale of documents/ merchandise/property	1,512	3,050	115	98	2	5,597	10,374
Rentals/leases/royalties	263	11	416	56	5	339	1,090
Contributions/premiums	28,440	—	—	—	—	305	28,745
Grants/contracts/donations	2,164	15,779	630	9,083	1,794	20,708	50,158
Federal	7,051	19	1	335	5	78	7,489
Federal indirect cost recoveries	—	—	49,891	43	—	4,477	54,411
Other revenues	2,150	558	335	209	170	66	3,488
Transfers in	45,259	7,962	1,491	8,158	886	111,857	175,613
Total State Special Revenue	\$ 427,252	\$ 110,744	\$ 344,588	\$ 55,781	\$ 6,492	\$ 285,245	\$ 1,230,102

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 1
Charges for services	822	29	—	5,929	1	5	6,786
Investment earnings	282	16	—	—	100	201	599
Sale of documents/ merchandise/property	15	—	—	—	—	—	15
Grants/contracts/donations	—	—	—	17	—	—	17
Federal	93,337	17,802	517,211	1,919,819	196,211	103,669	2,848,049
Federal indirect cost recoveries	1	—	—	80,701	46	1,303	82,051
Other revenues	7	8	—	1,229	2	60	1,306
Transfers in	—	1,359	—	1,009	—	—	2,368
Total Federal Special Revenue	\$ 94,464	\$ 19,214	\$ 517,211	\$ 2,008,704	\$ 196,360	\$ 105,239	\$ 2,941,192

Governmental Fund Balance By Function, June 30, 2019

(in thousands)

	Special Revenue			Permanent		Nonmajor	Total
	General	State	Federal	Coal Severance Tax	Land Grant		
Fund balances:							
Nonspendable							
Inventory	\$ 3,501	\$ 19,910	\$ —	\$ —	\$ —	\$ —	\$ 23,411
Permanent fund principal	—	500	—	622,645	774,193	362,256	1,759,594
Long-term notes/receivables	363	—	—	—	—	—	363
Prepaid expense	333	396	119	—	—	—	848
Total nonspendable	4,197	20,806	119	622,645	774,193	362,256	1,784,216
Restricted							
General government	—	320	—	—	—	18,495	18,815
Public safety	—	204,134	—	—	—	1	204,135
Transportation	—	111,164	—	—	—	—	111,164
Health and human services	—	5,470	—	—	—	680	6,150
Education	—	14,438	—	—	—	20	14,458
Natural resources	—	741,624	—	—	—	11,696	753,320
Total restricted	—	1,077,150	—	—	—	30,892	1,108,042
Committed							
General government	60,721	154,593	—	533,092	—	30,488	778,894
Public safety	—	73,059	—	—	—	—	73,059
Transportation	—	16,781	—	—	—	—	16,781
Health and human services	—	44,461	—	—	—	—	44,461
Education	—	17,413	—	—	—	—	17,413
Natural resources	—	309,571	—	—	—	31,641	341,212
Total committed	60,721	615,878	—	533,092	—	62,129	1,271,820
Assigned							
General government	—	—	—	—	—	467	467
Public safety	—	—	—	—	—	338	338
Encumbrance	17,178	—	—	—	—	—	17,178
Total assigned	17,178	—	—	—	—	805	17,983
Unassigned	361,313	—	(12,733)	—	—	(28)	348,552
Total fund balance	\$ 443,409	\$ 1,713,834	\$ (12,614)	\$ 1,155,737	\$ 774,193	\$ 456,054	\$ 4,530,613

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that annually approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry's Workforce Services Division rents space in Libby, MT, from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013 and ending June 30, 2021. The annual lease amount is currently set at \$21.3 thousand.

The relative of a member of Montana Department of Transportation's (MDT) management team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration (DOA) and state agencies are required to use the DOA issued term contracts for such supplies. MDT purchased supplies from this business in the amount of \$100.0 thousand for the fiscal year ended June 30, 2019.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. MDT purchased services in the amount of \$19.7 thousand for the fiscal year ended June 30, 2019.

Per Section 85-1-617 and 85-1-624, MCA, Renewable Resource Grant and Loan Program, the Department of Natural Resources and Conservation (DNRC) is eligible to issue General Obligation (GO) bonds for the purpose of making private sale loans. DNRC has applied and received "recycled loan funds" from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for fiscal year 2019 was \$3.1 million. The loans have interest rates ranging from 3.0% to 4.3% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

Per Administrative Rules of Montana 17.58.101, the Montana Petroleum Tank Release Compensation Board (Board) is an independent board that is attached to Department of Environmental Quality (DEQ) for administrative purposes only. Board members are required to follow Montana's code of ethics, that includes recusing oneself in matters related to a conflict of interest. To ensure DEQ are following state law, all contracts are required to go through a competitive bidding process. Four Board members were identified as having related party transactions with DEQ. These relationships include members who are: 1) an employee of a company that had a release and is receiving funds; 2) an agent for an insurer that covered a station tank release and is receiving funds; 3) an officer in a bank that receives funds; and 4) a contractor for DEQ, that is responsible for clean-up oversight, and is also a shareholder of a separate company that receives funds. Total payments to all related parties were direct payments to the contractors in the amount of \$146.4 thousand and \$15.2 thousand, and indirect payments to the bank and the insurance company in the amount of \$7.9 thousand and \$11.9 thousand, respectively, for the fiscal year ended June 30, 2019.

All lotteries that offer multi-state games transact with the Multi-State Lottery Association (MUSL), which requires the directors from each of the states to be on the MUSL board of directors. The Director of the Montana Lottery is on the MUSL board, along with being the Secretary of the MUSL board of directors. The Director of the Montana Lottery is in a management position for both MUSL and the Montana Lottery, who have significant transactions between each other. The Montana Lottery has prize reserves with MUSL in the amounts of \$1.1 million for the fiscal year ended June 30, 2019. The prize reserve monies are assets to the Montana Lottery and would be transferred over if the lottery were to quit any of the multi-state games. Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough amount/number of winners for any particular draw, MUSL would then reimburse any state for the excess amount of prizes paid out. The Montana Lottery paid MUSL \$8.9 million for its share of prizes and received reimbursements for prizes in the amount of \$661.2 thousand for the fiscal year ended June 30, 2019.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In *State of Montana v. Philip Morris, Inc.*, No. CDV 97-306 (Mont. first Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1.0 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a settlement amount calculated annually on cigarette sales by Participating Manufacturers in perpetuity. The base amount was augmented by \$90.0 million in 1999 for a strategic contribution portion for those states instrumental in obtaining the settlement, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017. Multiple other tobacco product manufacturers joined the MSA after the initial signing period. Collectively, the signing manufacturers are known as "Participating Manufacturers."

The settlement provides that the tobacco product manufacturers may potentially offset, against their payment in any year, certain amounts of money if it is found that the Participating Manufacturers have lost more than 2% of their national market share (from 1997) to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "Qualifying Statute" and diligently enforced the statute during the year in question. Montana enacted such a Qualifying Statute in 1999, Section 16-11-401 to 404, MCA, and complementary legislation in 2003, Section 16-11-501 to 512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the Participating Manufacturers had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its Qualifying Statute during 2003. The Participating Manufacturers moved to compel arbitration of the question. The First Judicial District Court ordered arbitration but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the “no contest” for 2003 has no precedential effect in any subsequent year for Montana or any other state’s case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically articulated that Defendants’ consent to its terms “is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year.”

Despite Montana’s successful defense of its 2003 and 2004 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2005-2017, for which years the Participating Manufacturers have already received a determination that MSA terms were a “substantial factor” reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

The Participating Manufacturers conceded that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect during 2005-2016 and thereafter to date. Factual arguments exist to show that Montana diligently enforced its Qualifying Statute during 2005-2017. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2005-2017, which would be recouped through an offset of payments due to Montana in future years. The Participating Manufacturers will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and Participating Manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration; this arbitration continues.

Montana filed a Declaratory Judgment Motion in 2017 for the 2004 NPM Adjustment to have its MSA Court (First Judicial District) declare that Montana had a qualifying statute in place and diligently enforced its Qualifying Statute for the 2004 calendar year. The Participating Manufacturers conceded that Montana has a Qualifying Statute. As part of this action, Montana successfully obtained a ruling from its MSA Court on the burden of proof whereby the Participating Manufacturers must prove that Montana did not diligently enforce its Qualifying Statute to succeed under the NPM Adjustment. Montana is the only state party to the MSA with this ruling on the burden of proof. On the eve of trial, the Participating Manufacturers settled with Montana for all of the 2004 NPM Adjustment funds previously withheld plus interest and earnings. The settlement does not provide precedent for future NPM Adjustment proceedings with the exception of the ruling on the burden of proof.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork, and Madison rivers. The case originated in 2003, when a group of parents of school age children sued Petitioner PPL Montana, LLC (PPL), in Federal Court alleging that the company must pay rent for the use of state-owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The State intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the State almost \$41.0 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court’s finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court’s decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river’s navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the \$41.0 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with \$1.2 million for PPL's costs relating to the appellate proceedings. All, but approximately \$31.0 thousand, relate to premiums that PPL paid for a supersedeas bond in support of staying the \$41.0 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for \$31.3 thousand. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgment. The District Court entered an order on February 12, 2019, joining the United States (U.S.) as a defendant, due to the potential of overlapping claims between the State and the U.S. After expiration of the statutory notice period required for claims against the U.S., the State's Complaint was amended to add the U.S. The U.S., Talen, and NW Energy have not yet filed answers to the Amended Complaint but will do so before year end 2019. The State's claims against the utilities remain unchanged and the State still holds the opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, and the State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to 902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10.0% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately \$1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision was expected to be issued in early 2018.

On June 21, 2017, the Special Master issued a report and recommended order regarding the partial payment of Plaintiffs' counsels' attorney fees. This recommendation was based on a stipulation the State and the Plaintiffs' counsel had reached, agreeing that the State would pay counsel \$400.8 thousand for claims made by individuals that could be documented. The State has paid this amount to class counsel.

The Special Master issued a second report and recommended order expanding the class on August 8, 2018. The principal findings of this recommendation were to expand the class definition to include those individuals who did not submit

claims to the State for processing; to expand the class to end June 30, 2016; and to redefine the class as (a) employees, employee dependents, retirees and retiree dependents who participate or participated in the State of Montana's health benefit plan(s), administered or operated by the State and/or the third party administrators whose claims for covered benefits took place no earlier than eight years prior to the filing of the complaint in this action, which was October 23, 2008; (b) who were injured through the legal fault of persons who have legal obligations to compensate them for all damages sustained; and (c) who have not been made whole for their damages (or for whom the State and TPAs conducted no made whole analysis) because the State and the third party administrators programmatically failed to pay benefits for their covered medical costs. The District Court Judge has yet to approve these recommendations.

On April 23, 2019, the District Court Judge approved the parties' motion for a process to identify and distribute residual funds for known class members on the master list for Blue Cross Blue Shield of Montana claims. On May 2, 2019, the State issued payment of \$122.0 thousand to the Hunt Law Firm for the residual funds and interest thereon.

On May 1, 2019, the parties filed the Notice to Special Master of Agreement on Notice Procedure. Pursuant to that notice, the State distributed notices to all former and current State employees enrolled in the State health plan between January 1, 2010 through June 30, 2016. Notice was distributed through email and first-class mail. Initial distribution of notices was May 23, 2019. The deadline for a claimant to return a claim to the State is November 30, 2019.

As of June 30, 2019, the State paid Plaintiffs \$2.0 million, including the payment for residual funds and interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. The District Court dismissed the case for failure to state a claim, which order was appealed by Plaintiffs to the Ninth Circuit Court of Appeals. Recently, the Ninth Circuit Court of Appeals overturned the district court's ruling and remanded the case back to the district court in front of a new judge. As a result, the Department of Corrections (Department) is ramping up discovery and the defense of the case through outside legal counsel. The department had previously exchanged settlement proposals without success. Because of recently passed legislation, the department is required to implement significant changes in the use of restrictive housing, especially with seriously mentally ill inmates. The Plaintiff has made a number of unreasonable demands that would cost the Department millions of dollars and at least \$800.0 thousand in attorney's fees and undisclosed expert witness fees. At this time the Department cannot specify an anticipated amount of financial obligation.

Michael Jackson v. Montana Department of Corrections (Department), Montana State Prison (MSP) (Cause # DV-18-70) is a case pending in Powell County District Court. Mr. Jackson is a current employee, suing the Department for allowing race discrimination at MSP and creating a hostile work environment. He is seeking lost wages, humiliation, and emotional distress damages as well as attorney's fees and costs. The Human Rights Bureau found no reasonable cause in his claims. The Department has hired outside legal counsel to represent it in this matter. At this time, the Department is discussing a possible settlement of the case for a minimal amount.

Kila Sheperd v. Montana Department of Corrections (Department) is a Step III Grievance proceeding, in accordance with 2.21.8017, Administrative Rules of Montana (ARM), and the Department has hired outside counsel to represent it regarding Ms. Sheperd's termination from her position at the Department. Ms. Sheperd seeks in excess of \$1.0 million for punitive damages, lost wages, loss of benefits, emotional distress, and attorney's fees.

Smith, et al. v. State of Montana (Cause # BDV-2018-804) is a case filed by a group of Medicaid recipients as well as a group of Medicaid providers. The allegations include violations of the Montana Administrative Procedure Act and other related allegations. The complaint also includes an alleged violation of the Americans with Disabilities Act based on a reduction in rates and resulting reductions in services. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates, as well as a reduction in rates for targeted Case Management. The potential liability in this case is estimated to be between \$19.0 and \$21.0 million.

Vincent, Benner, and Hoch v. DPHHS (CDV-19-0314, Eighth Judicial District Court, Cascade County) was filed May 17, 2019, by Montana Optometric Association members seeking class certification of all licensed Montana optometrists who are participating providers in Montana Medicaid. The named plaintiffs claim the department's Medicaid rate structure discriminates against them because they are paid less than physicians (doctors of medicine or doctors

osteopathy) for performing the same services. They cite Section 37-10-104, MCA as the basis of the discrimination claim. They seek declaratory relief and permanent injunctive relief in their claims of discrimination, violations of MAPA, and breach of contract and implied covenant of good faith. They request damages, interests, costs and attorney fees, which would amount to more than \$1 million.

Moody's Market, Inc. et al. v. Montana State Fund, Montana Board of Investments, and State of Montana (Cause # DV-18-12) is a case filed by a group of Montana State Fund (MSF) policyholders, in Lake County District Court, in an effort to prevent the Board of Investments (BOI) from charging a 3.0% management fee on any single investor whose average portfolio balance held by BOI is greater than \$1.0 billion. This fee was implemented per Senate Bill 4, passed during the 2017 Legislative Special Session. The District Court issued a decision dismissing MSF as a party and subsequently dismissed the case against the State of Montana and Board of investments. The plaintiffs appealed the District Court Decision to the Montana Supreme Court.

The Public Employee Retirement Board (PERB) has two items of outstanding litigation in relation to the Sheriffs' Retirement System (SRS) and the Montana Public Employee's Retirement Administration (MPERA). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has three items of litigation, in addition to the case listed above, in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2019, the State distributed \$1.6 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed \$13.8 million in commodities in fiscal year 2019. The value at June 30, 2019, of commodities stored at the State's warehouse is \$3.7 million, for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2019, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Municipal Finance Programs and the Facility Finance Authority (a component unit of the State of Montana), totaling \$186.6 million. The BOI's exposure to bond issues of the Municipal Finance Programs was \$105.1 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was \$88.9 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2019, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	\$ 13,238

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the

tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies— Certain corporations have requested refunds that are not reported on the State’s financial statements as of June 30, 2019. The corporations have appealed the Department of Revenue's decision to deny or adjust the refund. As of June 30, 2019, these include \$5.3 million of General Fund corporate tax refunds. It is estimated that the majority of these corporations' tax refunds would consist primarily of tax and could be significantly reduced or eliminated due to audits and appeals currently in process.

Certain companies have protested property taxes that have been included as revenue on the State’s financial statements as of June 30, 2019. As of June 30, 2019, these include \$405.6 thousand of protested property taxes recorded in the General Fund and \$459.2 thousand recorded in the State Special Revenue Fund.

Federal Grants - The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the State. The State is currently involved in administrative and legal proceedings, with certain federal agencies, contesting various disallowances and sanctions related to federal assistance programs ranging from \$1.2 million to \$5.0 million at June 30, 2019. The State's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2019, the Board of Investments (BOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of \$12.8 million.

In June 2019, BOI requested a 100.0% redemption in the amount of \$101.0 million from one manager, pertaining to investments within the Trust Funds Investment Pool. Since the date of the request, the redemption has been received.

Since June 30, 2019, BOI has committed an additional \$380.0 million to alternative equity partnerships within Consolidated Asset Pension Pool, with allocations of \$160.0 million within the Private Equity Pension Asset Class, \$50.0 million within the Natural Resource Pension Asset Class, and \$170.0 million within the Real Estate Pension Asset Class.

Since June 30, 2019, BOI has received an additional \$5.5 million in loan reservations from Montana Lenders and committed \$17.8 million in loans from the Coal Severance Tax Permanent Fund.

The BOI's Chief Investment Officer (CIO) resigned July 19, 2019. Per the BOI's Governance Policy, the Executive Director will be the acting CIO until the BOI hires a replacement.

In August 2019, the plaintiffs, in relation to the case of the Moody's Market, Inc. et al. v. Montana State Fund, Montana Board of Investments, and State of Montana disclosed in Note 16 - *Contingencies*, appealed the District Court Decision to the Montana Supreme Court.

In October 2019, a single state entity borrower pre-paid \$11.5 million in principle on outstanding INTERCAP loans to BOI.

Other Subsequent Events

On May 21, 2018, the Board of Examiners authorized a \$4.0 million General Obligation Bond Anticipation Note for the Water Pollution Control State Revolving Fund Program, and a \$3.4 million General Obligation Bond Anticipation Note for the Drinking Water State Revolving Fund Program. BOI has approved the loans. As of June 30, 2019, the bonds have not been issued.

On June 17, 2019, the Board of Examiners authorized a \$6.5 million Coal Severance Tax bond for the Renewable Resource Grant and Loan Program. As of June 30, 2019, the bond has not been issued.

Since June 30, 2019, the Risk Management and Tort Defense Division of the Department of Administration has received \$12.4 million of commercial insurance proceeds related to a catastrophic property loss at Montana State University - Bozeman that occurred on March 7, 2019. The total cost of this claim is projected at \$44.0 million, of which the division paid a deductible of \$1.5 million in fiscal year 2019. The remainder of the loss will be paid by the State's commercial excess property insurance carriers and it is estimated that the claim will be closed by the end of fiscal year 2023.

On August 26, 2019, the State paid \$74.6 thousand to a Missoula lawmaker to settle a request in legal fees filed in July. The legal fees were split in half between the Commissioner of Political Practice and the Department of Justice.

On October 8, 2019, the Board of Examiners authorized a resolution to issue an amount, not to exceed \$33.0 million, of General Obligation Bonds Series 2019. The bonds were authorized in House Bill 652 during the 2019 Legislative Session.

On October 21, 2019, the case of the Montana Health Care Association, et al. v. Department of Public Health and Human Services was settled. On November 26, 2019, a final adoption notice for Montana Administrative Register (MAR) Notice No. 37-898 was filed for the rate increases made retroactive to November 1, 2019. As soon as the rule notice is filed, the parties will jointly request the court stay the proceedings for so long as the Medicaid reimbursement

rates remain at or above the new rate. If the rates remain at or above such levels through June 30, 2021, the parties agree to dismiss the matter with prejudice as fully settled on the merits.

During the 2019 Legislative Session, House Bill 725 passed and was later signed by the Governor. This bill allowed sports wagering in the state with the Montana Lottery facilitating this activity. Though it is difficult to quantify the results of this new Lottery product, it may have a significant effect on the Montana Lottery and its financial statements. This new gaming will most likely be started in the fiscal year ended June 30, 2020.

NOTE 18. COMPONENT UNITS**A. Condensed Financial Statements**

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2019 (in thousands):

	Condensed Statement of Net Position					
	Component Units					
	Montana Board of Housing	Facility Finance Authority	Montana State Fund ⁽¹⁾	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	\$ 664,517	\$ 8,350	\$ 1,560,689	\$ 677,096	\$ 534,479	\$ 3,445,131
Due from primary government	—	—	—	390	949	1,339
Due from component units	—	—	—	5	199	204
Capital assets (net) (Note 18C)	1	—	34,806	536,633	403,853	975,293
Total assets	664,518	8,350	1,595,495	1,214,124	939,480	4,421,967
Deferred Outflows of Resources						
	699	55	6,965	40,416	29,305	77,440
Liabilities:						
Accounts payable and other liabilities	10,771	21	93,269	78,449	63,482	245,992
Due to primary government	—	24	—	2,114	2,165	4,303
Due to component units	—	—	—	199	5	204
Advances from primary government	—	—	—	18,964	17,631	36,595
Long-term liabilities (Note 18I)	496,541	239	1,025,191	362,294	221,482	2,105,747
Total liabilities	507,312	284	1,118,460	462,020	304,765	2,392,841
Deferred Inflows of Resources						
	429	78	814	13,498	20,885	35,704
Net Position:						
Net investment in capital assets	1	—	34,806	351,533	298,999	685,339
Restricted	157,475	—	—	335,500	335,595	828,570
Unrestricted	—	8,043	448,380	91,989	8,541	556,953
Total net position	\$ 157,476	\$ 8,043	\$ 483,186	\$ 779,022	\$ 643,135	\$ 2,070,862

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2018.

Condensed Statement of Activities

	Component Units					
	Montana Board of Housing	Facility Finance Authority	Montana State Fund ⁽¹⁾	Montana State University	University of Montana	Total Component Units
Expenses	\$ 22,715	\$ 696	\$ 228,399	\$ 601,728	\$ 455,815	\$ 1,309,353
Program Revenues:						
Charges for services	1,802	831	161,259	288,465	180,684	633,041
Operating grants and contributions	24,873	188	—	205,073	134,960	365,094
Capital grants and contributions	—	—	—	15,551	20,299	35,850
Total program revenues	26,675	1,019	161,259	509,089	335,943	1,033,985
Net (expense) program revenues	3,960	323	(67,140)	(92,639)	(119,872)	(275,368)
General Revenues:						
Unrestricted grants and contributions	—	—	—	109	—	109
Unrestricted investment earnings	—	—	4,555	8,445	6,520	19,520
Transfer from primary government	—	—	—	130,064	101,416	231,480
Gain (loss) on sale of capital assets	—	—	(30)	(739)	1	(768)
Miscellaneous	—	—	479	—	—	479
Contributions to term and permanent endowments	—	—	—	16	35,857	35,873
Total general revenues and contributions	—	—	5,004	137,895	143,794	286,693
Change in net position	3,960	323	(62,136)	45,256	23,922	11,325
Total net position – July 1 – as previously reported	153,519	7,718	539,091	733,766	619,264	2,053,358
Adjustments to beginning net position	(3)	2	6,231	—	(51)	6,179
Total net position – July 1 – as restated	153,516	7,720	545,322	733,766	619,213	2,059,537
Total net position – June 30	\$ 157,476	\$ 8,043	\$ 483,186	\$ 779,022	\$ 643,135	\$ 2,070,862

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2018.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the “Other” caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	\$ 8,323	\$ 8,306	\$ 1,139	\$ 17,768
Construction work in progress	37,180	7,384	8,292	52,856
Capitalized collections	9,882	28,063	—	37,945
Livestock for educational purposes	4,092	—	—	4,092
Total capital assets not being depreciated	59,477	43,753	9,431	112,661
Capital assets being depreciated:				
Infrastructure	44,999	9,904	—	54,903
Land improvements	30,519	16,408	—	46,927
Buildings/Improvements	739,491	658,891	27,942	1,426,324
Equipment	165,612	98,096	7,747	271,455
Livestock	—	255	—	255
Library books	67,651	62,205	—	129,856
Leasehold improvements	7,318	—	—	7,318
Total capital assets being depreciated	1,055,590	845,759	35,689	1,937,038
Total accumulated depreciation	(593,560)	(490,519)	(10,322)	(1,094,401)
Total capital assets being depreciated, net	462,030	355,240	25,367	842,637
Intangible assets	2,045	2,359	9	4,413
MSU Component Unit capital assets, net	13,081	—	—	13,081
UM Component Unit capital assets, net	—	2,501	—	2,501
Discretely Presented Component Units capital assets, net	\$ 536,633	\$ 403,853	\$ 34,807	\$ 975,293

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2018, approximately 23,800 employers were insured with MSF. Anticipated investment

income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2018, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2018, \$941.6 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2018, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage for occurrences up to \$100.0 million; however, MSF retains the first \$5.0 million of coverage. The excess of loss protection applies to an individual occurrence with the maximum of \$5.0 million on any one life.

The term of the current aggregate stop loss contract is January 1, 2017 through December 31, 2019. The contract provides coverage based on MSF's premium levels not to exceed 15.0% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$10.0 million during the year ended December 31, 2018.

Estimated claim reserves were reduced by \$1.3 million as of December 31, 2018, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. There were no estimated recoverables due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2018	Year Ended December 31, 2017
Unpaid claims and claim adjustments expenses at beginning of year	\$ 919,690	\$ 921,532
Incurring claims and claim adjustment expenses:		
Provision for insured event of the current year	137,066	137,222
Increase (decrease) in provision for insured events of prior years	(15,141)	(14,195)
Total incurred claims and claim adjustment expenses	121,925	123,027
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(22,903)	(24,597)
Claims and claim adjustment expenses attributable to insured events of prior years	(77,074)	(100,272)
Total payments	(99,977)	(124,869)
Total unpaid claims and claim adjustment expenses at end of year	\$ 941,638	\$ 919,690

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2019, were as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2020	\$ 197
2021	148
2022	103
2023	62
2024	25
Thereafter	4
Total minimum payments	539
Less: interest	(43)
Present value of minimum payments	\$ 496

G. Operating Leases

Future rental payments under operating leases at June 30, 2019, are as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2020	\$ 3,258
2021	2,412
2022	1,524
2023	1,201
2024	5,545
Thereafter	1,121
Total future rental payments	<u>\$ 15,061</u>

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2019, were as follows (in thousands):

Year Ended	Montana Board of Housing		Montana State University		Montana State University Direct Placement		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 17,095	\$ 16,430	\$ 10,533	\$ 6,917	\$ 409	\$ 466	\$ 9,765	\$ 3,058
2021	17,895	16,053	10,190	6,569	421	454	10,125	2,656
2022	18,185	15,619	10,460	6,227	433	442	10,611	2,238
2023	18,785	15,131	6,275	5,927	446	429	11,277	1,811
2024	19,270	14,588	6,580	5,682	459	416	11,182	1,472
2025 - 2029	106,795	63,092	32,300	23,799	2,505	1,868	21,595	3,663
2030 - 2034	108,880	44,274	29,695	18,015	2,896	1,477	9,150	1,295
2035 - 2039	88,420	25,745	25,700	11,738	3,347	1,026	2,780	191
2040 - 2044	69,875	10,845	26,975	5,836	3,869	504	—	—
2045 - 2049	20,885	1,776	10,940	844	1,274	37	—	—
Total	<u>\$ 486,085</u>	<u>\$ 223,553</u>	<u>\$ 169,648</u>	<u>\$ 91,554</u>	<u>\$ 16,059</u>	<u>\$ 7,119</u>	<u>\$ 86,485</u>	<u>\$ 16,384</u>

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2019, was as follows (in thousands):

	Beginning Balance ⁽³⁾	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	\$ 451,869	\$ 90,796	\$ 49,440	493,225	\$ 17,095	\$ 476,130
Montana State University (MSU)	190,410	348	12,414	178,344	10,533	167,811
MSU Direct Placement	16,455	—	397	16,058	409	15,649
University of Montana (UM)	97,118	—	9,482	87,636	9,801	77,835
Total bonds/notes payable ⁽¹⁾	755,852	91,144	71,733	775,263	37,838	737,425
Other liabilities						
Lease/installment purchase payable	436	225	165	496	174	322
Compensated absences payable	63,083	30,740	28,632	65,191	32,538	32,653
Arbitrage rebate tax payable	652	520	48	1,124	390	734
Estimated insurance claims	919,690	121,925	99,977	941,638	113,205	828,433
Due to federal government	31,818	720	2	32,536	—	32,536
Derivative instrument liability	3,080	1,147	—	4,227	—	4,227
Reinsurance funds withheld	85,870	11,099	48,583	48,386	—	48,386
Unearned compensation	391	—	—	391	—	391
Net pension liability	222,792	3,364	32,966	193,190	—	193,190
Total OPEB liability ⁽²⁾	35,764	5,044	1,114	39,694	—	39,694
Total other liabilities	1,363,576	174,784	211,487	1,326,873	146,307	1,180,566
	\$ 2,119,428	\$ 265,928	\$ 283,220	\$ 2,102,136	184,145	1,917,991
Long-term liabilities of Montana University System component units ⁽⁴⁾					(91)	3,702
Total discretely presented component units' long-term liabilities					\$ 184,054	\$ 1,921,693

⁽¹⁾ When applicable, this amount includes unamortized discounts and unamortized premiums.

⁽²⁾ The Total OPEB liability beginning balance for Montana State Fund (MSF) was restated due to the implementation of GASB No. 75.

⁽³⁾ Beginning balances are taken from component unit financial statements.

⁽⁴⁾ Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Refunded Debt

On September 4, 2018, Montana State University issued Series F 2018 bonds in the amount of 19.8 million, to refund Series J 2005 in the same principal amount at a rate of 0.45% above Securities Industry and Financial Markets Association (SIFMA).

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2019, \$75.2 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2019, revenue bonds and notes outstanding aggregated \$1.1 billion.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)

MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2019, bonds outstanding aggregated \$55.0 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$88.9 million as of June 30, 2019. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2019 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 81,451	\$ 11,000	\$ 3,510	\$ 88,941

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2019. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
\$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
\$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2019, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at \$0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option’s value included intrinsic value and time value. The option’s intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. On September 4, 2018, the original Series J bonds were refunded in full with proceeds from the Series F 2018 bonds which were issued in a "SIFMA Index Rate" mode. While in the SIFMA Index Rate, and through the Index Interest Rate Period which spans from September 4, 2018 through and including September 1, 2023, the interest rate is reset weekly at a rate of the SIFMA rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to MSU with the current spread as of June 30, 2019, was 0.45%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2019, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty’s credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2019 (in thousands):

Cash flow hedges:	Notional	Activity During 2019		Fair Values at June 30, 2019	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	\$ 19,025	Interest expense	\$ 18	Loan receivable	\$ 212
		Investment income	—	Derivative liability	4,227
		Deferred outflow	1,147		
Investment derivative –					
Basis swap	\$ 19,025	Investment loss	\$ 200	Investment (excluding interest accrued)	\$ 256

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2019, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$ 19,025	7/21/2005	11/15/2035	\$ —	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2019, counterparty ratings were A3 by Moody's and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the

fixed payer swap in a liability position. As of June 30, 2019, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk

All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk

Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club, and the Montana Tech Alumni Association. The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the year ended June 30, 2019, \$229.4 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff, and some related office expenses. MonTEC was established as a nonprofit 501(c)3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised of four members. Two members of the board of directors are UM employees, and two are non-UM employees. UM does not provide office space or other services to MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided \$1.4 million during 2019 and Friends of KEMC Public Radio provided \$900.0 thousand during 2019 in support of MSU's television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund is based on a Petition for Hearing filed before the Workers' Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least \$2.2 million per year, as based on the National Council on Compensation Insurance initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of \$2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson v. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

Mak and Sons Concrete Construction Service v. Montana State Fund is a matter filed in the First Judicial District Court and involves the issue of whether the Montana State Fund breached its contract to provide workers' compensation insurance coverage. The Montana State Fund canceled Mak and Sons' policy of insurance due to not receiving timely payment of premium. During the uninsured period, several employees of Mak and Sons were involved in a motor vehicle accident. As a result, Mak and Sons sued the Montana State Fund seeking to have coverage for the injuries as well as for breach of the contract of insurance and breach of the covenant of good faith and fair dealing. Should Mak and Sons prevail, MSF estimates the loss may approach \$1.0 million.

P. Subsequent Events

On July 11, 2019, a loan of \$335.9 thousand was made from the Facilities Finance Authority (FFA) to Central Montana Medical Center to finance equipment and renovation to create an interventional radiology suite.

On July 15, 2019, a loan of \$498.5 thousand was made from FFA to Northeast Montana Health Services to refinance debt incurred to replace its boiler system.

On July 18, 2019, a loan of \$298.5 thousand was made from FFA to Job Connection to refinance debt incurred to build an administrative building.

On July 30, 2019, Single Family Mortgage Bonds, 2019 Series B, were issued by the Board of Housing (BOH) for \$30.0 million to be used for the purpose of acquiring additional mortgage loans in Montana.

In July 2019, Montana State University (MSU) received authorization from the Board of Regents to expend up to \$1.5 million for the planning and design of the Bobcat Athletic Complex and Academic Excellence Center, a 40,000 square-foot addition to the north end of Bobcat Stadium in Bozeman. The project will be financed with private donations of \$15.0 million and \$3.0 million from the MSU non-state funds. Construction is expected to begin after the 2019 football season and expected to be open for the 2021 football season. MSU also received authorization from the Board of Regents to lease the Bobcat Stadium and surrounding area to the MSU Alumni Foundation (MSUAF) for the purpose of constructing the Bobcat Athletics Complex and enter into a Memorandum of Understanding with MSUAF for this project.

On August 8, 2019, bonds of \$4.0 million were issued by FFA for the Bighorn Valley Health Center to construct a new community health clinic in Hardin, MT.

On September 13, 2019, Montana State Fund's board declared a dividend of \$30.0 million to be distributed to approximately 23,000 employers.

On September 3, 2019, a loan of \$99.1 thousand was made from FFA to McCone County Health Center, Inc. to finance a hot water heater installation and boiler repairs.

On September 10, 2019, a loan of \$1.5 million was made from FFA to Marcus Daly Memorial Hospital to finance the purchase of a clinic building.

On September 5, 2019, on behalf of the University of Montana (UM), the Board of Regents (the Board) priced \$54.5 million of General Revenue Bonds Series 2019B and \$92.4 million of General Revenue Bonds Series 2019C (Taxable), collectively referred to as Series 2019BC Bonds. The bond issuance closed on September 26, 2019. The proceeds of the sale of the Series 2019BC (the Refinancing), were used to defease and refund \$88.8 million of outstanding indebtedness, pay costs and expenses in connection with the issuance of the Series 2019BC Bonds, and generate proceeds of \$63.4 million which will be used to fund capital improvements for UM. Such capital improvements may include the renewal and renovation of existing student housing, dining and recreational facilities, deferred maintenance projects, and plant upgrades which are expected to result in significant energy cost savings. The Refinancing consisted of a defeasance and refunding of the following: (i) Refunding taxable and tax-exempt Revenue Bonds, Series K 2010 outstanding in the aggregate principal amount of \$19.6 million; (ii) Refunding taxable and tax-exempt Revenue Bonds, Series L 2012 outstanding in the aggregate principal amount of \$35.1 million; (iii) Revenue Bonds, Series M 2013 outstanding in the aggregate principal amount of \$3.8 million; (iv) Refunding Revenue Bonds, Series N 2015 outstanding in the aggregate principal amount of \$14.8 million; (v) Board of Investments INTERCAP Program loans outstanding in the aggregate principal amount of \$11.5 million; and (vi) State Building Energy Conservation Program (SBCEP) loans outstanding in the aggregate principal amount of \$4.0 million. Concurrently with the Refinancing, the Board exchanged UM's General Revenue Bonds, Series 2019A in the amount of \$13.2 million, for its Revenue Bonds, Series O 2017 outstanding in the amount of \$13.2 million. The Series 2019A Bonds were issued under the Indenture of Trust (Indenture) between the Board and the Trustee, and the Series O 2017 Bonds were cancelled. As defined in the Indenture for the Series 2019A and Series 2019BC Bonds, UM has pledged all permitted revenues after certain charges for payment of operation and maintenance expenses.

On October 4, 2019, bonds of \$125.4 million were issued by FFA for the Sisters of Charity Leavenworth Health System, Inc. to refinance its Series 2010 bonds which refunded prior debt, as well as, funding equipment and renovations at facilities in Billings, Butte, and Miles City, MT.

On November 11, 2019, a loan of \$581.2 thousand was made from FFA to Eastern Montana Mental Health Services to finance existing debt and furnish a group home in Glendive, MT.

On November 12, 2019, a loan of \$500.0 thousand was made from FFA to Eastern Montana Mental Health Services to finance existing debt and furnish a group home in Glendive, MT.

On January 16, 2020, Single Family Mortgage Bonds, 2020 Series A, were issued by BOH for \$42.4 million to be used for the purpose of acquiring additional mortgage loans and refunding certain BOH Single Family Homeownership bonds.

Q. Commitments

Montana State Fund (MSF or New Fund) is in a multi-year project to replace its legacy policy management system. The first phase to select vendors, coordinate change management processes and develop and implement core policy management and billing transaction systems is expected to be completed by December 2019 and require total expenditures estimated at \$21.0 million. The total project cost from January 1, 2017 to December 31, 2018 was \$12.7 million. The last phase to develop remaining enhancement features will be planned and arranged with consulting services towards the end of 2019. Costs during the application development phase will be capitalized and recorded as construction work in process until the system is deployed.

As of June 30, 2019, Montana State University (MSU) had issued purchase orders committing the expenditure of approximately \$12.9 million for equipment, supplies and services which had not yet been received.

In September, 2018, the US Department of Education (Department) informed the University of Montana (UM) that it was imposing a fine of \$966.6 thousand for its failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) in Section 485 (f) of the Higher Education Act of 1965, 20 USC Section 1092 (f). In October, 2018, UM submitted a letter to appeal the proposed fine action and requested a hearing with the Department's Office of Hearings and Appeals. In January, 2019, UM and the Department agreed to resolve the matter and the fine amount was reduced to \$395.0 thousand, to be paid in installments over five years. UM subsequently paid off the remaining balance due to the Department in July, 2019.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**Constitutionality of Retirement Plan Funding**

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2019, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), and the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP) were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2019.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	\$ 124,034	\$ 124,034	\$ 126,135	\$ 2,101
Taxes:				
Natural resource	67,687	67,687	86,211	18,524
Individual income	1,404,299	1,404,299	1,419,959	15,660
Corporate income	173,148	173,148	186,012	12,864
Property	287,638	287,638	288,070	432
Fuel	—	—	—	—
Other	244,842	244,842	241,604	(3,238)
Charges for services/fees/forfeits/settlements	38,999	38,999	37,153	(1,846)
Investment earnings	—	—	23,647	23,647
Sale of documents/merchandise/property	356	356	314	(42)
Rentals/leases/royalties	10	10	10	—
Contributions/premiums	5,838	5,838	5,833	(5)
Grants/contracts/donations	3,953	3,953	8,261	4,308
Federal	21,820	21,820	21,475	(345)
Federal indirect cost recoveries	66	66	157	91
Other revenues	5,999	5,999	5,861	(138)
Total revenues	<u>2,378,689</u>	<u>2,378,689</u>	<u>2,450,702</u>	<u>72,013</u>
EXPENDITURES				
Current:				
General government	377,031	377,031	360,596	16,435
Public safety	331,800	331,800	313,996	17,804
Transportation	180	180	—	180
Health and human services	564,544	564,544	526,712	37,832
Education	1,045,134	1,045,134	1,036,533	8,601
Natural resources	36,486	36,486	32,012	4,474
Debt service (Note RSI-1):				
Principal retirement	—	—	15	(15)
Interest/fiscal charges	—	—	216	(216)
Capital outlay (Note RSI-1)	—	—	3,579	(3,579)
Total expenditures	<u>2,355,175</u>	<u>2,355,175</u>	<u>2,273,659</u>	<u>81,516</u>
Excess of revenue over (under) expenditures	<u>23,514</u>	<u>23,514</u>	<u>177,043</u>	<u>153,529</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	—	—	2	2
General capital asset sale proceeds	47	47	89	42
Energy conservation loans	—	—	—	—
Transfers in (Note 12)	78,231	78,231	122,579	44,348
Transfers out (Note 12)	(251,909)	(251,909)	(58,977)	192,932
Total other financing sources (uses)	<u>(173,631)</u>	<u>(173,631)</u>	<u>63,693</u>	<u>237,324</u>
Net change in fund balances (Budgetary basis)	(150,117)	(150,117)	240,736	390,853
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	—	—	—	—
2. Securities lending costs	—	—	—	—
3. Inception of lease/installment contract	—	—	234	234
4. Adjustments for nonbudgeted activity	—	—	—	—
(GAAP basis)	<u>(150,117)</u>	<u>(150,117)</u>	<u>240,970</u>	<u>391,087</u>
Fund balance - July 1	—	—	199,318	199,318
Prior period adjustments	—	—	2,820	2,820
Increase (decrease) in inventories	—	—	298	298
Fund balances - June 30	<u>\$ (150,117)</u>	<u>\$ (150,117)</u>	<u>\$ 443,406</u>	<u>\$ 593,523</u>

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

The original and final budget figures reflect adjustments to the original budget for various reasons, including legislative and executive changes.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
\$ 227,602	\$ 227,602	\$ 234,402	\$ 6,800	\$ —	\$ —	\$ —	\$ —
73,486	73,486	83,705	10,219	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
18,809	18,809	18,675	(134)	—	—	—	—
303,092	303,092	261,290	(41,802)	—	—	—	—
148,128	148,128	141,023	(7,105)	6	6	1	(5)
119,924	119,924	118,036	(1,888)	6,856	6,856	6,786	(70)
—	—	16,857	16,857	—	—	599	599
10,196	10,196	10,256	60	17	17	15	(2)
974	974	966	(8)	1	1	—	(1)
27,814	27,814	28,745	931	—	—	—	—
14,283	14,283	39,788	25,505	18	18	17	(1)
7,228	7,228	7,115	(113)	2,931,863	2,931,863	2,848,049	(83,814)
51,438	51,438	54,368	2,930	82,379	82,379	82,051	(328)
38,556	38,556	2,956	(35,600)	1,206	1,206	1,308	102
1,041,530	1,041,530	1,018,182	(23,348)	3,022,346	3,022,346	2,938,826	(83,520)
346,881	346,881	195,442	151,439	271,426	271,426	90,512	180,914
91,522	91,522	77,612	13,910	49,840	49,840	18,566	31,274
357,670	357,670	242,884	114,786	633,924	633,924	116,829	517,095
178,740	178,740	163,544	15,196	2,304,206	2,304,206	2,006,938	297,268
97,276	97,276	80,785	16,491	325,366	325,366	196,400	128,966
298,337	298,337	176,439	121,898	176,784	176,784	82,386	94,398
—	—	634	(634)	—	—	39	(39)
—	—	226	(226)	—	—	6	(6)
—	—	66,639	(66,639)	—	—	398,090	(398,090)
1,370,426	1,370,426	1,004,205	366,221	3,761,546	3,761,546	2,909,766	851,780
(328,896)	(328,896)	13,977	342,873	(739,200)	(739,200)	29,060	768,260
13,245	13,245	13,783	538	—	—	—	—
64	64	872	808	46	46	71	25
—	—	272	272	—	—	—	—
278,437	278,437	161,199	(117,238)	15,057	15,057	2,369	(12,688)
(110,225)	(110,225)	(65,310)	44,915	(89,994)	(89,994)	(32,087)	57,907
181,521	181,521	110,816	(70,705)	(74,891)	(74,891)	(29,647)	45,244
(147,375)	(147,375)	124,793	272,168	(814,091)	(814,091)	(587)	813,504
—	—	110	110	—	—	—	—
—	—	(67)	(67)	—	—	—	—
—	—	555	555	—	—	19	19
—	—	(13,111)	(13,111)	—	—	—	—
(147,375)	(147,375)	112,280	259,655	(814,091)	(814,091)	(568)	813,523
—	—	1,601,060	1,601,060	—	—	(10,070)	(10,070)
—	—	(624)	(624)	—	—	(1,975)	(1,975)
—	—	1,120	1,120	—	—	—	—
\$ (147,375)	\$ (147,375)	\$ 1,713,836	\$ 1,861,211	\$ (814,091)	\$ (814,091)	\$ (12,613)	\$ 801,478

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2019, reverted governmental fund appropriations were as follows: \$42.4 million in the General Fund, \$172.3 million in the State Special Revenue Fund, and \$356.6 million in the Federal Special Revenue Fund. Agencies are allowed to carry forward 30.0% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information State of Montana as an Employer Entity

Judges' Retirement System Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios ¹ For the Fiscal Year Ended June 30 (dollars in thousands)

	2019	2018	2017	2016	2015
Total Pension Liability (TPL)					
Service costs	\$ 1,664	\$ 1,628	\$ 1,578	\$ 1,653	\$ 1,594
Interest	4,503	4,044	3,986	3,934	3,824
Differences between expected and actual experience	(2,901)	862	(1,341)	(1,032)	—
Changes of assumptions	—	3,865	—	—	—
Refunds of contributions	(149)	—	—	—	—
Benefit payments	(3,723)	(3,554)	(3,416)	(3,041)	(3,023)
Net change in total pension liability	(606)	6,845	807	1,514	2,395
Total pension liability – beginning	60,798	53,953	53,146	51,632	49,237
Total pension liability – ending	\$ 60,192	\$ 60,798	\$ 53,953	\$ 53,146	\$ 51,632
Plan Fiduciary Net Position					
Contributions – employer	\$ 1,085	\$ 1,800	\$ 1,806	\$ 1,684	\$ 1,651
Contributions – member	575	488	729	534	481
Net investment income	8,467	10,368	1,779	3,843	12,421
Refunds of contributions	(149)	—	—	—	—
Benefit payments	(3,723)	(3,554)	(3,416)	(3,041)	(3,023)
Administrative expense	(264)	(254)	(197)	(136)	(100)
Other	7	—	(3)	—	—
Net change in plan fiduciary net position	5,998	8,848	698	2,884	11,430
Plan fiduciary net position - beginning	96,653	87,805	87,107	84,223	72,793
Plan fiduciary net position - ending	\$ 102,651	\$ 96,653	\$ 87,805	\$ 87,107	\$ 84,223
Net Pension (Asset) – Beginning	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)	\$ (23,556)
Net Pension (Asset) – Ending	\$ (42,459)	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)
Plan fiduciary net position as a percentage of TPL	170.54%	158.97%	162.74%	163.90%	163.12%
Covered payroll	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525	\$ 6,355
Net pension (asset) as a percentage of covered payroll	(582.35)%	(514.12)%	(489.19)%	(521.00)%	(513.00)%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(in thousands)

	2019	2018	2017	2016	2015
Contractually required contributions	\$ —	\$ 1,085	\$ 1,800	\$ 1,786	\$ 1,684
Contributions made in relation to the contractually required contributions	—	1,085	1,800	1,786	1,684
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 7,382	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525
Contributions as a percentage of covered payroll	0.00%	14.88%	25.81%	26.00%	26.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2019

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.18%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Total Pension Liability (TPL)					
Service costs	\$ 3,643	\$ 3,665	\$ 3,799	\$ 3,598	\$ 3,464
Interest	16,294	15,121	14,545	14,113	13,518
Changes in benefits	—	—	—	1,856	—
Difference between expected and actual experience	590	2,774	18	267	—
Changes of assumptions	—	7,892	—	—	—
Benefit payments	(11,546)	(11,037)	(10,482)	(10,001)	(9,443)
Refunds of contributions	(322)	(245)	(94)	—	—
Net change in total pension liability	8,659	18,170	7,786	9,833	7,539
Total pension liability – beginning	218,922	200,752	192,966	183,133	175,594
Total pension liability – ending	\$ 227,581	\$ 218,922	\$ 200,752	\$ 192,966	\$ 183,133
Plan Fiduciary Net Position					
Contributions – employer	\$ 5,858	\$ 5,782	\$ 5,916	\$ 5,840	\$ 5,736
Contributions – non-employer	250	263	243	—	—
Contributions – member	2,387	1,950	1,917	1,624	1,458
Net investment income	12,283	15,099	2,605	5,738	18,677
Benefit payments	(11,546)	(11,037)	(10,482)	(10,001)	(9,443)
Administrative expense	(256)	(248)	(197)	(144)	(109)
Refunds of contributions	(322)	(245)	(94)	—	—
Other	8	—	(2)	—	—
Net change in plan fiduciary net position	8,662	11,564	(94)	3,057	16,319
Plan fiduciary net position – beginning	140,537	128,973	129,067	126,010	109,691
Plan fiduciary net position – ending	\$ 149,199	\$ 140,537	\$ 128,973	\$ 129,067	\$ 126,010
Net Pension Liability – Beginning	\$ 78,385	\$ 71,779	\$ 63,899	\$ 57,123	\$ 65,903
Net Pension Liability – Ending	\$ 78,382	\$ 78,385	\$ 71,779	\$ 63,899	\$ 57,123
Plan fiduciary net position as a percentage of TPL	65.56%	64.20%	64.24%	67.00%	69.00%
Covered payroll	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549	\$ 14,149
Net pension liability as a percentage of covered payroll	513.95%	530.38%	469.88%	439.00%	404.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 6,051	\$ 5,843	\$ 5,706	\$ 6,161	\$ 5,782
Contributions in relation to the contractually required contributions	6,051	5,843	5,706	6,161	5,782
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 15,178	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549
Contributions as a percentage of covered payroll	39.87%	38.31%	38.61%	40.00%	40.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.30%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Total Pension Liability (TPL)					
Service costs	\$ 8,098	\$ 8,623	\$ 8,403	\$ 8,008	\$ 7,850
Interest	16,018	14,269	12,911	12,398	11,258
Difference between expected and actual experience	4,781	3,743	2,705	731	—
Changes of assumptions	—	5,878	—	—	—
Benefit payments	(6,523)	(5,810)	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,105)	(1,036)	(1,066)	—	—
Net change in total pension liability	21,269	25,667	17,885	15,785	13,879
Total pension liability – beginning	213,201	187,534	169,649	153,864	139,985
Total pension liability – ending	<u>\$ 234,470</u>	<u>\$ 213,201</u>	<u>\$ 187,534</u>	<u>\$ 169,649</u>	<u>\$ 153,864</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 4,613	\$ 4,464	\$ 4,278	\$ 4,088	\$ 3,762
Contributions - member	5,512	5,278	5,036	4,924	4,462
Net investment income	15,573	18,590	3,167	6,435	20,069
Benefit payments	(6,523)	(5,810)	(5,068)	(5,352)	(5,229)
Administrative expense	(369)	(329)	(269)	(200)	(162)
Refunds of contributions	(1,105)	(1,036)	(1,066)	—	—
Other	(19)	(1)	(31)	—	—
Net change in plan fiduciary net position	17,682	21,156	6,047	9,895	22,902
Plan fiduciary net position – beginning	175,841	154,685	148,638	138,743	115,841
Plan fiduciary net position – ending	<u>\$ 193,523</u>	<u>\$ 175,841</u>	<u>\$ 154,685</u>	<u>\$ 148,638</u>	<u>\$ 138,743</u>
Net Pension Liability – Beginning	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>	<u>\$ 24,144</u>
Net Pension Liability – Ending	<u>\$ 40,947</u>	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>
Plan fiduciary net position as a percentage of TPL	82.54%	82.48%	82.48%	87.00%	90.00%
Covered payroll	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885	\$ 41,637
Net pension liability as a percentage of covered payroll	80.57%	75.66%	69.73%	47.00%	36.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 4,644	\$ 4,574	\$ 4,447	\$ 4,240	\$ 4,040
Contributions in relation to the contractually required contributions	4,644	4,574	4,447	4,240	4,040
Contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 51,677	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885
Contributions as a percentage of covered payroll	8.99%	9.00%	9.01%	9.00%	9.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	39.546272%	53.049189%	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	\$ 825,387	\$ 1,033,200	\$ 906,880	\$ 749,414	\$ 663,174
Employer's covered payroll	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286	\$ 597,083
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	128.93%	159.28%	145.86%	120.82%	111.07%
Plan fiduciary net position as a percentage of the total pension liability	73.47%	74.00%	75.00%	78.00%	80.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 56,183	\$ 54,844	\$ 56,256	\$ 59,073	\$ 58,575
Contributions in relation to the contractually required contributions	56,183	54,844	56,256	59,073	58,575
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 638,674	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286
Contributions as a percentage of covered payroll	8.80%	8.57%	8.67%	9.50%	9.44%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, includes inflation
Salary increases	0% to 4.80%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.26%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	24.917247%	1.007464%	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	\$ 520,058	\$ 19,622	\$ 16,287	\$ 13,365	\$ 11,978
Plan fiduciary net position as a percentage of the total pension liability	73.47%	74.00%	75.00%	78.00%	80.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 34,642	\$ 34,706	\$ 28,763	\$ 30,800	\$ 32,397
Contributions in relation to the contractually required contributions	34,642	34,706	28,763	30,800	32,397
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2018, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

The State contributes a Statutory Appropriation from General Fund per Section 19-3-320, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	4.872800%	4.856692%	5.454386%	5.637055%	5.535000%
Employer's proportionate share of the net pension liability	\$ 3,663	\$ 3,696	\$ 9,582	\$ 5,434	\$ 2,304
Employer's covered payroll	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836	\$ 3,580
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	96.88%	101.71%	248.88%	141.66%	64.36%
Plan fiduciary net position as a percentage of the total pension liability	82.68%	81.00%	63.00%	75.00%	87.00%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 513	\$ 496	\$ 368	\$ 389	\$ 388
Contributions in relation to the contractually required contributions	513	496	368	389	388
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 3,915	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836
Contributions as a percentage of covered payroll	13.10%	13.12%	10.13%	10.10%	10.11%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage Inflation	3.50%, includes inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, set back 1 year for males
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.21%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)

	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.124706%	67.085433%	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	\$ 114,956	\$ 119,354	\$ 119,708	\$ 110,756	\$ 105,106
Plan fiduciary net position as a percentage of the total pension liability	70.95%	68.00%	66.00%	67.00%	67.00%

Schedule of Nonemployer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 15,941	\$ 15,283	\$ 13,215	\$ 13,752	\$ 13,433
Contributions in relation to the contractually required contributions	15,941	15,283	13,215	13,752	13,433
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
For the Year Ended June 30, 2019

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2018, are as follows:

The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.300917%	2.233929%	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	\$ 2,650	\$ 2,525	\$ 2,583	\$ 2,454	\$ 1,806
Employer's covered payroll	\$ 1,103	\$ 1,022	\$ 974	\$ 986	\$ 735
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	240.25%	247.06%	265.20%	249.00%	245.00%
Plan fiduciary net position as a percentage of the total pension liability	79.03%	78.00%	75.00%	77.00%	77.00%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 494	\$ 518	\$ 472	\$ 475	\$ 142
Contributions in relation to the contractually required contributions	494	518	472	475	142
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 1,051	\$ 1,103	\$ 1,022	\$ 974	\$ 986
Contributions as a percentage of covered payroll	47.00%	46.96%	46.18%	49.00%	14.40%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Inflation	2.75%
Salary increases	0% to 6.30%
Investment rate of return	7.65%, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin as a % of payroll	0.23%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.972164%	67.876338%	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	\$ 78,285	\$ 76,724	\$ 77,448	\$ 68,892	\$ 66,384
Plan fiduciary net position as a percentage of the total pension liability	79.03%	78.00%	75.00%	77.00%	77.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 16,209	\$ 15,272	\$ 14,042	\$ 13,635	\$ 13,573
Contributions in relation to the contractually required contributions	16,209	15,272	14,042	13,635	13,573
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2018, are as follows:

The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	\$ 7,667	\$ 10,087	\$ 10,599	\$ 10,504	\$ 5,089
Plan fiduciary net position as a percentage of the total pension liability	83.48%	78.00%	76.00%	76.00%	87.00%

**Schedule of Nonemployer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 2,361	\$ 2,207	\$ 2,054	\$ 2,024	\$ 1,913
Contributions in relation to the contractually required contributions	2,361	2,207	2,054	2,024	1,913
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2018, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.554088%	2.860298%	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	\$ 47,407	\$ 48,227	\$ 57,016	\$ 56,230	\$ 72,168
Employer's covered payroll	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252	\$ 32,937
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	195.29%	178.99%	197.18%	179.00%	219.00%
Plan fiduciary net position as a percentage of the total pension liability	69.09%	70.00%	67.00%	69.00%	70.00%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 16,538	\$ 17,298	\$ 17,396	\$ 16,946	\$ 16,234
Contributions in relation to the contractually required contributions	16,538	17,298	17,396	16,946	16,234
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 23,250	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252
Contributions as a percentage of covered payroll	71.13%	71.26%	64.56%	58.00%	52.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Changes of assumptions: As a result of the recent actuarial experience study, dated May 3, 2018, since reporting year 2019, assumptions about mortality, inflation, wage growth, investment return, salary increase, retirement rates, termination rates, and investment expenses were adjusted to more closely match actual experience and benefit statutes.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2018, determined as of June 30, 2018.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4-year smoothed market
Wage inflation	3.25%, including inflation
Inflation	2.50%
Salary increase	3.25% to 7.76%, including inflation for non-University Members and 4.25% for University Members
Investment rate of return	7.50%, net of pension plan investment expense, and including inflation

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	37.735743%	38.133267%	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	\$ 700,417	\$ 642,958	\$ 707,527	\$ 647,092	\$ 596,724
Plan fiduciary net position as a percentage of the total pension liability	69.09%	70.00%	67.00%	69.00%	70.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 44,333	\$ 43,718	\$ 43,028	\$ 42,400	\$ 42,806
Contributions in relation to the contractually required contributions	44,333	43,718	43,028	42,400	42,806
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2018, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a \$25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: As a result of the recent actuarial experience study, dated May 3, 2018, since reporting year 2019, assumptions about mortality, inflation, wage growth, investment return, salary increase, retirement rates, termination rates, and investment expenses were adjusted to more closely match actual experience and benefit statutes.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for the State of Montana OPEB plan.

Total OPEB Liability and Related Ratios				
Last 10 Fiscal Years ⁽¹⁾				
(in thousands)				
Total OPEB Liability	2019		2018	
Service cost	\$	2,062	\$	1,889
Interest		1,990		2,014
Difference between expected and actual experience		—		(4,723)
Changes of assumptions or other inputs		2,895		(295)
Benefit payments		(1,709)		1,705
Net change in Total OPEB Liability		5,238		590
Total OPEB Liability - Beginning		50,459		49,869
Total OPEB Liability - Ending	\$	55,697	\$	50,459
State and discretely presented component units' proportion of the collective Total OPEB Liability		100%		100%
Covered employee payroll	\$	702,688	\$	675,661
Total OPEB Liability as a percentage of covered employee payroll		7.93%		7.47%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms. No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for MUS plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years ⁽¹⁾
(in thousands)

Total OPEB Liability	2019	2018
Service cost	\$ 1,952	\$ 1,954
Interest	1,495	1,410
Difference between expected and actual experience	—	(1,323)
Changes of assumptions or other inputs	1,351	(182)
Benefit payments	(888)	(679)
Net change in Total OPEB Liability	3,910	1,180
Total OPEB Liability - Beginning	35,438	34,258
Total OPEB Liability - Ending	<u>\$ 39,348</u>	<u>\$ 35,438</u>
State and discretely presented component units' proportion of the collective Total OPEB Liability	95.59%	95.62%
Covered employee payroll ⁽²⁾	\$ 451,613	\$ 434,243
Total OPEB Liability as a percentage of covered employee payroll	9.11%	8.53%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

⁽²⁾ Amount reported is for the whole MUS plan, Community Colleges are included due to lack of ability to separate covered employee payroll.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

**Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1. Premiums and investment Revenue	\$ 98,885	\$ 99,369	\$ 100,693	\$ 84,297	\$ 80,764	\$ 79,257	\$ 76,505	\$ 75,911	\$ 73,078	\$ 62,851
2. Unallocated expenses including overhead	\$ 5,150	\$ 5,111	\$ 5,196	\$ 5,129	\$ 5,198	\$ 4,787	\$ 3,938	\$ 4,063	\$ 4,663	\$ 3,629
3. Estimated losses and expenses end of accident year	\$ 93,392	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331	\$ 64,919	\$ 65,575
4. Net paid (cumulative) as of:										
End of policy year	\$ 82,055	\$ 80,393	\$ 75,601	\$ 76,400	\$ 79,388	\$ 63,317	\$ 61,964	\$ 56,981	\$ 57,018	\$ 58,989
One year later	\$	\$ 89,050	\$ 84,575	\$ 85,796	\$ 88,943	\$ 69,073	\$ 67,988	\$ 62,937	\$ 63,495	\$ 66,991
Two years later		\$	\$ 84,729	\$ 85,894	\$ 89,261	\$ 69,074	\$ 68,024	\$ 62,968	\$ 63,538	\$ 67,022
Three years later			\$ 86,002		\$ 89,264	\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041
Four years later					\$ 89,271	\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041
Five years later						\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,042
Six years later							\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,042
Seven years later								\$ 62,974	\$ 63,539	\$ 67,042
Eight years later									\$ 63,539	\$ 67,042
Nine years later										\$ 67,042
5. Re-estimated ceded losses and expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 93,392	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331	\$ 64,919	\$ 65,575
One year later		\$ 89,036	\$ 84,567	\$ 86,148	\$ 88,824	\$ 71,700	\$ 68,349	\$ 63,446	\$ 63,941	\$ 67,006
Two years later			\$ 84,729	\$ 85,894	\$ 89,261	\$ 69,074	\$ 68,024	\$ 62,968	\$ 63,538	\$ 67,022
Three years later				\$ 86,002	\$ 89,264	\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041
Four years later					\$ 89,271	\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041
Five years later						\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,042
Six years later							\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,042
Seven years later								\$ 62,974	\$ 63,539	\$ 67,042
Eight years later									\$ 63,539	\$ 67,042
Nine years later										\$ 67,042
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ —	\$ (1,391)	\$ (1,073)	\$ (1,231)	\$ 1,912	\$ (2,800)	\$ (1,302)	\$ (1,357)	\$ (1,380)	\$ 1,467

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003 State Commissions		\$260,602
94.006 AmeriCorps	\$3,364,111	\$3,586,411
94.009 Training and Technical Assistance		\$197,031
94.013 Volunteers in Service to America		\$810,475
	TOTAL	\$4,854,519
CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL		
DEPARTMENT OF AGRICULTURE		
10.001 Agricultural Research Basic and Applied Research University of Wyoming 1003948-MSU		\$2,512
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$1,090,289
10.093 Voluntary Public Access and Habitat Incentive Program		\$47,902
10.162 Inspection Grading and Standardization		\$15,906
10.163 Market Protection and Promotion		\$163,341
10.170 Specialty Crop Block Grant Program - Farm Bill		\$1,381,820
10.310 Agriculture and Food Research Initiative (AFRI) University of Idaho BDK489-SB-001	\$267,453	\$45,414
10.433 Rural Housing Preservation Grants		\$8,943
10.435 State Mediation Grants		\$34,718
10.475 Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		\$15,323
10.500 Cooperative Extension Service		\$976,037
Kansas State University S19162	\$11,750	\$450,543
Kansas State University S19102		\$2,430
Kansas State University S18142		\$15,793
Kansas State University S17115		\$5,313
University of Missouri C00059381-8		\$6,648
CACFP Training Grants		\$6,144
10.541 Child Nutrition-Technology Innovation Grant		\$369
10.557 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	\$4,262,992	\$559,821
10.558 Child and Adult Care Food Program	\$617,011	\$12,588,197
10.560 State Administrative Expenses for Child Nutrition		\$12,022,689
10.567 Food Distribution Program on Indian Reservations		\$880,475
10.572 WIC Farmers' Market Nutrition Program (FMNP)	\$2,175,842	\$9,439,743
		\$49,380

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
10.574	Team Nutrition Grants	\$386,036
10.575	Farm to School Grant Program	\$23,493
10.576	Senior Farmers Market Nutrition Program	\$81,086
10.578	WIC Grants To States (WGS)	\$50,604
10.579	Child Nutrition Discretionary Grants Limited Availability	\$1,731,654
10.582	Fresh Fruit and Vegetable Program	
10.601	Market Access Program	
	U.S. Livestock Genetics Export, Inc. MT DOA 2018	\$15,699
10.605	Quality Samples Program	\$299
10.652	Forestry Research	\$450,657
	National Wilderness Stewardship Alliance WI2018	\$17,834
10.664	Cooperative Forestry Assistance	\$5,046,320
	American Forest Foundation AFF-FS-15-039 SUBAWARD 15-DG-11132544-039 GCSI	\$6,916
	Gallatin County 2018-579	\$14,215
	Gallatin County 2018-578	\$29,141
10.669	Cooperative Landscape Conservation	\$5,000
10.674	Wood Utilization Assistance	\$100,573
10.676	Forest Legacy Program	\$4,002,636
10.678	Forest Stewardship Program	\$41,244
10.680	Forest Health Protection	\$2,956
10.683	National Fish and Wildlife Foundation	\$27,391
10.691	Good Neighbor Authority	\$229,360
10.699	Partnership Agreements	\$95,634
10.902	Soil and Water Conservation	\$116,209
10.912	Environmental Quality Incentives Program	\$32,536
10.924	Conservation Stewardship Program	\$9,694
10.931	Agricultural Conservation Easement Program	\$1,979,719
10.UXX	Miscellaneous Non-Major Grants	\$250,691
	TOTAL	\$54,907,373
Child Nutrition Cluster		
10.553	School Breakfast Program	\$10,607,562
10.555	National School Lunch Program	\$28,597,672
10.556	Special Milk Program for Children	\$6,572
10.559	Summer Food Service Program for Children	\$2,318,343
	TOTAL	\$45,436,310

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
Food Distribution Cluster		
10.565 Commodity Supplemental Food Program		\$2,014,086
10.568 Emergency Food Assistance Program (Administrative Costs)	\$194,031	\$356,056
10.569 Emergency Food Assistance Program (Food Commodities)		\$1,628,301
TOTAL		\$3,998,443
Forest Service Schools and Roads Cluster		
10.665 Schools and Roads - Grants to States	\$14,176,881	\$14,176,881
TOTAL		\$14,176,881
SNAP Cluster		
10.551 Supplemental Nutrition Assistance Program		\$148,914,444
10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$277,163	\$11,305,395
TOTAL		\$160,219,839
DEPARTMENT OF AGRICULTURE TOTAL		
		\$278,738,846
DEPARTMENT OF COMMERCE		
11.303 Economic Development Technical Assistance		\$1,040
11.550 Public Telecommunications Facilities Planning and Construction Corporation for Public Broadcasting 1492		\$261,701
11.611 Manufacturing Extension Partnership	\$24,026	\$662,379
Hawaii Technology Development Corporation		\$16,354
New Jersey Manufacturing Extension Program		\$5,604
11.620 Science, Technology, Business and/or Education Outreach		\$217,418
11.UXX Miscellaneous Non-Major Grants		
Corporation for Public Broadcasting 34736-EDU		\$22,969
TOTAL		\$1,187,465
Economic Development Cluster		
11.307 Economic Adjustment Assistance		\$304,005
11.307 Economic Adjustment Assistance		\$2,937,992
TOTAL		\$3,241,997
DEPARTMENT OF DEFENSE		
12.002 Procurement Technical Assistance For Business Firms		
Big Sky Economic Development Corporation SP4800-17-2-1722		\$6,136
Big Sky Economic Development Corporation SP4800-18-2-1822		\$63,739
DEPARTMENT OF COMMERCE TOTAL		
		\$4,429,462

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
12.112	Payments to States in Lieu of Real Estate Taxes	\$4,563
12.357	ROTC Language and Culture Training Grants	
	Institute of International Education 2606-UMT-G-5-GO-051-PO7	\$96,009
	Institute of International Education PGO1801-UMT-16-PGO-051-PO2	\$145,302
12.400	Military Construction, National Guard	\$655,308
12.401	National Guard Military Operations and Maintenance (O&M) Projects	\$23,915,371
12.404	National Guard Challenge Program	\$4,386,420
12.579	Language Training Center	
	Institute of International Education PGO1801-UMT-16-LTC-052-PO3	\$148,421
	Institute of International Education PGO1801-UMT-16	\$1,595,145
	Institute of International Education 2603-UMT-5-LTC-052-PO8	\$629,575
12.620	Troops to Teachers Grant Program	\$429,159
12.UXX	Miscellaneous Non-Major Grants	\$1,496,639
	Battelle Memorial Institute US001-000590859	\$18,100
	Pacific States Marine Fisheries Commission 19-102P	\$61,112
	Pacific States Marine Fisheries Commission 18-128P	\$192,703
	Pacific States Marine Fisheries Commission 18-93P	\$1,108,790
	Pacific States Marine Fisheries Commission 19-85P	\$812,954
	TOTAL	\$35,765,446
DEPARTMENT OF DEFENSE TOTAL		\$35,765,446
84.002	Adult Education - Basic Grants to States	\$1,335,438
84.010	Title I Grants to Local Educational Agencies	\$46,407,677
84.011	Migrant Education State Grant Program	\$1,400,817
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	\$263,472
84.031	Higher Education Institutional Aid	\$407,853
84.048	Career and Technical Education -- Basic Grants to States	\$5,326,318
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	\$8,134,835
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	\$244,793
84.181	Special Education-Grants for Infants and Families	\$1,928,370
84.184	School Safety National Activities	\$782,742
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	\$340,953
84.196	Education for Homeless Children and Youth	\$261,376

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
84.287	\$5,187,316	\$5,515,683
84.299		
Twenty-First Century Community Learning Centers		
Indian Education -- Special Programs for Indian Children		
Aaniih Nakoda College 5299B180009		\$17,278
Blackfeet Community College 5299B160026		\$114,824
Blackfeet Community College TCTC#2-386-1-1504		\$61,478
Blackfeet Community College TCTC#2-3861-5107		\$9,538
Fort Peck Community College ED-GRANTS-061418-001		\$6,006
84.323	\$78,655	\$487,331
Special Education - State Personnel Development		
84.325		\$284,816
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		
84.326		\$97,249
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		
Helen Keller National Center H326T180026		\$56,134
84.334	\$1,582,140	\$4,272,659
Gaining Early Awareness and Readiness for Undergraduate Programs		
84.335		\$7,635
Child Care Access Means Parents in School		
84.358	\$319,262	\$354,959
Rural Education		
84.365	\$493,800	\$1,212,913
English Language Acquisition State Grants		
84.366	\$195,493	\$293,039
Mathematics and Science Partnerships		
Bozeman Public Schools 16 0350 1513 MSP		\$5,496
84.367	\$9,324,940	\$9,733,551
Supporting Effective Instruction State Grants		
National Writing Project 16-MT03-SEED2017-CRWPAI		\$16,601
National Writing Project 93-MT01-SEED2017-ILI		\$73
84.369		\$3,167,117
Grants for State Assessments and Related Activities		
84.371	\$6,977,526	\$7,525,811
Comprehensive Literacy Development		
84.372		\$783,705
Statewide Longitudinal Data Systems		
84.377	\$570,118	\$1,173,396
School Improvement Grants		
84.418		\$586,554
Promoting Readiness of Minors in Supplemental Security Income		
State of Utah Contract REF# 146214		\$43,410
University of Utah 10033712		\$8,710,375
84.419	\$6,416,496	\$8,710,375
Preschool Development Grants		
84.424	\$4,068,521	\$4,207,889
Student Support and Academic Enrichment Program		
84.998		\$6,562
American Printing House for the Blind		
84.UXX		\$91,668
Miscellaneous Non-Major Grants		
	TOTAL	\$115,678,394

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
Special Education Cluster (IDEA)		
84.027	\$35,693,224	\$39,377,764
		\$64,208
84.173	\$1,192,488	\$1,195,483
	TOTAL	\$40,637,455
Student Financial Assistance Cluster		
84.007		\$1,530,372
84.033		\$2,118,635
84.038		\$33,380,106
84.063		\$44,706,517
84.268		\$166,350,722
84.379		\$7,706
	TOTAL	\$248,094,058
TRIO Cluster		
84.042		\$2,042,066
84.044		\$1,166,169
84.047		\$1,923,935
84.217		\$68,345
	TOTAL	\$5,200,515
DEPARTMENT OF EDUCATION TOTAL		\$409,610,422
DEPARTMENT OF ENERGY		
81.041		\$404,162
81.042		\$3,316,192
81.086		\$32,249
		\$56,477
81.117		\$53,330
81.138		\$8,707
81.UXX		\$285,276
	TOTAL	\$4,156,393
DEPARTMENT OF ENERGY TOTAL		\$4,156,393

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

DEPARTMENT OF HEALTH AND HUMAN SERVICES	Amount to Subrecipients	Expenditures
93.041 Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$20,028	\$27,944
93.042 Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$74,046	\$74,046
93.043 Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	\$142,550	\$142,550
93.051 Alzheimer's Disease Demonstration Grants to States	\$137,750	\$137,750
93.052 National Family Caregiver Support, Title III, Part E	\$957,501	\$1,017,206
93.070 Environmental Public Health and Emergency Response	\$30,272	\$424,496
93.071 Medicare Enrollment Assistance Program	\$103,272	\$108,703
93.072 Lifespan Respite Care Program	\$148,651	\$188,860
93.074 Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	\$3,146,528	\$6,075,883
93.079 Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance		\$84,473
93.090 Guardianship Assistance		\$1,892,223
93.092 Affordable Care Act (ACA) Personal Responsibility Education Program	\$127,755	\$231,868
93.103 Food and Drug Administration Research		\$247,594
93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		\$1,075,403
93.110 Maternal and Child Health Federal Consolidated Programs	\$56,848	\$397,433
93.116 Project Grants and Cooperative Agreements for Tuberculosis Control Programs		\$191,960
93.127 Emergency Medical Services for Children		\$407,999
93.130 Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	\$15,433	\$147,121
93.136 Injury Prevention and Control Research and State and Community Based Programs		\$756,125
93.150 Projects for Assistance in Transition from Homelessness (PATH)	\$290,683	\$301,354
93.155 Rural Health Research Centers		
National Rural Health Association 2017 SRHA TECHNICAL ASSISTANCE		\$3,165
Centers of Excellence		\$1,059
93.165 Grants to States for Loan Repayment Program	\$152,114	\$152,114
93.184 Disabilities Prevention	\$100,000	\$341,777
93.217 Family Planning Services	\$1,633,858	\$2,311,892
93.235 Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program		\$61,990
93.236 Grants to States to Support Oral Health Workforce Activities	\$144,106	\$281,824

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
93.240		\$280,502
93.241	\$859,278	\$967,243
93.243	\$3,660,990	\$6,044,053
93.251		\$313,208
93.262		\$135,829
93.268	\$359,455	\$13,490,211
93.270	\$45,000	\$115,239
93.297		\$95,016
93.305	\$31,236	\$863,821
93.307		\$9,885,550
93.323		\$2,241,022
93.324	\$406,410	\$498,139
93.336		\$277,598
93.354	\$39,272	\$533,633
93.369		\$283,259
93.426	\$318,112	\$2,274,476
93.434	\$498,319	\$559,384
93.448		\$156,865
93.449		\$27,634
93.464		\$509,375
93.500		\$866,379
93.516	\$386,223	
		\$15,657
		\$11,045
	\$25,660	\$25,977
93.518		
93.521		\$22,383
93.556	\$713,716	\$1,026,681
93.563		\$11,130,801
93.566	\$303,905	\$477,878
93.568	\$938,916	\$21,299,962

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
93.569	Community Services Block Grant	\$3,447,555
93.586	State Court Improvement Program	\$251,128
93.590	Community-Based Child Abuse Prevention Grants	\$89,946
93.597	Grants to States for Access and Visitation Programs	\$95,549
93.599	Chafee Education and Training Vouchers Program (ETV)	\$301,149
93.600	Head Start	\$302,902
93.603	Adoption and Legal Guardianship Incentive Payments	\$144,451
93.630	Developmental Disabilities Basic Support and Advocacy Grants	\$186,774
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	\$450,002
93.636	ACA - Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	\$190
93.643	Children's Justice Grants to States	\$104,963
93.645	Stephanie Tubbs Jones Child Welfare Services Program	\$102,264
93.658	Foster Care Title IV-E	\$686,680
93.659	Adoption Assistance	\$19,274,310
93.667	Social Services Block Grant	\$11,152,844
93.669	Child Abuse and Neglect State Grants	\$6,835,041
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	\$117,161
93.674	Chafee Foster Care Independence Program	\$864,636
93.732	Mental and Behavioral Health Education and Training Grants	\$856,243
93.747	Elder Abuse Prevention Interventions Program	\$281,915
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	\$228,251
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	\$312,371
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	\$88,023
93.767	Children's Health Insurance Program	\$262,678
93.788	Opioid STR	\$1,098,496
93.791	Money Follows the Person Rebalancing Demonstration	\$103,978,812
93.800	Organized Approaches to Increase Colorectal Cancer Screening	\$2,654,759
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).	\$633,122
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	\$484,979
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	\$16,717
		\$17,670
		\$2,060,496

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
93.912	\$592	\$378,489
93.917	\$1,032,893	\$2,359,423
93.940	\$552,268	\$1,035,767
93.945		\$59,636
93.946		\$177,725
93.958	\$671,398	\$1,190,538
93.959	\$3,495,196	\$7,910,377
93.977		\$253,583
93.994	\$962,130	\$1,862,824
93.UXX		\$199,690
	TOTAL	\$264,149,714
Aging Cluster		
93.044	\$1,996,314	\$2,349,994
93.045	\$3,260,217	\$3,707,676
93.053	\$881,143	\$1,217,420
	TOTAL	\$7,275,090
CCDF Cluster		
93.575	\$6,524,715	\$19,085,616
93.596		\$6,178,148
	TOTAL	\$25,263,764
Maternal, Infant, and Early Childhood Home Visiting Cluster		
93.870	\$5,296,344	\$6,220,289
	TOTAL	\$6,220,289
Medicaid Cluster		
93.775		\$706,983
93.777		\$2,575,722
93.778	\$581,267	\$1,478,459,908
	TOTAL	\$1,481,742,613
Student Financial Assistance Cluster		
93.264		\$11,744
93.342		\$235,984

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
93.364 Nursing Student Loans		\$2,990,983
	TOTAL	\$3,238,711
TANF Cluster		
93.558 Temporary Assistance for Needy Families	\$812,151	\$29,518,632
	TOTAL	\$29,518,632
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	\$1,817,408,813
DEPARTMENT OF HOMELAND SECURITY		
97.012 Boating Safety Financial Assistance		\$564,012
97.023 Community Assistance Program State Support Services Element (CAP-SSSE)		\$371,416
97.029 Flood Mitigation Assistance	\$129,431	(\$138,847)
97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$1,791,381	\$2,520,822
97.039 Hazard Mitigation Grant	\$159,207	\$134,036
97.041 National Dam Safety Program		\$212,826
97.042 Emergency Management Performance Grants	\$2,115,675	\$3,102,920
97.043 State Fire Training Systems Grants		\$4,083
97.045 Cooperating Technical Partners		\$6,851,212
97.047 Pre-Disaster Mitigation	\$2,153,430	\$2,164,222
97.067 Homeland Security Grant Program	\$2,725,930	\$4,508,115
Kalispell Police Department 18-SPWSPW-06-008		\$2,482
97.082 Earthquake Consortium		\$14,337
	TOTAL	\$20,311,636
	DEPARTMENT OF HOMELAND SECURITY TOTAL	\$20,311,636
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.228 Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$6,068,167	\$6,378,008
14.231 Emergency Solutions Grant Program		\$728,149
14.235 Supportive Housing Program		(\$26,478)
14.238 Shelter Plus Care		\$42,062
14.239 Home Investment Partnerships Program	\$4,146,156	\$4,393,409
14.241 Housing Opportunities for Persons with AIDS		\$949,082
14.275 Housing Trust Fund	\$430,921	\$618,371
14.326 Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities		\$114,174
	TOTAL	\$13,196,777

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

		Amount to Subrecipients	Expenditures
Housing Voucher Cluster			
14.871	Section 8 Housing Choice Vouchers		\$21,781,585
		TOTAL	\$21,781,585
Section 8 Project-Based Cluster			
14.195	Section 8 Housing Assistance Payments Program		\$22,801,654
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation		\$1,845,877
		TOTAL	\$24,647,531
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL			
			\$59,625,893
DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	\$310,886	\$330,659
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life		\$116,269
16.540	Juvenile Justice and Delinquency Prevention	\$318,516	\$337,376
16.543	Missing Children's Assistance		\$99,188
	Rady Children's Hospital-San Diego UNIV OF MT 2018-01		\$11,629
16.554	National Criminal History Improvement Program (NCHIP)		\$1,627,341
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		\$128,594
	Bozeman Public Schools 2014-MU-0017 (UM #1)		\$222,228
16.575	Crime Victim Assistance	\$7,212,090	\$8,027,770
	State of Wyoming 2016-VA-GX-0051		\$508
16.576	Crime Victim Compensation		\$9,737
16.582	Crime Victim Assistance/Discretionary Grants		\$792,443
16.585	Drug Court Discretionary Grant Program		\$675,495
16.588	Violence Against Women Formula Grants		\$987,633
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	\$833,380	
	County of Missoula 2015-WR-AX-0013		\$18,564
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		\$241,905
16.593	Residential Substance Abuse Treatment for State Prisoners	\$57,330	\$57,330
16.606	State Criminal Alien Assistance Program		\$22,194
16.609	Project Safe Neighborhoods	\$5,517	\$5,517
16.710	Public Safety Partnership and Community Policing Grants		\$142,656
16.726	Juvenile Mentoring Program		
	National 4-H Council 4H NMP-9: 2018-JU-FX-0005		\$3,675
	National 4-H Council 4-H UNDER OJJDP 2016-JU-FX-002		\$16
	National 4-H Council 4-H UNDER OJJDP 2017JUFX0016		\$35,647

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
16.735		\$43,040
16.738	\$670,639	\$916,036
16.741		\$274,967
16.742		\$102,861
16.745	\$7,938	\$7,938
16.750		\$32,601
16.751		\$22,400
16.754		\$158
16.818	\$183,117	\$328,971
16.827		
		\$109,475
16.833		\$677,342
16.838		\$12,020
16.839		\$75,765
16.922		\$145,308
	TOTAL	\$16,643,256
	DEPARTMENT OF JUSTICE TOTAL	\$16,643,256
17.002		\$710,552
17.005		\$92,389
17.201	\$88,598	\$607,752
17.225		\$117,177,840
17.235	\$416,388	\$436,306
17.245		\$278,554
17.268		
		\$383,817
17.271		\$66,000
17.273		\$213,958
17.277	\$152,171	\$1,375,776
17.282	\$157,229	\$394,255
17.504		\$513,616
17.600		\$252,487
	TOTAL	\$122,503,302

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

<i>Employment Service Cluster</i>	Amount to Subrecipients	Expenditures
17.207 Employment Service/Wagner-Peyser Funded Activities		\$5,471,043
17.801 Disabled Veterans' Outreach Program (DVOP)		\$561,173
17.804 Local Veterans' Employment Representative Program		\$45,075
	TOTAL	\$6,077,291
WIOA Cluster		
17.258 WIOA Adult Program	\$507,206	\$2,158,175
17.259 WIOA Youth Activities	\$1,501,336	\$1,993,346
17.278 WIOA Dislocated Worker Formula Grants	\$77,569	\$1,618,845
	TOTAL	\$5,770,366
	DEPARTMENT OF LABOR TOTAL	\$134,350,959
19.009 Academic Exchange Programs - Undergraduate Programs	\$278,890	\$1,093,564
19.010 Academic Exchange Programs - Hubert H. Humphrey Fellowship Program Institute of International Education HHH1901 Institute of International Education IIE0138_2.22.18		\$89,469 \$133,779 \$2,463
19.040 Public Diplomacy Programs		\$1,122,025
19.401 Academic Exchange Programs - Scholars	\$449,816	\$1,078,714
19.415 Professional and Cultural Exchange Programs - Citizen Exchanges	\$68,104	
19.600 Bureau of Near Eastern Affairs Georgetown University S-NEAAC-17-CA-1016 Georgetown University MSU-20190310		\$47,318 \$26,194
	TOTAL	\$3,593,526
	DEPARTMENT OF STATE TOTAL	\$3,593,526
DEPARTMENT OF THE INTERIOR		
15.025 Services to Indian Children, Elderly and Families		\$120,157
15.034 Agriculture on Indian Lands Fort Belknap Community Council A10AV00583		\$59,680 \$8,687
15.130 Indian Education Assistance to Schools		\$67,523
15.224 Cultural and Paleontological Resources Management		\$33,831
15.225 Recreation and Visitor Services		\$8,914
15.228 BLIM Wildland Urban Interface Community Fire Assistance		\$5,349
15.230 Invasive and Noxious Plant Management		

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
15.231	Fish, Wildlife and Plant Conservation Resource Management	\$62,135
15.236	Environmental Quality and Protection	\$632,475
15.239	Management Initiatives	\$2,500
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	\$2,018,441
15.252	Abandoned Mine Land Reclamation (AMLR)	\$1,999,131
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination	\$496,760
15.514	Reclamation States Emergency Drought Relief	\$33,777
15.517	Fish and Wildlife Coordination Act	\$133,273
15.524	Recreation Resources Management	\$65,624
15.608	Fish and Wildlife Management Assistance	\$56,808
15.626	Enhanced Hunter Education and Safety	\$48,445
15.628	Multistate Conservation Grant	
	North Carolina State University 2018-0319-06	\$4,179
15.634	State Wildlife Grants	\$754,181
15.637	Migratory Bird Joint Ventures	\$47,437
15.657	Endangered Species Conservation – Recovery Implementation Funds	\$2,229,165
	Wildlife Management Institute WNS 2018-08 (58185)	\$12,629
15.660	Endangered Species - Candidate Conservation Action Funds	\$86,506
	State of Utah 186103	\$4,284
15.663	National Fish and Wildlife Foundation	\$34,601
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	\$130,000
15.670	Adaptive Science	\$104,806
15.678	Cooperative Ecosystem Studies Units	\$300,822
15.904	Historic Preservation Fund Grants-In-Aid	\$85,817
15.916	Outdoor Recreation Acquisition, Development and Planning	\$367,900
15.944	Natural Resource Stewardship	
15.945	Cooperative Research and Training Programs – Resources of the National Park System	\$15,764
15.959	Education Program Management	\$33,177
	Little Eagle Grant School	\$1,519
	Paschal Sherman Indian School	\$17,842
15.981	Water Use and Data Research	\$12,513
15.UXX	Miscellaneous Non-Major Grants	\$126,123
	TOTAL	\$11,564,967

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
<i>Fish and Wildlife Cluster</i>		
15.605 Sport Fish Restoration		\$7,745,389
15.611 Wildlife Restoration and Basic Hunter Education	\$196,907	\$13,218,280
	TOTAL	\$20,963,669
DEPARTMENT OF THE INTERIOR TOTAL		
		\$32,528,636
DEPARTMENT OF TRANSPORTATION		
20.106 Airport Improvement Program		\$610,407
20.200 Highway Research and Development Program		\$220,226
20.215 Highway Training and Education		\$214,000
20.218 Motor Carrier Safety Assistance		\$2,670,091
20.232 Commercial Driver's License Program Implementation Grant		\$95,257
20.237 Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements		\$12,690
20.240 Fuel Tax Evasion-Intergovernmental Enforcement Effort		\$105,361
20.505 Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	\$510,608	\$598,034
20.509 Formula Grants for Rural Areas	\$8,600,144	\$10,154,074
20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated	\$240,330	\$646,409
20.614 National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		\$89,391
20.700 Pipeline Safety Program State Base Grant		\$187,918
20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants	\$174,099	\$210,543
	TOTAL	\$15,814,401
Federal Transit Cluster		
20.526 Bus and Bus Facilities Formula Program	\$802,560	\$802,560
	TOTAL	\$802,560
Highway Planning and Construction Cluster		
20.205 Highway Planning and Construction		\$486,079,449
20.219 Recreational Trails Program	\$3,265,136	\$2,010,850
20.224 Federal Lands Access Program	\$1,874,977	\$7,065,820
	TOTAL	\$495,156,119
Highway Safety Cluster		
20.600 State and Community Highway Safety	\$262,454	\$1,539,502
20.616 National Priority Safety Programs	\$404,579	\$2,014,173
	TOTAL	\$3,553,675

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

<i>Transit Services Programs Cluster</i>	Amount to Subrecipients	Expenditures
20.513 Enhanced Mobility of Seniors and Individuals with Disabilities	\$1,245,628	\$1,412,460
	TOTAL	\$1,412,460
DEPARTMENT OF TREASURY	DEPARTMENT OF TRANSPORTATION TOTAL	\$516,739,215
21.UXX Miscellaneous Non-Major Grants	TOTAL	\$2,376
		\$2,376
DEPARTMENT OF VETERANS AFFAIRS	DEPARTMENT OF TREASURY TOTAL	\$2,376
64.014 Veterans State Domiciliary Care		\$193,485
64.015 Veterans State Nursing Home Care		\$6,300,914
64.124 All-Volunteer Force Educational Assistance		\$95,066
	TOTAL	\$6,589,465
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	\$6,589,465
ELECTION ASSISTANCE COMMISSION		
90.404 2018 HAVA Election Security Grants		\$387,000
	TOTAL	\$387,000
	ELECTION ASSISTANCE COMMISSION TOTAL	\$387,000
ENVIRONMENTAL PROTECTION AGENCY		
66.034 Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		\$335,158
66.040 State Clean Diesel Grant Program		\$197,463
66.202 Congressionally Mandated Projects		\$15,195
66.204 Multipurpose Grants to States and Tribes		\$54,109
66.419 Water Pollution Control State, Interstate, and Tribal Program Support		\$231,106
66.433 State Underground Water Source Protection		\$108,000
66.454 Water Quality Management Planning		\$7,138
66.460 Nonpoint Source Implementation Grants		\$1,931,677
66.461 Regional Wetland Program Development Grants		\$71,815
66.514 Science To Achieve Results (STAR) Fellowship Program		\$12,407
66.516 P3 Award: National Student Design Competition for Sustainability		\$8,196
66.605 Performance Partnership Grants		\$5,533,950

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

		Amount to Subrecipients	Expenditures
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		\$45,676
66.708	Pollution Prevention Grants Program		\$162,783
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies eXtension Foundation SA-2017-67		\$36,609
	eXtension Foundation SA-2019-61		\$4,380
66.717	Source Reduction Assistance		\$1,285
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		\$1,880,518
66.804	Underground Storage Tank Prevention, Detection and Compliance Program		\$383,499
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program		\$564,353
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements		\$186,217
66.817	State and Tribal Response Program Grants		\$713,771
		TOTAL	\$12,485,305
	Clean Water State Revolving Fund Cluster		
66.458	Capitalization Grants for Clean Water State Revolving Funds		\$283,924,110
		TOTAL	\$283,924,110
	Drinking Water State Revolving Fund Cluster		
66.468	Capitalization Grants for Drinking Water State Revolving Funds		\$171,589,933
		TOTAL	\$171,589,933
	ENVIRONMENTAL PROTECTION AGENCY TOTAL		\$467,999,348
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964		\$225,960
		TOTAL	\$225,960
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL		\$225,960
	EXECUTIVE OFFICE OF THE PRESIDENT		
95.001	High Intensity Drug Trafficking Areas Program		\$25,217
		TOTAL	\$25,217
	EXECUTIVE OFFICE OF THE PRESIDENT TOTAL		\$25,217
	GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property		(\$48,097)
39.011	Election Reform Payments		\$131,174
		TOTAL	\$83,077
	GENERAL SERVICES ADMINISTRATION TOTAL		\$83,077

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.301 Museums for America		\$9,218
45.310 Grants to States		\$1,123,522
45.312 National Leadership Grants	\$20,196	\$124,433
45.313 Laura Bush 21st Century Librarian Program		\$47,774
	TOTAL	\$1,304,947
		\$1,304,947
INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL		
		\$1,304,947
LIBRARY OF CONGRESS		
42.UXX Miscellaneous Non-Major Grants		\$9,422
		\$9,422
LIBRARY OF CONGRESS TOTAL		
		\$9,422
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001 Science		\$165,278
Space Science Institute 950		\$1,729
University of Washington UWSC8987		\$34,420
43.008 Education		
Sciencenter 2016-01-UMT/NNX16AM22G		\$9,928
		\$211,355
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		
		\$211,355
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003 National Historical Publications and Records Grants		\$14,621
		\$14,621
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL		
		\$14,621
NATIONAL ENDOWMENT FOR THE ARTS		
45.024 Promotion of the Arts Grants to Organizations and Individuals		\$29,351
Arts Midwest 00019995		\$546
Arts Midwest 00021928		\$24,992
45.025 Promotion of the Arts Partnership Agreements		\$741,756
	\$372,152	\$741,756
	TOTAL	\$796,645
		\$796,645
NATIONAL ENDOWMENT FOR THE ARTS TOTAL		
		\$796,645

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

	Amount to Subrecipients	Expenditures
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.129 Promotion of the Humanities Federal/State Partnership		
Humanities Montana 17R064		\$850
Humanities Montana 17R025		\$6,434
45.149 Promotion of the Humanities Division of Preservation and Access		\$93,394
Idaho State Historical Society		\$116,134
45.163 Promotion of the Humanities Professional Development		\$96,849
	TOTAL	\$313,661
		\$313,661
NATIONAL SCIENCE FOUNDATION		
47.076 Education and Human Resources		
Salish Kootenai College 1102362		\$382
	TOTAL	\$382
		\$382
PEACE CORPS		
45.400 Peace Corps' Global Health and PEPFAR Initiative Program		\$10,130
	TOTAL	\$10,130
		\$10,130
SMALL BUSINESS ADMINISTRATION		
59.037 Small Business Development Centers		\$718,389
59.058 Federal and State Technology Partnership Program		\$56,143
59.061 State Trade Expansion		\$402,931
	TOTAL	\$1,177,463
		\$1,177,463
SOCIAL SECURITY ADMINISTRATION		
96.008 Social Security - Work Incentives Planning and Assistance Program	\$64,927	\$193,780
	TOTAL	\$193,780
		\$193,780
Disability Insurance/SSI Cluster		
96.001 Social Security Disability Insurance		\$5,825,780
	TOTAL	\$5,825,780
		\$5,825,780
SOCIAL SECURITY ADMINISTRATION TOTAL		
		\$6,019,560

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF AGRICULTURE		
Agricultural Research Service		
10.001 Agricultural Research Basic and Applied Research		\$183,198
South Dakota State University 3TN612		\$15,036
South Dakota State University 3TK612		\$9,006
Washington State University 134967-G003986		\$1,362
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care	\$42,000	\$502,913
Utah State University 200592-390		\$38,359
Economic Research Service		
10.250 Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		\$13,886
Cornell Center for Behavioral Economics in Child Nutrition 77867-10660		\$1,776
Farm Service Agency		
10.406 Farm Operating Loans		(\$2,309)
Foreign Agricultural Service		
10.610 Export Guarantee Program	\$96,442	\$218,003
10.960 Technical Agricultural Assistance		\$12,454
Rutgers, The State University of New Jersey SA#5566; PO 566945		
Forest Service		
10.652 Forestry Research	\$12,886	\$3,736,416
Hydrosolutions Inc. MSA 2017-T01		\$51,986
NatureServe MT-024-FY18 USFOR064-000		\$11,816
River Management Society 2017RMS-WSR50		(\$7,759)
10.664 Cooperative Forestry Assistance		\$10,282
10.672 Rural Development, Forestry, and Communities		\$1,809
10.680 Forest Health Protection	\$1,129	\$112,266
Salish Kootenai College 2015-38424-24031		\$6,700
10.684 International Forestry Programs	\$25,000	\$556,273
10.699 Partnership Agreements		\$147,964
Miscellaneous		
10.RD Miscellaneous Research and Development		\$268,399
University of California, Davis A17-0837-S001		\$35,612

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Illinois at Urbana-Champaign 078863-16983		\$107,138
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		\$4,248
University of California, Davis A18-1334-S001		\$9,215
University of Idaho AP1008-SB1-870848/P0057780		\$497,279
10.202 Cooperative Forestry Research		\$2,533,132
10.203 Payments to Agricultural Experiment Stations Under the Hatch Act		\$41,593
10.207 Animal Health and Disease Research		\$784,577
10.215 Sustainable Agriculture Research and Education	\$119,563	\$30,866
University of Idaho BJKP85-SB-001/PO005053		\$32,031
Utah State University 201207-554		\$82,347
Utah State University 150893-00001-174		\$50,878
Utah State University 200592-390		\$37,410
Utah State University 140867026-233	\$884	\$4,911
Utah State University 201207-587		\$36,444
Utah State University 200592-395		\$12,857
Utah State University 200592-384		\$5,495
Utah State University 200592-385		\$6,202
Utah State University 200592-447		\$1,654
Utah State University 201207-597		\$1
Utah State University 140867034-367		\$24,122
Utah State University 201207-504		\$96,528
10.217 Higher Education - Institution Challenge Grants Program		\$1,702
10.227 1994 Institutions Research Program		\$6,754
Fort Peck Community College FPCC-092018-001		\$3,778
Little Big Horn College		\$5,862
Salish Kootenai College 2016-38424-2558		\$14,821
Salish Kootenai College 2015-38424-22668		\$15,483
Salish Kootenai College 1		\$121,943
Salish Kootenai College SAA-16-MSU-001		
10.303 Integrated Programs	\$25,187	

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.304 Homeland Security Agricultural		\$29,802
Kansas State University S17045		\$44,003
10.307 Organic Agriculture Research and Extension Initiative	\$3,750	\$23,680
National Center for Appropriate Technology		\$172,480
10.309 Specialty Crop Research Initiative		\$13,687
Colorado State University G-1363-04		\$84,206
Cornell University 73999-10426		\$17,642
University of Minnesota H007082503		\$18,275
University of Tennessee 8500042739		\$1,585,524
10.310 Agriculture and Food Research Initiative (AFRI)	\$156,807	\$166,336
Colorado State University G-91600-3		(\$5,843)
Colorado State University G-91600-2		\$4,184
Kansas State University S15184		\$8,158
North Carolina State University 2015-0097-05		\$1,362
The University of North Carolina at Greensboro 20180006.1		\$213,149
University of California, Davis 201603566-08		\$383
University of Nebraska- Lincoln 25-6268-0005-004		\$334
University of Nebraska- Lincoln 25-6268-0005-004		\$24,966
University of Vermont 29034\$UB51753		\$342,510
10.312 Biomass Research and Development Initiative Competitive Grants Program (BRDI)	\$66,566	\$17,544
10.318 Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		\$463,367
10.329 Crop Protection and Pest Management Competitive Grants Program	\$104,680	\$79,093
10.330 Alfalfa and Forage Research Program		\$38,490
University of California, Davis A18-0619-S003		\$3,163,880
10.500 Cooperative Extension Service	\$34,241	\$266,054
Natural Resources Conservation Service		\$245,363
10.902 Soil and Water Conservation		\$166,064
Pheasants Forever, Inc. LPCI 18-01	\$83,647	\$75,580
Pheasants Forever, Inc. 68-3A75-16-736		\$25,629
10.903 Soil Survey		
10.912 Environmental Quality Incentives Program		

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
Risk Management Agency		
10.460 Risk Management Education Partnerships		\$51,354
Rural Business Cooperative Service		
10.350 Technical Assistance to Cooperatives		
National Association of Development Organizations 800.01		\$197,439
USDA, Office of the Chief Economist		
10.290 Agricultural Market and Economic Research		\$3,083
DEPARTMENT OF AGRICULTURE TOTAL		
		\$18,032,497
DEPARTMENT OF COMMERCE		
National Institute of Standards and Technology		
11.620 Science, Technology, Business and/or Education Outreach		\$10,000
National Oceanic and Atmospheric Administration		
11.431 Climate and Atmospheric Research		\$130,518
University Corporation for Atmospheric Research SUBSAWD000858		\$120,742
11.438 Pacific Coast Salmon Recovery Pacific Salmon Treaty Program		
Bering Sea Fishermen's Association AC-1609		\$29,004
11.472 Unallied Science Program		
North Pacific Research Board 1718B		\$45,015
North Pacific Research Board 1718A		\$14,083
DEPARTMENT OF COMMERCE TOTAL		
		\$349,362
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development		
North Carolina State University 2016-2896-04	\$494,486	\$1,238,167
Defense Logistics Agency		
12.002 Procurement Technical Assistance For Business Firms		
Big Sky Economic Development Authority SP4800-17-2-1722		\$14,224
Big Sky Economic Development Authority SP4800-18-2-1822		\$70,359

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
Department of the Air Force		
12.800 Air Force Defense Research Sciences Program		\$17,881,616
University of Minnesota A005720602	\$1,637,396	\$199,814
Department of the Army		
12.114 Collaborative Research and Development		\$68,239
West Point Military Academy		\$31,914
12.420 Military Medical Research and Development	\$290,855	\$992,708
University of California, Davis A19-0382-S001		\$6,299
12.431 Basic Scientific Research	\$131,361	\$3,873,682
Department of the Navy		
12.300 Basic and Applied Scientific Research		\$246,028
Blackmore Sensors and Analytics		\$84,980
S2 Corporation S2-5504-15-01UC		\$57,107
TPS Associates, Inc. PO MSU-7971/3002		\$3,106
Miscellaneous		
12.RD Miscellaneous Research and Development	\$46,747	\$4,477,430
Duke University 313-0873		\$47,260
Duke University SUBCONTRACT NUMBER 313-0742		\$166,813
Eastern Band of Cherokee Indians 1900163		\$16,172
Leidos PO10169067		(\$28)
Nutronics, Inc. SUBK-MSU-VDHWFS-01-100518		\$36,243
Nutronics, Inc. SUBK-MSU-NLAO-01-100518		\$45,664
Nutronics, Inc. SUBK-MSU-CORCS-01-100518		\$75,010
S2 Corporation S2-1954-16-01		\$516
S2 Corporation S2-17-0003-01		(\$149)
S2 Corporation S2-5504-16-01C		\$27,279
Smatronix 18-018PO		\$31,718
Spectral Molecular Imaging		(\$108)
Tufts University ARM212-MSU/ PO# EP0166321		\$49,187
Woods Hole Research Center WHRC-NG0461-01		\$29,950

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
Office of the Secretary of Defense		
12.630 Basic, Applied, and Advanced Research in Science and Engineering National Science Teachers Association Technology Student Association		\$22,742 \$38,507
12.632 Legacy Resource Management Program		\$137,186
		<u>\$30,347,198</u>
DEPARTMENT OF DEFENSE TOTAL		
		\$30,347,198
DEPARTMENT OF EDUCATION		
Institute of Education Sciences		
84.305 Education Research, Development and Dissemination SRI International 51-001312 University of Missouri C00064217-1		\$130,746 \$20,304
Office of Elementary and Secondary Education		
84.299 Indian Education -- Special Programs for Indian Children		\$422,661
84.367 Supporting Effective Instruction State Grants National Writing Project 09-MT02-SEED2017 ILI		(\$23)
Office of Postsecondary Education		
84.116 Fund for the Improvement of Postsecondary Education Western Interstate Commission for Higher Education		\$2,056
84.217 TRIO McNair Post-Baccalaureate Achievement		\$153,171
		<u>\$728,915</u>
DEPARTMENT OF EDUCATION TOTAL		
	\$594,057	
DEPARTMENT OF ENERGY		
81.049 Office of Science Financial Assistance Program Amethyst Research Inc. Glacigen Materials, Inc. Montana Emergent Technologies University of Wyoming DE-SC0012671 Washington State University 132345-G003797 Washington State University 134124-G003968 Yale University GR104542 (CON-80001480)		\$1,521,115 \$24,819 \$54,611 \$236,450 \$175,400 \$118,111 \$122,219 \$119,259

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
81.086 Conservation Research and Development		\$2,882,843
Kootenai Tribe of Idaho 2002-011-00-FWP-FY19		\$79,611
Kootenai Tribe of Idaho 2002-011-00-FWP-FY18		\$104,719
81.087 Renewable Energy Research and Development		\$2,320
Clemson University 2107-219-2023054		\$34,784
Michigan State University RC107739		\$140,285
Ocean Renewable Power Company		\$2,582
University of Toledo F-2019-14		\$172,914
81.089 Fossil Energy Research and Development		\$2,279,047
81.121 Nuclear Energy Research, Development and Demonstration	\$599,071	\$64,390
81.135 Advanced Research Projects Agency - Energy		
Cornell University 84185-11060		\$1,200
Miscellaneous		
81.RD Miscellaneous Research and Development		\$43
Battelle Energy Alliance DE-AC07-05ID14517		\$16,881
Sandia National Laboratories 1663302		\$35,835
Sandia National Laboratories 1922244		
DEPARTMENT OF HEALTH AND HUMAN SERVICES		\$8,189,438
Administration for Children and Families		
93.670 Child Abuse and Neglect Discretionary Activities		
Futures Without Violence 2438		\$5,437
Futures Without Violence 2756		\$31,879
Futures Without Violence 2671		\$35,179
Administration for Community Living		
93.433 ACL National Institute on Disability, Independent Living, and Rehabilitation Research	\$150,260	\$1,672,090
Institute for Rehabilitation and Research 18-MS2-017		\$17,827
Institute for Rehabilitation and Research 18-PDR-01		\$2,330
Institute for Rehabilitation and Research 19-MS2-017		\$37,115
University of Kansas FY2017-048	\$54,486	\$258,479

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.632 University Centers for Excellence in Developmental Disabilities Education, Research, and Service		\$556,500
Centers for Disease Control and Prevention		
93.136 Injury Prevention and Control Research and State and Community Based Programs	\$118,827	\$379,691
93.184 Disabilities Prevention		
Special Olympics YR 18-800-133		\$20,000
Occupational Safety and Health Program		\$101,291
93.262 Pennsylvania State University 5965-MSU-CSU-1107		\$32,196
Pennsylvania State University 5867-MSU-CSU-1107		\$37,010
University of Colorado FY18.347.004		\$2,742
93.424 NON-ACA/PPHF—Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations		
Association of Maternal & Child Health Programs 032718-36A		\$9,831
National Association of Chronic Disease Directors 1312018		\$128
National Association of Chronic Disease Directors 251-1501-1 #2702019		\$1,295
93.944 Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		
Association of University Centers on Disabilities		\$5,491
Food and Drug Administration		
93.103 Food and Drug Administration Research		\$39,041
Health Resources and Services Administration		
93.107 Area Health Education Centers		
93.110 Maternal and Child Health Federal Consolidated Programs	\$453,938	\$787,398
Utah State University PO369026-E		\$73
Utah State University PO405947-E		\$9,000
93.155 Rural Health Research Centers		
National Rural Health Association NRHA 2019		\$5,312
93.178 Nursing Workforce Diversity		(\$193)
93.301 Small Rural Hospital Improvement Grant Program	\$385,927	\$443,816
93.359 Nurse Education, Practice Quality and Retention Grants	\$201,060	\$652,892
93.504 Family to Family Health Information Centers		\$4,947
93.732 Mental and Behavioral Health Education and Training Grants		\$415,881

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.822 Health Careers Opportunity Program		\$257,072
93.884 Grants for Primary Care Training and Enhancement	\$75,683	\$455,445
93.913 Grants to States for Operation of State Offices of Rural Health		\$181,067
93.969 PPHF Geriatric Education Centers	\$158,812	\$790,741
Indian Health Service		
93.933 Demonstration Projects for Indian Health		
Blackfeet Community College 2014-01-MSU		\$4,669
Fort Peck Community College FPCC - AIHEC		\$7
93.970 Health Professions Recruitment Program for Indians		\$616,718
Miscellaneous		
93.RD Miscellaneous Research and Development	\$653,963	\$3,644,100
American Public Health Association		\$12,500
Boston Children's Hospital GENFD0001583403		\$142,915
Cell Signaling Technology K-002052		\$19
Duke University 7273 POPS V		\$10,093
ICF International 17RWSK0007		\$75,909
ICF International 18BBSK0053 (HHSN26100014)		\$58,599
National Institutes of Health		
93.113 Environmental Health	\$570,668	\$2,114,977
Meadowlark Science and Education LLC UM_ES01A1		\$30,235
Michigan State University RC107307MON		\$105,113
Scripps Research Institute 5-53234		\$65,362
University of New Mexico 3RY74 PILOT PROJECT		\$14,930
University of New Mexico 3RY74		\$68,809
93.172 Human Genome Research		
Institute for Systems Biology 2018.0008		\$33,709
Southcentral Foundation 2018-201		\$185,262
93.173 Research Related to Deafness and Communication Disorders		
MGH Institute of Health Professions 300326-01		\$74,522
MGH Institute of Health Professions 300315		\$98,104
Promilad Biopharma Inc. R41-DC017641-01		\$95,099

State of Montana
Schedule of Expenditures of Federal Awards
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Research and Development Cluster	Amount to Subrecipients	Expenditures
93.213 Research and Training in Complementary and Integrative Health Flat Earth, Inc.		\$43,417
93.242 Mental Health Research Grants University of Washington UWSC10191 (BPO28076)		\$29,196
93.273 Alcohol Research Programs		\$3,516
93.279 Drug Abuse and Addiction Research Programs Yale University GK000120 (CON-80000426)		\$1,420
93.286 Discovery and Applied Research for Technological Innovations to Improve Human Health	\$104,943	\$29,130
93.307 Minority Health and Health Disparities Research	\$325,302	\$429
93.350 National Center for Advancing Translational Sciences University of Washington UWSC 9979		\$26,076
93.351 Research Infrastructure Programs		\$195,296
93.361 Nursing Research Medical College of Wisconsin PO 1759446		\$35,187
93.393 Cancer Cause and Prevention Research University of Florida UFDSP00012150		\$842,270
93.837 Cardiovascular Diseases Research Mount Sinai School of Medicine 0255-7875-4609		\$28,328
93.838 Lung Diseases Research		\$144,131
93.846 Arthritis, Musculoskeletal and Skin Diseases Research		\$315,876
93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research		\$61,044
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders University of Washington UWSC10752/ BPO34774	\$397,566	(\$102)
93.855 Allergy and Infectious Diseases Research Yale University M17A12590-GR104248 (80001410)		\$237,732
Albert Einstein College of Medicine P0703570 (SUB NO: 31194A)		\$16,141
Emory University A156367		\$826,875
Harvard University 114487-5109468		\$1,945,114
Indiana University PO1464301		\$32,311
Intact Genomics, Inc. 18_8765MTU		\$250,683
Ohio State University UT18209		\$5,518,681
Promilad Biopharma Inc. R42AI18104		\$5,621
		\$246
		\$34,456
		\$64,509
		\$49,991
		\$2,166
		\$1,265

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
Promilid Biopharma Inc. R41AI118104		(\$14,785)
University of Connecticut KFS #5619100, 49814		\$112,080
University of Connecticut 50074		\$172,349
University of Florida UF DSP00011787		\$468
University of Kentucky PO7800004770/3200002108-19-191		\$25,620
University of Louisville Research Foundation ULRF 17-0750-01		\$90,135
University of Maryland 1600589		\$49,045
University of Notre Dame 202953MSU		\$166,769
Biomedical Research and Research Training	\$2,267,895	\$17,866,634
Board of Regents - Nevada System of Higher Education 5U54GM104944-05		\$1,174
Board of Regents - Nevada System of Higher Education 18-22QR-UMT-GP75		\$6,732
Meadowlark Science and Education LLC UM_GEN01		\$145
Meadowlark Science and Education LLC UM-OD01		\$17,314
Northwest Indian College NWIC-SA24226-MSU		\$49,388
Oklahoma State University 5-554009		\$20,424
Rutgers, The State University of New Jersey PO# 663268/ SUBAWARD #0222		\$109,394
University of Alaska Anchorage PO538440		\$15,455
University of Nevada, Las Vegas 18-22QN-MSU-05-BS		(\$848)
University of Nevada, Las Vegas GR07331 DTTG SLOVARP		\$9,311
University of Nevada, Las Vegas GR07325		\$40,416
University of Nevada, Las Vegas GR07331		\$40,443
University of Nevada, Las Vegas GR07331 UMT-06-04-PILOT		\$62,957
University of Nevada, Las Vegas GR:07331		\$206,674
University of New Mexico 3REV9		\$56,247
University of Southern California 74478900		(\$5,326)
University of Utah PO U000148335 / 10047369-S2		\$44,436
University of Utah 10047369-S2		\$19,706
University of Washington UWSC9319		\$113,104
University of Wisconsin 766K942		(\$11,814)
Child Health and Human Development Extramural Research	\$1,653	\$1,178,395
University of Arkansas for Medical Sciences UAMS-MONTANA	\$17,397	\$34,690
University of Arkansas for Medical Sciences 51460 PO#G190121109		\$45,817

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.866 Aging Research	\$49,100	\$53,678
Johns Hopkins University 2003050472		\$19,218
Michigan State University RC108877UM		\$43,089
University of Washington UWSC10030/BPO26347		\$125,229
93.867 Vision Research		\$154,275
University of California, Berkeley PO #BB01134177		\$53,496
93.879 Medical Library Assistance		
Augusta University Research Institute, Inc. 32242-1		\$23,095
Baylor College of Medicine 7000000701		\$40,114
Institute for Rehabilitation and Research 18-NLM-01		(\$3,099)
Office of the Secretary		
93.001 Civil Rights and Privacy Rule Compliance Activities		\$66,500
Arrevus		
Substance Abuse and Mental Health Services Administration		
93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance	\$61,103	\$937,086
Community Connections		\$24,124
Community Impact Coalition		\$16,171
Harrison County Family Resource Network		\$16,589
Potomac Highlands Guild		\$16,272
Prestera Center		\$16,839
Westbrook Health Services		\$16,767
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$48,315,586
DEPARTMENT OF JUSTICE		
Office of Justice Programs		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		\$74,237
DEPARTMENT OF JUSTICE TOTAL		\$74,237
DEPARTMENT OF STATE		
Bureau of Educational and Cultural Affairs		
19.408 Academic Exchange Programs - Teachers		
International Research and Exchanges Board FY19-FTEA-MSU-01		\$934

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
International Research and Exchanges Board FY18-TEA-MSU-02		\$44,904
International Research and Exchanges Board FY18-TEA-MSU-01		\$148,972
19.415 Professional and Cultural Exchange Programs - Citizen Exchanges		
Institute of International Education ASPEN INSTITUTE SI IIEI 2017		\$5,506
Bureau of Near Eastern Affairs		
19.600 Bureau of Near Eastern Affairs		
Georgetown University MSU-GR205769		\$207,385
DEPARTMENT OF THE INTERIOR		
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management		\$100,756
Kautz Environmental Consultants, Inc. KAUTZ 17-18		\$36,344
Society for California Archaeology		\$11,616
15.225 Recreation and Visitor Services		\$27,214
15.228 BLM Wildland Urban Interface Community Fire Assistance		\$8,043
15.230 Invasive and Noxious Plant Management		\$17,472
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$285,253
Western Association of Fish and Wildlife Agencies		\$26,251
Wyoming Game and Fish Department 002670		\$277
15.232 Wildland Fire Research and Studies		\$171,990
Utah State University 200588-00001-294		\$13,126
15.236 Environmental Quality and Protection		\$149,141
15.238 Challenge Cost Share		\$44,264
Bureau of Reclamation		
15.530 Water Conservation Field Services (WCFS)		\$53,332
Farmer Canal Company of Gallatin County R17AP00325		
Miscellaneous		
15.RD Miscellaneous Research and Development		\$236,648
Oregon State University L0205A-A		\$172,482
PG Environmental 50002.001		\$70,257
Portland State University 100006		\$103,805
DEPARTMENT OF STATE TOTAL		\$407,701

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
National Park Service		
15.915 Technical Preservation Services		\$177,784
15.921 Rivers, Trails and Conservation Assistance		
River Management Society 2017RMS-WSR50		\$14,337
15.926 American Battlefield Protection		\$31,991
15.945 Cooperative Research and Training Programs – Resources of the National Park System	\$23,252	\$722,181
University of California, Santa Cruz A15-0116-S001-P0644054		\$6,466
University of Wyoming 1003410D-MSU		\$4,890
University of Wyoming NPS Research Center 1003410C-MSU		(\$1)
Office of Surface Mining, Reclamation and Enforcement		
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$246,133
15.255 Science and Technology Projects Related to Coal Mining and Reclamation		\$72,542
U.S. Fish and Wildlife Service		
15.605 Sport Fish Restoration		\$43,008
Wyoming Game and Fish Department 002243		\$10,005
Wyoming Game and Fish Department 002822		\$34,452
15.608 Fish and Wildlife Management Assistance		\$98,904
15.611 Wildlife Restoration and Basic Hunter Education		\$1,552,373
Idaho Department of Fish and Game IDFG-MA-20151029 SHEEP		\$122
Idaho Department of Fish and Game IDFG-MA-20151029		\$158,220
Idaho Department of Fish and Game IDFA-FY19-113		\$58,286
Idaho Department of Fish and Game IDFG-MA-20151029 PREY		\$5,582
Idaho Department of Fish and Game IDFG-MA-20151029-POP		\$8,749
Kentucky Department of Fish and Wildlife Resources PON2 660 1700001465		\$19
Michigan State University RC108133 UMT		\$25,033
Missouri Department of Conservation 377-B		\$89,914
Missouri Department of Conservation 369-B		\$155,452
State of Colorado 17-IGA-94119		\$36,452
State of North Dakota Game and Fish Department W-68-R-3		\$247,550
State of South Dakota 19CS06W008		\$38,532
State of South Dakota 19CS06W012		\$114,989

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Missouri C00052412-1		\$12,960
University of Missouri C00047758-1		\$24,705
15.615 Cooperative Endangered Species Conservation Fund		\$8,755
15.631 Partners for Fish and Wildlife		\$30,642
15.634 State Wildlife Grants	\$9,750	\$53,450
15.637 Migratory Bird Joint Ventures		\$197,554
15.650 Research Grants (Generic)		\$55,141
15.655 Migratory Bird Monitoring, Assessment and Conservation		\$42,561
15.657 Endangered Species Conservation – Recovery Implementation Funds		\$385,313
State of South Dakota 19-0600-048		\$7,561
15.660 Endangered Species - Candidate Conservation Action Funds		\$336
15.663 National Fish and Wildlife Foundation		
National Fish and Wildlife Foundation 0103.13.038862		\$14,025
The Nature Conservancy MTF0070117_NK		\$2,324
15.665 National Wetlands Inventory		\$55,562
15.670 Adaptive Science		\$7,966
Western Association of Fish and Wildlife Agencies SBSI-C-17-08		\$25,567
15.678 Cooperative Ecosystem Studies Units		\$236,977
U.S. Geological Survey		
15.805 Assistance to State Water Resources Research Institutes	\$8,524	\$155,991
15.807 Earthquake Hazards Program Assistance		\$1
15.808 U.S. Geological Survey Research and Data Collection	\$13,750	\$386,392
Mountain Studies Institute 2018-001		\$6,650
15.810 National Cooperative Geologic Mapping		\$235,282
15.812 Cooperative Research Units		\$142,505
15.815 National Land Remote Sensing Education Outreach and Research		
AmericaView Inc AV18-MT-01		\$15,553
15.820 National and Regional Climate Adaptation Science Centers		
Colorado State University G-50003-1		\$11,461
Colorado State University G-52123-01		\$16,457
University of Washington UWSC10097/BP#27133		(\$3,214)

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Washington UWSC10097/BP033702		\$19,355
University of Washington UWSC10097/BPO33701		\$24,969
15.980 National Ground-Water Monitoring Network		\$22,791
DEPARTMENT OF THE INTERIOR TOTAL		\$7,677,828
DEPARTMENT OF TRANSPORTATION		
Federal Aviation Administration		
20.109 Air Transportation Centers of Excellence		\$107,345
Federal Highway Administration		
20.200 Highway Research and Development Program	\$980,984	\$1,894,725
California Department of Transportation 65A0604		\$57,722
California Department of Transportation 65A0550		\$18,155
California Department of Transportation 65A0614		\$51,488
California Department of Transportation 65A0606		\$57,229
California State University, Long Beach SG199416100		\$25,242
Idaho Department of Transportation 2016-01		\$8,958
Maine Department of Transportation 017582.18		(\$11)
Minnesota Department of Transportation 1003322 WORK ORDER NO. 2		\$12
Minnesota Department of Transportation 1003322 WORK ORDER NO. 4		\$21,380
Minnesota Department of Transportation 1003322 WO 3		\$30,996
Nevada Department of Transportation P701-18-803 TASK 01		\$52,879
South Dakota Department of Transportation 311280 SD2016-03		\$14,251
Transportation Research Board HR 20-122 SUB0001256	\$48,031	\$139,972
Washington State Department of Transportation T6737 TASK 12		\$31,339
Washington State Department of Transportation T6737 TASK 11		\$28,892
20.205 Highway Planning and Construction		\$1,024,438
Center for Large Landscape Conservation		\$7,695
Maryland Department of Transportation P01814 X-1	\$7,840	\$70,459
Minnesota Department of Transportation 1002306	\$43,251	\$181,407
Federal Transit Administration		
20.514 Public Transportation Research, Technical Assistance, and Training		
ICF International 19SSSK0091		\$9,337

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
National Highway Traffic Safety Administration		
20.600 State and Community Highway Safety		
North Dakota Department of Transportation 12181527		\$15,205
North Dakota Department of Transportation 12180620		\$9,000
20.614 National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		\$15,884
20.616 National Priority Safety Programs		
Washington Traffic Safety Commission		\$61,178
Washington Traffic Safety Commission 2019-AG-2784		\$66,169
Yale University GK000707 (CON 80000657)		\$3,603
Office of the Secretary		
20.701 University Transportation Centers Program	\$632,896	\$1,190,688
University of Alaska Fairbanks UAF 14-0098 FP42825		\$6,654
		\$5,202,291
DEPARTMENT OF TREASURY		
Community Development Financial Institutions		
21.020 Community Development Financial Institutions Program		\$25,499
		\$25,499
		DEPARTMENT OF TRANSPORTATION TOTAL
		DEPARTMENT OF TREASURY TOTAL
		DEPARTMENT OF VETERANS AFFAIRS TOTAL
DEPARTMENT OF VETERANS AFFAIRS		
VA Health Administration Center		
64.054 Research and Development		\$215,145
		\$215,145
ENVIRONMENTAL PROTECTION AGENCY		
66.202 Congressionally Mandated Projects		
Idaho Department of Environmental Quality 5574		\$54,232
Idaho Department of Environmental Quality K196		\$57,048
66.454 Water Quality Management Planning		
Clark Fork Coalition 00856418		\$19,561

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
66.461 Regional Wetland Program Development Grants		\$228,091
University of Wyoming 1004254-UM		\$15,882
66.466 Chesapeake Bay Program		\$34,427
National Fish and Wildlife Foundation 0602.18.062653		
66.509 Science To Achieve Results (STAR) Research Program		\$10,589
Little Big Horn College MSU-LBHC		\$13,125
University of New Mexico 3RAW5 / 83615701		
66.510 Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development		
Pegasus Technical Services #MONTS-18-001		\$36,520
66.716 Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		\$23,133
66.951 Environmental Education Grants		
Arizona State University ASUB00000207		\$804
Miscellaneous		
66.RD Miscellaneous Research and Development		\$2,547
Pegasus Technical Services Inc. MONTT-18-001		\$4,585
Pegasus Technical Services Inc. MONTT-19-001		
ENVIRONMENTAL PROTECTION AGENCY TOTAL		\$500,544
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.312 National Leadership Grants		\$116,985
45.313 Laura Bush 21st Century Librarian Program		\$63,449
INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL		\$180,434
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001 Science		
Arizona State University 16-005	\$424,872	\$3,220,623
Bay Area Environmental Research Institute ELA_NEX_103018		\$54,219
California Institute of Technology 1587131		\$20,478
Dartmouth College R1148		\$16,994
Dartmouth College R1060		\$2,780
		\$155,225

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
Georgia Institute of Technology RH809-03		\$702,103
Lockheed Martin Corporation PO 4103399182		\$10,289
Lockheed Martin Corporation 8100002702		\$310,294
Princeton University SUB0000148		\$20,124
SETI Institute SC 3118		\$28,138
Smithsonian Astrophysical Observatory SV9-89001		\$109,326
Smithsonian Astrophysical Observatory GO2-13126C		\$6,750
Smithsonian Astrophysical Observatory GO7-18086A		\$12,305
Smithsonian Astrophysical Observatory GO4-15098B		\$16,304
Smithsonian Astrophysical Observatory GO8-19069X		\$16,702
Smithsonian Astrophysical Observatory GO5-16091B		\$40,480
Smithsonian Astrophysical Observatory SV7-77003		\$61,934
Smithsonian Astrophysical Observatory G09-20094X		\$2,935
Southwest Research Institute H99053CO		\$9,288
Southwest Research Institute K99081KJ		\$60,624
Space Telescope Science Institute HST-GO-12584.006A		(\$70)
Space Telescope Science Institute HST-GO-14047.005-A		\$7,078
Space Telescope Science Institute HST-GO-13943.007-A		\$21,110
Space Telescope Science Institute HST-GO-14251.004-A		\$38,171
Stone Aerospace/PSC, Inc.		\$4,636
Stottler Henke Associates, Inc. EPS-MAESTRO1-STOTTLERHENKE-MSU		\$3,013
Stottler Henke Associates, Inc. DIS-MAESTRO1-STOTTLERHENKE-MO		\$36,730
Sustainable Bioproducts NASA STTR		\$22,825
Universities Space Research Association 04555-036		\$3,600
University of Alaska Fairbanks UAF 18-0082		\$66,798
University of California, Berkeley SA1868-26308PG; BB00090555		\$10,027
University of California, Irvine 2016-3348		\$59,860
University of Colorado Denver 1552610 / NNA15BB02A		\$83,019
University of Maryland 3TB432		\$12,669
University of Southern California 55747174		(\$153)
University of Washington UWSC8879/BPO13182		\$113,582

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Wisconsin 756K954		\$4,586
Wildlife Conservation Society SERDP110515-217		\$157,676
43.008 Education	\$18,711	\$1,611,399
University Corporation For Atmospheric Research SUBAWED000758		\$29,933
43.009 Cross Agency Support		\$1,722
43.012 Space Technology	\$1,118	\$274,636
Miscellaneous		
43.RD Miscellaneous Research and Development		
California Institute of Technology 1422120		\$63,441
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		
		\$7,504,203
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.129 Promotion of the Humanities Federal/State Partnership		
Humanities Montana 18R045		\$5,150
45.161 Promotion of the Humanities Research		\$2,900
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		
		\$8,050
NATIONAL SCIENCE FOUNDATION		
47.041 Engineering Grants	\$23,399	\$2,191,029
Case Western Reserve University RES514053		\$35,516
Yale University GR102667 (CON-8000127)		\$32,158
47.049 Mathematical and Physical Sciences		\$2,215,536
Association of Universities for Research in Astronomy N87463C		\$174,422
S2 Corporation S2-1330880-13-03		\$67,553
University of Wisconsin-Milwaukee 153405537		\$64,650
47.050 Geosciences	\$237,419	\$2,383,417
George Washington University 14-S17 (PLR-1304555)		\$9,780
George Washington University 14-S17		\$10,112
Lehigh University/Global Village 543851-78002		\$3,434
South Dakota School of Mines MSU 17-22		\$14,516
University of Colorado 1555338-PO 1000856931		\$16,980
University of Colorado Denver 1555337/PO#1000855308		\$157,782

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Hawaii at Manoa MA 1391		\$24,450
University of Hawaii at Manoa MA130029/MA1131		\$2,006
University of Kansas FY2018-050		\$32,064
University of Tennessee A17-0124-S001		\$4,130
Woods Hole Oceanographic Institution A101357		\$68,932
47.070 Computer and Information Science and Engineering	\$14,412	\$759,013
University of North Texas GF30041-1		\$16,954
47.074 Biological Sciences	\$142,704	\$4,544,760
Arizona State University 18-450		\$39,141
Cary Institute of Ecosystem Studies 3340-200201873		\$10,486
Washington State University 118996_G003357		\$63,284
47.075 Social, Behavioral, and Economic Sciences	\$115,861	\$670,622
Ohio State University 60059425, PO RF01500712		\$8,748
47.076 Education and Human Resources	\$45,312	\$3,430,009
Aaniih Nakoda College MSU-3753/01		\$81,722
Chief Dull Knife College 1361522		\$8,490
Colorado State University 96702-5		\$77,297
Mathematical Association of America MAA 3-8-710-891		\$121,697
Michigan State University RC104101MONTANA		\$31,929
Salish Kootenai College MSUN-18-1		\$2,246
Salish Kootenai College HRD-1262779		\$13,552
University of San Diego		\$1,988
47.078 Polar Programs		\$41,912
47.079 Office of International Science and Engineering		\$122,555
47.080 Office of Cyberinfrastructure		\$545,668
47.083 Office of Integrative Activities	\$1,091,091	\$3,672,053
South Dakota School of Mines SDSMT-MSU 18-04		\$398,292
Trustees of Dartmouth College R896/R897/1632738		\$237,512
University of Alaska		\$5,508
University of Southern California 87383750/PO#10558532		\$22,088
NATIONAL SCIENCE FOUNDATION TOTAL		\$22,435,993

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Research and Development Cluster	Amount to Subrecipients	Expenditures
SOCIAL SECURITY ADMINISTRATION		
96.007 Social Security Research and Demonstration University of Wisconsin-Madison 851K233		\$42,712
	SOCIAL SECURITY ADMINISTRATION TOTAL	\$42,712
	RESEARCH AND DEVELOPMENT CLUSTER TOTAL	\$150,237,633
	SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL	\$3,974,165,284

The accompanying notes are an integral part of this schedule.

**STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the state of Montana under programs of the federal government for the fiscal year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (referred to as the "Uniform Guidance"), and where applicable, Office of Management and Budget Circular A-133 requirements.

Because this schedule presents only a selected portion of the operations of the state of Montana, it is not intended to, and does not present, the financial positions, change in net assets, or, where applicable, its cash flows for the fiscal year ended June 30, 2019.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are generally recorded in the accounting period in which the liability is incurred. However, there are some payments, such as compensated absences, that are only recorded when the payment is due.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Montana University System uses full accrual accounting to report campus federal expenditure activity. The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantee Programs (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented using the basis of accounting described in each note. The Books for the Blind and Physically Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of Federal Awards but is provided as additional information regarding the types of donations received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States. During fiscal year 2019, Montana distributed \$1,563,112 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$13,773,898 in commodities in fiscal year 2019. The value at June 30, 2019 of commodities stored at the state's warehouse is \$3,724,894, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities Research Program (CFDA #93.307) includes endowment funds of \$9,375,000, along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2019. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2019, Montana received 207,800 vaccine doses valued at \$11,711,263.

Note 2. Loan and Loan Guarantee Programs

The following loan and loan guarantee programs are reported on the Schedule of Expenditures of Federal Awards at their July 1, 2018 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2019:

CFDA#	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2019 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 294,644,540
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 169,316,440
	Total State Revolving Loan Programs	\$ 463,960,980

CFDA#	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2019 Ending Balance
	University Loans	
84.038	Federal Perkins Loan Program_Federal Capital Contributions	\$28,083,702
93.264	Nurse Faculty Loan Program (NFLP)	\$8,630
93.364	Nursing Student Loans	\$2,593,214
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$195,156
	Total Student Financial Assistance Programs	\$30,880,702

Perkins Loan Programs

Under the Perkins Loan Extension Act of 2015, universities participating in this program are no longer permitted to make Perkins Loan disbursements after June 30, 2018. Institutions may choose to continue servicing their existing Perkins Loans until such time the institution's outstanding loans have been paid in full or otherwise retired. Both Montana State University and the University of Montana have chosen to continue to service their current loans.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) consists of two separate awards which are reported on the Schedule of Expenditures of Federal Awards at their June 30, 2019 ending loan balances. The amount of loans outstanding as of June 30, 2019 is \$304,005 for award number 05-19-02445 and \$2,937,992 for award number 05-79-73005.

The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Title IX SSED Revolving Loan Fund		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2019		\$ 324,918
Cash & Investments FYE 2019		\$ 103,258
FY 2019 Admin paid out of RLF Income		\$ -
Unpaid Principal of loans written of during FY		\$ -
		\$ 428,176
Federal Percentage		71%
Federal Share of Revolving Loan Fund		\$ 304,005

Award Number: 05-79-73005		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Economic Adjustment Assistance		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2019		\$ 4,467,703
Cash & Investments FYE 2019		\$ 1,371,384
FY 2019 Admin paid out of RLF Income		\$ 36,898
Unpaid Principal of loans written of during FY		\$ -
		\$ 5,875,985
Federal Percentage		50%
Federal Share of Revolving Loan Fund		\$ 2,937,992

Other Federal Loans

The following loans, originally funded through federal programs, do not have any continuing federal compliance requirements imposed on the state, other than the loan repayments. These loans are not reported on the Schedule of Expenditures of Federal Awards:

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2019. The amount of the loan outstanding as of June 30, 2019 is \$5,505,128.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S. Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is \$2,990,129, and reimbursable interest during construction is \$281,857. As of June 30, 2019, the loan outstanding is \$1,779,026, and reimbursable interest during construction is \$166,445.

Note 3. Type A Federal Programs

The state of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2019 will be issued by March 31, 2020.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2019.

Note 4. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.UXX or **.RD. Also refer to Note 13.

Note 5. Program Clusters

As defined by 2 CFR section 200.17, a cluster of programs is a grouping of closely related programs that share common compliance requirements. Except for the Student Financial Assistance Cluster, clusters of programs are presented on the Schedule of Expenditures of Federal Awards either within their respective federal agency (for non-research and development programs) or by federal agency and major subdivision (for research and development programs).

Student Financial Assistance Cluster

Amounts reported for the Student Financial Assistance Cluster include programs administered by both the Department of Education and the Department of Health and Human Services. These clusters are shown separately, within their respective federal agencies, on the Schedule of Expenditures of Federal Awards.

The combined Student Financial Assistance Cluster includes the following programs:

CFDA #	Student Financial Assistance Cluster	FY 19 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	\$1,530,372
84.033	Federal Work-Study Program	\$2,118,635
84.038	Federal Perkins Loan Program_Federal Capital Contributions	\$33,380,106
84.063	Federal Pell Grant Program	\$44,706,517
84.268	Federal Direct Student Loans	\$166,350,722
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	\$7,706
93.264	Nurse Faculty Loan Program (NFLP)	\$11,744
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$235,984
93.364	Nursing Student Loans	\$2,990,983
	Total Student Financial Assistance Cluster	\$251,332,769

Note 6. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function.

Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or

methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 7. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by the state, which is determined to be 22.47% of the original acquisition cost of the property.

Property received under CFDA #81.UXX, Miscellaneous Non-major Grants, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2019. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 19 Amount	FY 19 Ending Inventory
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	(\$5,123)	\$119,934
10.500	Cooperative Extension Service	\$0	\$3,039
10.664	Cooperative Forestry Assistance	(\$57,223)	\$4,480,061
10.UXX	Miscellaneous – Non-major Grants	\$0	\$131,341
15.UXX	Miscellaneous - Non-major Grants	\$3,420	\$3,420
39.003	Donation of Federal Surplus Personal Property	(\$48,097)	\$105,615
81.UXX	Miscellaneous Non-major Grants	(\$545)	\$4,605
43.UXX	Miscellaneous – Non-major Grants	\$0	\$640,395
47.UXX	Miscellaneous – Non-major Grants	(\$32,672)	\$119,251

Note 8. Department of Defense Firefighting Property

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 22.47% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2019:

CFDA #	Program	FY 19 Amount	FY 19 Ending Inventory
12.UXX	Miscellaneous – Non-major Grants	\$581,375	\$3,035,787

Note 9. Books for the Blind and Physically Handicapped

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Books for the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2019 was \$895,905.

Since this program is considered a federal “use of equipment” agreement, the accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 10. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	\$ 99,152,095
Federal UI Expenditures	<u>18,025,746</u>
Total	\$117,177,841

Note 11. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 12. Subgrants to Non-State Agencies

Federal assistance transferred from a Montana state agency or university to a non-state agency, such as a city, county, tribal government, or nonprofit organization, is identified in the Amount to Subrecipients column shown in the Schedule of Expenditures of Federal Awards. These amounts are included in the expenditure totals shown on the report.

The Amounts to Subrecipients does not include federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency or university. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency or university, is shown below:

CFDA #	Federal Program	Amount to Subrecipients
Non Research and Development		
84.048	Career and Technical Education -- Basic Grants to States	\$2,555,753
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	\$25,024
84.419	Preschool Development Grants	\$374,547
93.262	Occupational Safety and Health Program	\$3,904
	Total - Non Research and Development	\$2,959,228
Research and Development Cluster		
93.778	Medical Assistance Program	\$67,660
93.859	Biomedical Research and Research Training	\$63,789
	Total Research and Development Cluster	\$131,449

Note 13. Federal Awards not having a CFDA Number

The following schedules contain contract or grant numbers associated with awards that did not have a CFDA number and were assigned either a **.UXX or **.RD number in the Schedule of Expenditures of Federal Awards. Not all **.UXX or **.RD awards reported on the SEFA had a grant or contract number. Also refer to Note 4.

FY18 FINANCIAL SECTION

FY18 FINANCIAL SECTION

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LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2018, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements, and have issued our report thereon dated December 21, 2018. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the state of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Montana's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below for the financial reporting of the Board of Investment's Enterprise Fund Economic Development Bond activity to be a material weakness.

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate Statement of Cash Flows financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the Economic Development Bonds major fund and the portion of the Business-Type Activities attributed to this activity.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the investment note disclosures in Note 3, as compiled by the Department of Administration State Financial Services Division.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans. The Montana Constitution and state law require all retirement systems to be actuarially sound. The Highway Patrol Officers' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Public Employees' Retirement System—Defined Benefit Retirement Plan were not actuarially sound at June 30, 2018, because they amortize in 40 years, 72 years, and 38 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law.

The Teachers' Retirement Board (Board) administers one defined-benefit retirement plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana. The Montana Constitution requires all retirement systems to be actuarially sound. The retirement system is not actuarially sound at June 30,

2018, because it amortizes in 31 years. The maximum allowable amortization period is 30 years, as defined by Board policy.

State of Montana's Response to Findings

The state of Montana's response to the findings identified in this report are described in the separately issued Board of Investment audit report (18-04A), Public Employees' Retirement Administration audit report (18-08A), Teachers' Retirement System audit report (18-09A), and on page B-1 of this report. The state of Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the state of Montana's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying 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, 2018, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

- ◆ Statement of Net Position
- ◆ Statement of Activities
- ◆ Balance Sheet – Governmental Funds
- ◆ Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
- ◆ 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 Fund Net Position – Proprietary Funds
- ◆ Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
- ◆ Statement of Cash Flows – Proprietary Funds
- ◆ Statement of Fiduciary Net Position – Fiduciary Funds
- ◆ Statement of Changes in Fiduciary Net Position – Fiduciary Funds

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 University (MSU) component units and the

University of Montana (UM) component units, which represents 16.37 percent, 42.63 percent, and 18.78 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of 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 from material misstatement. The financial statements of the MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the state of Montana’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana’s internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Unmodified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	Unmodified

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2B and Note 7 to the financial statements, in fiscal year 2018, the state of Montana adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

As discussed in Note 3, in fiscal year 2018, the Montana Board of Investments elected to change its method of valuing cash equivalents, from fair value to cost. While the pool participant financial activity reflected in the state's basic financial statements are not affected by this change, the investment pool and Economic Development Bond fair value disclosures presented in Note 3 cover significantly fewer assets as a result of this change. Our opinions are not modified with respect to this matter.

As discussed in Note 19 to the financial statements, at June 30, 2018, the Highway Patrol Officers' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Public Employees' Retirement System—Defined Benefit Retirement Plan were not actuarially sound at June 30, 2018, as required by the Montana Constitution because they amortize in 40 years, 72 years, and 38 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 19 to the financial statements, at June 30, 2018, the Teachers' Retirement System is not actuarially sound at June 30, 2018, as required by the Montana Constitution because it amortizes in 31 years. The maximum allowable amortization period is 30 years, as defined by the Teachers' Retirement Board policy. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Postemployment Benefits Plan Information (OPEB), and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, 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 grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2018. 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

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2018 by \$8.9 billion compared with \$8.2 billion at the end of fiscal year 2017, representing a 7.6% increase in net position. Component units reported net position of \$2.1 billion at the end of fiscal year 2018 compared to \$1.9 billion at the end of fiscal year 2017, representing a 7.6% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2018, the State's governmental funds reported combined ending fund balances of \$4.0 billion compared with \$3.9 billion at fiscal year 2017. Of the 2018 balance, \$1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, \$2.4 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: \$1.1 billion restricted, \$1.1 billion committed, \$8.6 million assigned and \$176.6 million unassigned. This represents a \$100.1 million (2.6%) increase in total fund balance. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2018 in the amount of \$431.5 million compared with fiscal year 2017 net position of \$395.0 million. Of the 2018 business-type activity net position, \$21.4 million was reported as net investment in capital assets. Net position of \$410.1 million was in spendable form with \$12.5 million unrestricted and \$397.6 million restricted to expenditure for a specific purpose. This represents a \$34.1 million (9.1%) increase in spendable net position from the fiscal year 2017 balance of \$376.0 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by \$34.1 million, from \$193.4 million in fiscal year 2017 to \$159.3 million, a 17.6% decrease in fiscal year 2018.

Further detail relating to the State's long-term debt is provided in *notes to the financial statement's* Note 11.

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, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements*. These financial statements also include the

notes to the financial statements, which provide further detail and information related to the balances of the financial statements.

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. In other words, they follow methods that are similar to those used by most businesses, including 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 Position* and the *Statement of Activities*, as defined below.

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information related to the government's net position changes during the most recent fiscal year. All changes in net position 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. 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 activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including 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 and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions 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 Bonds Program, which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – Operations for which the State has financial accountability, but have certain independent qualities as well. In order to be considered component units, these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State's component units consist of one financing authority, one housing board, one nonprofit independent public corporation, and two universities.

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 can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted individually. The three categories of funds are as follows:

Governmental Funds – 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. 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 – 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. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas, internal service funds report activities that provide supplies and services to the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. 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 fund statements use the full accrual basis of accounting.

Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential for a full understanding of the *government-wide* and the *fund financial statements*. The *notes to the financial statements* can be found immediately following the fiduciary fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and major special revenue funds as presented in the governmental *fund financial statements*. Required supplementary information also includes pension and other post employment benefits plan information, as well as additional risk management trend data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the \$627.4 million increase (7.6%) in net position. This improvement resulted from a continued economic growth, particularly related to tax revenue, within the State. Additionally, \$245.0 million of the increase is related to the implementation of GASB Statement No. 75 (GASB 75) and the restatement of total OPEB liability.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled \$8.9 billion at the end of fiscal year 2018. Net position of the both governmental and business-type activities increased by \$590.9 million (7.5%) and \$36.5 million (9.2%), respectively. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position 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 position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position 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 position.

At the end of the current fiscal year, the State reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The negative unrestricted net position is primarily due to net pension liability. GASB Statements No. 68 and 71, related to pension liabilities and other balance sheet components, were implemented in fiscal year 2015 and are contributing factors to the negative net position. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2018	2017	2018	2017	2018
Current and other assets	\$ 5,143,823	\$ 5,262,514	\$ 549,267	\$ 582,328	\$ 5,693,090	\$ 5,844,842
Capital assets	5,991,964	6,190,693	19,400	21,627	6,011,364	6,212,320
Total assets	<u>11,135,787</u>	<u>11,453,207</u>	<u>568,667</u>	<u>603,955</u>	<u>11,704,454</u>	<u>12,057,162</u>
Deferred outflows of resources	<u>342,370</u>	<u>372,886</u>	<u>3,120</u>	<u>4,011</u>	<u>345,490</u>	<u>376,897</u>
Long-term liabilities						
Due in more than one year	2,513,940	2,279,169	27,252	23,527	2,541,192	2,302,696
Other liabilities	<u>1,055,609</u>	<u>1,029,316</u>	<u>149,298</u>	<u>152,122</u>	<u>1,204,907</u>	<u>1,181,438</u>
Total liabilities	<u>3,569,549</u>	<u>3,308,485</u>	<u>176,550</u>	<u>175,649</u>	<u>3,746,099</u>	<u>3,484,134</u>
Deferred inflows of resources	<u>55,436</u>	<u>73,544</u>	<u>229</u>	<u>831</u>	<u>55,665</u>	<u>74,375</u>
Net investment in capital assets	5,873,003	6,088,211	18,986	21,395	5,891,989	6,109,606
Restricted	2,951,964	2,998,805	367,734	397,588	3,319,698	3,396,393
Unrestricted	<u>(971,795)</u>	<u>(642,952)</u>	<u>8,288</u>	<u>12,503</u>	<u>(963,507)</u>	<u>(630,449)</u>
Total net position	<u>\$ 7,853,172</u>	<u>\$ 8,444,064</u>	<u>\$ 395,008</u>	<u>\$ 431,486</u>	<u>\$ 8,248,180</u>	<u>\$ 8,875,550</u>

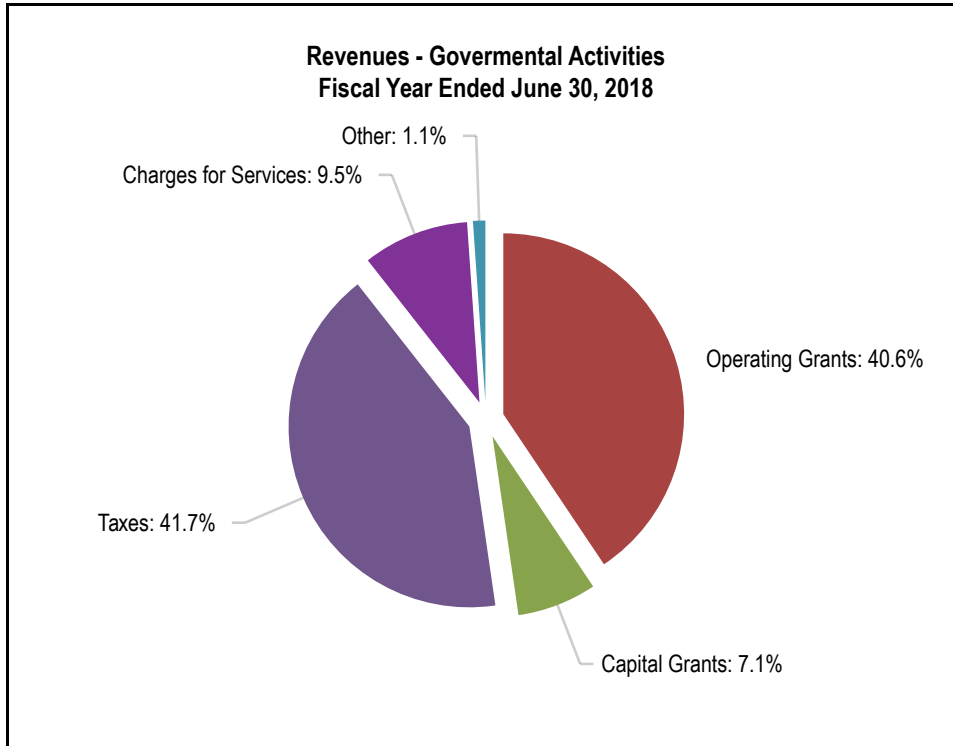
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

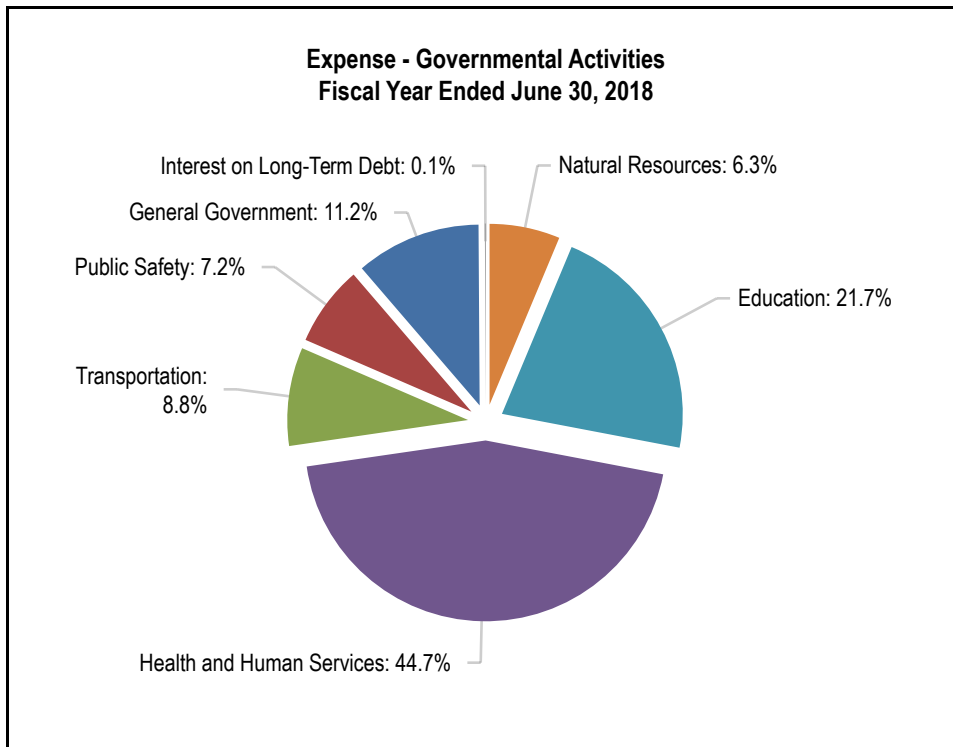
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2017	2018	2017	2018	2017	2018
Revenues:						
Program revenues						
Charges for services	\$ 571,927	\$ 594,814	\$ 389,279	\$ 404,890	\$ 961,206	\$ 999,704
Operating grants	2,506,711	2,555,898	60,219	65,885	2,566,930	2,621,783
Capital grants	434,860	447,018	604	685	435,464	447,703
General revenues						
Taxes	2,352,133	2,625,077	27,958	28,846	2,380,091	2,653,923
Other	93,077	69,101	3,708	4,019	96,785	73,120
Total revenues	<u>5,958,708</u>	<u>6,291,908</u>	<u>481,768</u>	<u>504,325</u>	<u>6,440,476</u>	<u>6,796,233</u>
Expenses:						
General government	688,798	674,329			688,798	674,329
Public safety	454,194	429,760			454,194	429,760
Transportation	484,214	527,927			484,214	527,927
Health and human service	2,668,273	2,681,151			2,668,273	2,681,151
Education	1,344,121	1,299,423			1,344,121	1,299,423
Natural resources	295,853	379,525			295,853	379,525
Interest on long-term debt	7,484	6,743			7,484	6,743
Unemployment Insurance			117,788	113,843	117,788	113,843
Liquor Stores			83,313	86,118	83,313	86,118
State Lottery			43,377	45,896	43,377	45,896
Economic Dev Bonds			1,851	2,648	1,851	2,648
Hail Insurance			1,696	576	1,696	576
Gen Govt Services			72,489	73,539	72,489	73,539
Prison Funds			8,140	9,130	8,140	9,130
MUS Group Insurance			81,051	88,912	81,051	88,912
MUS Workers Comp			2,786	2,738	2,786	2,738
Total expenses	<u>5,942,937</u>	<u>5,998,858</u>	<u>412,491</u>	<u>423,400</u>	<u>6,355,428</u>	<u>6,422,258</u>
Increase (decrease) in net position before transfers	15,771	293,050	69,277	80,925	85,048	373,975
Transfers	46,141	48,854	(46,141)	(48,854)	—	—
Change in net position	<u>61,912</u>	<u>341,904</u>	<u>23,136</u>	<u>32,071</u>	<u>85,048</u>	<u>373,975</u>
Net position, beg of year (as adjusted)	7,791,260	8,102,160	371,872	399,415	8,163,132	8,501,575
Net position, end of year	<u>\$ 7,853,172</u>	<u>\$ 8,444,064</u>	<u>\$ 395,008</u>	<u>\$ 431,486</u>	<u>\$ 8,248,180</u>	<u>\$ 8,875,550</u>

Governmental Activities

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

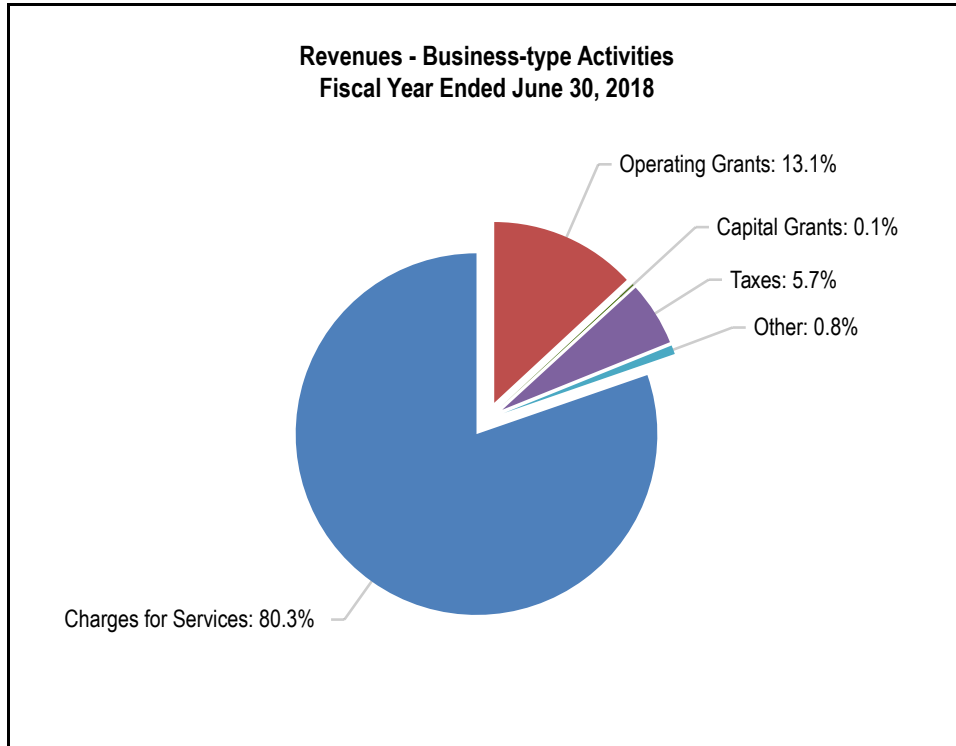


The following chart depicts expenses of the governmental activities for the fiscal year:

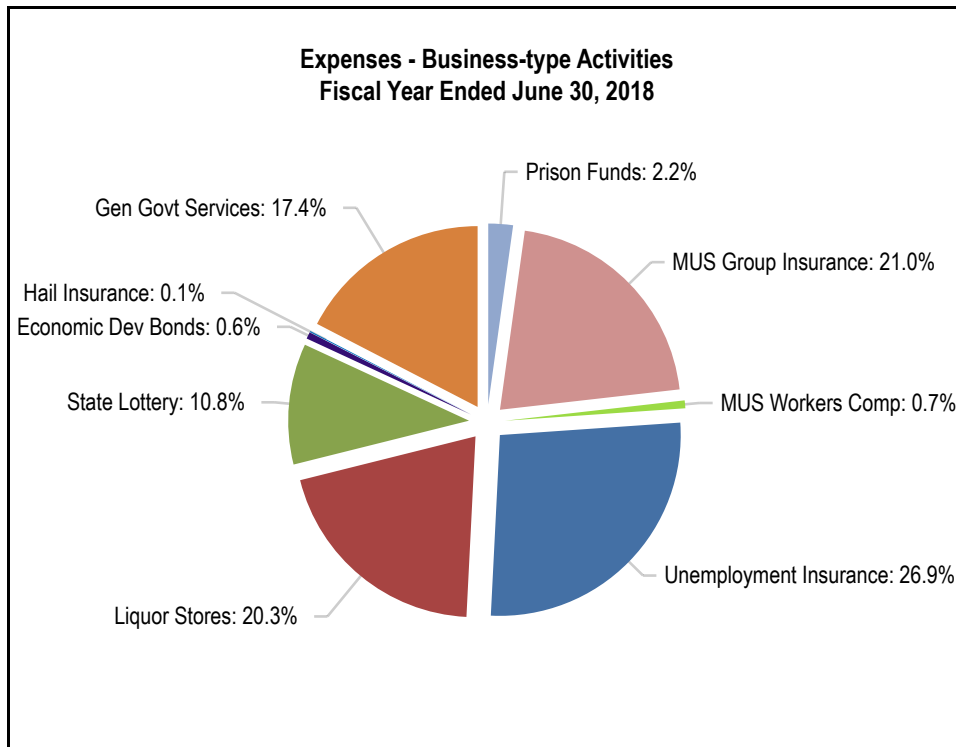


Business-type Activities

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 \$4.0 billion. Of this total, \$2.4 billion (59.4%) constitutes spendable fund balance and \$1.6 billion (40.6%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. For fiscal year 2018, the total fund balance of the General Fund was reported at approximately \$199.3 million. Of this balance \$4.6 million is non-spendable. The remaining \$194.7 million is spendable with \$8.0 million assigned and \$186.7 million unassigned. This represents 8.2% of the \$2.4 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, \$8.0 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance increased by \$132.3 million when compared to the previously reported fund balance of \$67.0 million. Changes in both expenditures and revenues are discussed in detail below. The 2017 Special Legislative Session projected \$69.4 million General Fund unassigned fund balance for fiscal year 2018, without regard to a fund balance spend down in fiscal year 2019.

General Fund Revenues – Total General Fund revenues were \$2.3 billion for fiscal year 2018 (lower than legislative estimation), a 9.7% increase from the \$2.1 billion reported in 2017 (which were also lower than legislative estimation). Fiscal year 2018 tax revenue increased by 10.2% in total over 2017, with natural resource and corporate income tax collections up 21.2% and 24.9%, respectively. Individual income tax collections increased by 10.6%. Transfers also increased \$68.6 million (92.3%) due to the 2017 Special Legislative Session activity. Other noted increases in revenues included investment earnings, contributions/premiums, and federal revenues.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2018 decreased by \$94.9 million (4.1%). This decrease in expenditures occurred in the public safety, health and human services, education and natural resource functions as follows:

- Public safety expenditures decreased by \$7.7 million (2.4%)
- Health and human services expenditures decreased by \$21.2 million (3.9%)
- Education expenditures decreased by \$50.7 million (4.8%)
- Natural resources expenditures decreased by \$6.3 million (16.8%)

Transfers out increased by \$13.8 million (30.5%) to \$59.2 million in 2018, mostly attributable to the increase in fire suppression transfers. During the 2017 Special Legislative Session, HB 2 revisions were adopted, which called for \$9.4 million cuts to judicial, law enforcement, and justice, along with \$49.2 million in cuts to health and human services, \$6.3 million cuts to education, and \$4.6 million cuts for natural resources and transportation. These cuts help to explain the majority of the decrease in General Fund expenditures across the board.

The General Fund's actual revenues and expenditures in comparison to budgeted revenues and expenditures is provided in more depth on the Budgetary Comparison Schedule within the Required Supplementary Information section of this report. The same level of detail used to report the actual revenues and expenditures is not readily available for all budgetary revenues and expenditures, which may cause some variances.

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2018, general fund appropriations that reverted to 2019 were \$9.4 million.

The Department of Administration had unspent appropriations of \$1.1 million, these were attributable to supplemental transfers, banking charges, and other operational costs.

The Department of Public Health and Human Services had unspent appropriations of \$6.0 million related to Medicaid savings and other operational costs.

The Department of Justice and the School for the Deaf and Blind had unspent appropriations of \$462.6 thousand and \$467.6 thousand respectively, related to operational transfers and education costs.

The remaining unspent appropriation of \$1.4 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund

The fund balance of the State Special Revenue Fund increased by \$19.6 million to \$1.6 billion. Revenues increased by \$66.3 million (7.3%) and expenditures increased \$31.8 million (3.2%), for fiscal year 2018. The largest increases in revenues are attributable to an increase in natural resource and fuel tax collections, along with licenses and permits. The largest increases in expenditures are attributable to general government and natural resource related expenditures. Other financing sources such as transfers in and out both increased due to the 2017 Special Legislative Session. The general increase in both fuel and natural resource taxes along with fund balance is due to the steady crude oil increase over the prior year. This resulted in higher revenues than in the previous year when including the 2017 Special Legislative Session increase in the per gallon fuel tax.

Federal Special Revenue Fund

The fund balance of the Federal Special Revenue Fund decreased by \$22.1 million (183.4%) to the balance of negative \$10.1 million. Revenues and expenditures increased by \$45.0 million (1.6%) and \$67.8 million (2.4%) respectively, for the fiscal year 2018. Revenue increases are attributable to increases in federal program revenue, expenditure increases are attributable to increases in health and human services, public safety, and natural resources related expenditures. The natural resources expenditure increase of 35% is attributable to the 2017 fire season which was the most expensive fire season in Montana's history.

Coal Severance Tax Permanent Fund

The fund balance of the Coal Severance Tax Permanent Fund decreased by \$4.3 million (0.4%) to \$1.1 billion. Revenue increased by \$2.6 million (7.0%) to \$39.3 million, primarily due to an increase in international coal exports which increased natural resource taxes \$7.5 million. Thus an increase in transfers out, which increased by \$1.2 million (2.7%), and a decrease in investment earnings of \$4.8 million helped to offset the increase in revenue and led to the decrease in fund balance.

Land Grant Permanent Fund

The fund balance of the Land Grant Permanent Fund decreased by \$15.3 million (2.1%) to \$710.2 million. Total Land Grant revenue was \$65.2 million, transfers out were \$62.1 million, and the fund purchased land for \$12.9 million, which lead to the decrease in fund balance.

Unemployment Insurance Enterprise Fund

Net position restricted for unemployment compensation increased by \$15.6 million (5.2%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2018 accompanied by an increase in the taxable wage base from \$31.4 thousand to \$32.0 thousand in 2018.

Economic Development Bonds Enterprise Fund

Net position increased by 0.5% to \$5.1 million in fiscal year 2018. Financing income revenue increased \$637.0 thousand, while expenses from interest expense increased \$665.0 thousand. Overall revenues and expenditures increased 45.2% and 43.2% which kept revenues almost even with expenditures for the year.

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, 2018, amounted to \$8.5 billion, with related accumulated depreciation of \$2.3 billion, leaving a net book value of \$6.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, intangible assets, 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 \$201.0 million or 3.4% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads

and bridges. Additional information relating to the State’s capital assets can be found in Note 5 of the *notes to the financial statements*.

Debt Administration

Montana continues to receive excellent general obligation bond ratings from Moody’s Investor Service (Aa1), Standard and Poor’s Corporation (AA), and Fitch Ratings (AA+), which remain unchanged from 2017.

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 \$98.6 million at June 30, 2017, to \$84.5 million at June 30, 2018. There is cash available, of \$7.4 million at the end of fiscal year 2018, in debt service funds to service general obligation debt.

The below table contains the ratio of general obligation debt and total State debt to personal income and to the amount of debt per capita:

	Amount <i>(in thousands)</i>	Percentage of Personal Income ⁽¹⁾	State Debt Per Capita ⁽²⁾
General obligation debt	\$ 84,460	0.14 %	\$ 65
Total State debt ⁽³⁾	\$ 164,131	0.34 %	\$ 156

⁽¹⁾ Based on personal income for calendar year 2017.
⁽²⁾ Based on estimated 2017 Montana population.
⁽³⁾ Based on total of general obligation bonds, special revenue bonds, notes payable and lease/installment purchase payable for the percentage and state debt per capita.

More detailed information regarding the State’s long-term obligations is provided in Note 11 of the notes to the financial statements and in the statistical tables.

ECONOMIC CONDITION AND OUTLOOK

Montana’s primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2018 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 1.1% in 2018, which was faster than the rate of inflation. Montana’s unemployment rate has continued to remain low and in the last year the national rate joined Montana with a rate around 4.0%. Montana added roughly 4,600 jobs in 2017, for a growth rate of 1.0%. Montana had an estimated 1,050,493 population as of July 1, 2017. The Montana labor market has total nonfarm workers of 479,800 in September 2018 as compared to 475,200 in August 2017. Montana’s real GDP growth over the 2007 to 2017 time-frame outpaced the nation with an average of roughly 1.3% per year to real GDP. A more in-depth analysis of the State’s overall financial position can be found in the transmittal letter of this report.

During to fiscal year-end 2018, a special session of the Legislature was called to order to address an anticipated General Fund deficit for the budget period ended June 30, 2019. More information, related to the financial impacts are provided in the letter of transmittal.

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2018, the Game Warden & Peace Officers’ Retirement System (GWPORS), the Highway Patrol Officers’ Retirement System (HPORS), the Public Employees’ Retirement System - Defined Benefit Retirement System (PERS-DBRP), and the Teachers’ Retirement System (TRS) were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2018.

The actuarial condition of these retirement plans is disclosed in greater detail in Note 6 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

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, Statewide Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION
JUNE 30, 2018
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,268,555	\$ 442,364	\$ 1,710,919	\$ 476,816
Receivables (net) (Note 4)	486,051	46,776	532,827	182,680
Due from primary government	—	—	—	1,183
Due from other governments	378,733	116	378,849	27,925
Due from component units	3,395	2,993	6,388	271
Internal balances	4,764	(4,764)	—	—
Inventories	28,369	4,852	33,221	4,664
Advances to component units	15,435	20,736	36,171	—
Long-term loans/notes receivable	486,893	39,365	526,258	493,184
Equity in pooled investments (Note 3)	2,266,228	14,771	2,280,999	47,127
Investments (Note 3)	246,443	11,795	258,238	2,145,398
Securities lending collateral (Note 3)	31,553	206	31,759	21,655
Net pension asset (Note 6)	35,855	—	35,855	—
Other assets	10,240	3,118	13,358	94,238
Depreciable capital assets and infrastructure, net (Note 5)	4,237,224	8,785	4,246,009	797,969
Land and nondepreciable capital assets (Note 5)	1,953,469	12,842	1,966,311	130,147
Total assets	11,453,207	603,955	12,057,162	4,423,257
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	372,886	4,011	376,897	78,926
LIABILITIES				
Accounts payable (Note 4)	744,307	23,717	768,024	105,337
Lottery prizes payable	—	3,801	3,801	—
Due to primary government	—	—	—	6,388
Due to other governments	35,892	83	35,975	104
Due to component units	1,183	—	1,183	271
Due to pension trust funds	32,014	—	32,014	—
Advances from primary government	—	—	—	36,171
Unearned revenue	22,017	2,197	24,214	99,066
Amounts held in custody for others	18,825	30	18,855	16,761
Securities lending liability (Note 3)	31,553	206	31,759	21,655
Other liabilities	5,955	1,855	7,810	22,560
Short-term debt (Note 11)	—	105,110	105,110	—
Long-term liabilities (Note 11):				
Due within one year	137,570	15,123	152,693	191,241
Due in more than one year	399,938	6,127	406,065	1,673,109
Net pension liability (Note 6)	1,830,301	16,458	1,846,759	222,792
Total OPEB liability (Note 7)	48,930	942	49,872	41,995
Total liabilities	3,308,485	175,649	3,484,134	2,437,450
DEFERRED INFLOWS OF RESOURCES (Note 4)	73,544	831	74,375	11,375

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET POSITION				
Net investment in capital assets	\$ 6,088,211	\$ 21,395	\$ 6,109,606	\$ 650,844
Restricted for:				
General government	23,409	—	23,409	—
Transportation	58,959	—	58,959	—
Natural resources	531,240	—	531,240	—
Public safety	230,682	—	230,682	—
Education	6,060	—	6,060	—
Funds held as permanent investments:				
Nonexpendable	1,608,361	—	1,608,361	412,779
Expendable	540,094	—	540,094	—
Unemployment compensation	—	314,210	314,210	—
Montana Board of Housing	—	—	—	153,518
Other purposes	—	83,378	83,378	229,878
Unrestricted	(642,952)	12,503	(630,449)	606,339
Total net position	\$ 8,444,064	\$ 431,486	\$ 8,875,550	\$ 2,053,358

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

STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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	\$ 674,329	\$ 170,447	\$ 137,295	\$ 1,205	\$ (365,382)
Public safety	429,760	175,999	21,614	107	(232,040)
Transportation	527,927	27,319	60,003	429,478	(11,127)
Health and human services	2,681,151	41,916	2,009,235	—	(630,000)
Education	1,299,423	13,972	197,030	1,119	(1,087,302)
Natural resources	379,525	165,161	130,721	15,109	(68,534)
Interest on long-term debt	6,743	—	—	—	(6,743)
Total governmental activities	5,998,858	594,814	2,555,898	447,018	(2,401,128)
Business-type activities:					
Unemployment Insurance	113,843	114,678	13,967	—	14,802
Liquor Stores	86,118	99,059	—	—	12,941
State Lottery	45,896	56,400	—	—	10,504
Economic Development Bonds	2,648	37	2,554	—	(57)
Hail Insurance	576	1,065	22	—	511
Other Service	73,539	25,386	48,198	685	730
Prison Funds	9,130	7,733	—	—	(1,397)
MUS ¹ Group Insurance	88,912	100,532	928	—	12,548
MUS ¹ Workers Compensation	2,738	—	216	—	(2,522)
Total business-type activities	423,400	404,890	65,885	685	48,060
Total primary government	\$ 6,422,258	\$ 999,704	\$ 2,621,783	\$ 447,703	\$ (2,353,068)
Component units:					
Montana Board of Housing	\$ 20,996	\$ 1,516	\$ 19,336	—	\$ (144)
Facility Finance Authority	515	613	2,208	—	2,306
Montana State Fund	227,078	166,768	—	—	(60,310)
Montana State University	584,734	280,592	176,777	5,219	(122,146)
University of Montana	447,609	189,675	150,945	191	(106,798)
Total component units	\$ 1,280,932	\$ 639,164	\$ 349,266	\$ 5,410	\$ (287,092)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net position:				
Net (expense) revenue	\$ (2,401,128)	\$ 48,060	\$ (2,353,068)	\$ (287,092)
General revenues:				
Taxes:				
Property	293,530	—	293,530	—
Fuel	259,162	—	259,162	—
Natural resource	209,776	—	209,776	—
Individual income	1,304,715	—	1,304,715	—
Corporate income	170,607	—	170,607	—
Other (Note 1)	387,287	28,846	416,133	—
Unrestricted grants and contributions	12,595	233	12,828	111
Settlements	19,794	—	19,794	—
Unrestricted investment earnings	29,241	66	29,307	99,080
Transfers from primary government	—	—	—	228,646
Gain (loss) on sale of capital assets	2,595	11	2,606	328
Miscellaneous	4,876	3,709	8,585	1,085
Contributions to term and permanent endowments	—	—	—	21,373
Transfers between primary government	48,854	(48,854)	—	—
Total general revenues, contributions, and transfers	2,743,032	(15,989)	2,727,043	350,623
Change in net position	341,904	32,071	373,975	63,531
Total net position - July 1 - as previously reported	7,853,172	395,008	8,248,180	1,907,768
Adjustments to beginning net position (Note 2)	248,988	4,407	253,395	82,059
Total net position - July 1 - as adjusted	8,102,160	399,415	8,501,575	1,989,827
Total net position - June 30	\$ 8,444,064	\$ 431,486	\$ 8,875,550	\$ 2,053,358

¹Montana University System

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2018

(amounts expressed in thousands)

	<u>SPECIAL REVENUE</u>		
	<u>GENERAL</u>	<u>STATE</u>	<u>FEDERAL</u>
ASSETS			
Cash/cash equivalents (Note 3)	\$ 242,215	\$ 762,741	\$ 57,464
Receivables (net)	285,885	120,718	53,234
Interfund loans receivable (Note 12)	72,467	60,222	—
Due from other governments	13,937	408	364,388
Due from other funds (Note 12)	28,839	10,604	2,580
Due from component units	—	1,020	11
Inventories	3,798	21,030	—
Equity in pooled investments (Note 3)	—	353,135	—
Long-term loans/notes receivable	—	458,592	3,899
Advances to other funds (Note 12)	489	39,589	—
Advances to component units	—	7,739	—
Investments (Note 3)	5,759	39,090	1,231
Securities lending collateral (Note 3)	—	4,909	—
Other assets	2,988	5,926	114
Total assets	<u>\$ 656,377</u>	<u>\$ 1,885,723</u>	<u>\$ 482,921</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 258,704	\$ 177,751	\$ 288,003
Interfund loans payable (Note 12)	—	5,215	125,499
Due to other governments	153	33,474	2,265
Due to other funds (Note 12)	2,355	15,457	1,016
Due to component units	32,031	498	668
Advances from other funds (Note 12)	—	7,660	35,596
Unearned revenue	2,838	20,776	3,054
Amounts held in custody for others	5,848	12,838	13
Securities lending liability (Note 3)	—	4,909	—
Other liabilities	1	824	—
Total liabilities	<u>301,930</u>	<u>279,402</u>	<u>456,114</u>
DEFERRED INFLOWS OF RESOURCES	<u>155,128</u>	<u>5,261</u>	<u>36,876</u>
Fund balances (Note 14):			
Nonspendable	4,614	21,876	57
Restricted	—	1,043,005	—
Committed	—	536,179	—
Assigned	7,998	—	—
Unassigned	186,707	—	(10,126)
Total fund balances	<u>199,319</u>	<u>1,601,060</u>	<u>(10,069)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 656,377</u>	<u>\$ 1,885,723</u>	<u>\$ 482,921</u>

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

PERMANENT				
	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
\$	44,507	\$ 11,188	\$ 57,101	\$ 1,175,216
	10,469	1,957	6,012	478,275
	—	—	—	132,689
	—	—	—	378,733
	6	—	1,541	43,570
	105	—	2,223	3,359
	—	—	—	24,828
	856,039	697,183	340,464	2,246,821
	—	—	24,402	486,893
	1,935	—	7,471	49,484
	7,697	—	—	15,436
	170,882	—	2,870	219,832
	11,919	9,707	4,749	31,284
	—	—	—	9,028
\$	1,103,559	\$ 720,035	\$ 446,833	\$ 5,295,448

\$	—	\$ —	2,445	\$ 726,903
	1,689	6	303	132,712
	—	—	—	35,892
	1	—	2,183	21,012
	—	—	—	33,197
	—	—	7,578	50,834
	—	—	—	26,668
	—	125	—	18,824
	11,919	9,707	4,749	31,284
	—	—	—	825
	13,609	9,838	17,258	1,078,151
	—	—	334	197,599

	561,938	710,197	334,376	1,633,058
	—	—	21,278	1,064,283
	528,012	—	72,972	1,137,163
	—	—	615	8,613
	—	—	—	176,581
	1,089,950	710,197	429,241	4,019,698
\$	1,103,559	\$ 720,035	\$ 446,833	\$ 5,295,448

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**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

JUNE 30, 2018

(amounts expressed in thousands)

Total fund balances - governmental funds	\$	4,019,698
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Amounts reported for governmental activities in the Statement of Net Position are different due to:

Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):

Depreciable capital assets and infrastructure, net	\$	4,237,224	
Land and nondepreciable capital assets		<u>1,953,469</u>	6,190,693

Deferred outflows of resources represent a consumption of net assets that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds.	372,886
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Other assets not available in the current period and therefore are not reported in the governmental funds:

Net pension asset	35,855
Long-term receivables	108

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets and long-term liabilities reported in specific areas.	129,735
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Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.	(12,228)
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Deferred inflows of resources represent an acquisition of net assets that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds.	124,056
---	---------

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):

Other long-term liabilities	(537,508)	
Net pension liability	(1,830,301)	
Total OPEB liability	<u>(48,930)</u>	<u>(2,416,739)</u>

Total net position - governmental activities	\$	<u><u>8,444,064</u></u>
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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, 2018
 (amounts expressed in thousands)

	<u>SPECIAL REVENUE</u>		
	<u>GENERAL</u>	<u>STATE</u>	<u>FEDERAL</u>
REVENUES (Note 14)			
Licenses/permits	\$ 126,637	\$ 220,898	\$ —
Taxes:			
Natural resource	86,090	82,085	—
Individual income	1,285,132	—	—
Corporate income	166,393	—	—
Property	277,127	16,403	—
Fuel	—	258,920	—
Other	237,112	146,246	1
Charges for services/fines/forfeits/settlements	35,776	109,846	18,295
Investment earnings	12,805	9,582	447
Securities lending income	1	114	—
Sale of documents/merchandise/property	334	10,000	—
Rentals/leases/royalties	7	1,234	—
Contributions/premiums	5,250	27,471	—
Grants/contracts/donations	10,856	24,274	18
Federal	21,154	9,338	2,768,657
Federal indirect cost recoveries	257	49,007	67,346
Other revenues	400	3,165	516
Total revenues	<u>2,265,331</u>	<u>968,583</u>	<u>2,855,280</u>
EXPENDITURES			
Current:			
General government	350,591	200,367	92,688
Public safety	311,184	89,213	15,824
Transportation	—	220,368	111,201
Health and human services	517,528	160,049	1,997,224
Education	1,007,891	76,112	209,620
Natural resources	31,394	235,021	92,184
Debt service:			
Principal retirement	22	634	32
Interest/fiscal charges	283	355	5
Capital outlay	1,377	56,645	328,856
Securities lending	—	65	—
Total expenditures	<u>2,220,270</u>	<u>1,038,829</u>	<u>2,847,634</u>
Excess of revenue over (under) expenditures	<u>45,061</u>	<u>(70,246)</u>	<u>7,646</u>
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	—	312	—
Insurance proceeds	—	309	—
General capital asset sale proceeds	96	1,805	31
Energy conservation loans	—	1,589	—
Transfers in (Note 12)	142,442	175,712	2,518
Transfers out (Note 12)	(59,155)	(90,735)	(32,381)
Total other financing sources (uses)	<u>83,383</u>	<u>88,992</u>	<u>(29,832)</u>
Net change in fund balances	<u>128,444</u>	<u>18,746</u>	<u>(22,186)</u>
Fund balances - July 1 - as previously reported	66,984	1,581,457	12,078
Adjustments to beginning fund balance (Note 2)	4,625	1,691	39
Fund balances - July 1 - as adjusted	<u>71,609</u>	<u>1,583,148</u>	<u>12,117</u>
Increase (decrease) in inventories	(734)	(834)	—
Fund balances - June 30	<u>\$ 199,319</u>	<u>\$ 1,601,060</u>	<u>\$ (10,069)</u>

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

PERMANENT				
	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
\$	—	\$ 1,456	\$	—
	31,304	—	9,377	208,856
	—	—	—	1,285,132
	—	—	—	166,393
	—	—	—	293,530
	—	—	—	258,920
	—	—	1,600	384,959
	—	—	10,845	174,762
	7,831	2,058	12,035	44,758
	189	154	72	530
	—	10,519	1,074	21,927
	—	50,704	—	51,945
	—	—	—	32,721
	—	126	—	35,274
	—	—	—	2,799,149
	—	—	—	116,610
	—	—	—	4,081
	<u>39,324</u>	<u>65,017</u>	<u>35,003</u>	<u>6,228,538</u>
	—	57	99	643,802
	—	—	608	416,829
	—	—	—	331,569
	—	—	372	2,675,173
	—	—	24	1,293,647
	—	4,227	477	363,303
	—	—	31,280	31,968
	—	—	7,445	8,088
	—	16,057	22,248	425,183
	<u>92</u>	<u>76</u>	<u>36</u>	<u>269</u>
	<u>92</u>	<u>20,417</u>	<u>62,589</u>	<u>6,189,831</u>
	<u>39,232</u>	<u>44,600</u>	<u>(27,586)</u>	<u>38,707</u>
	—	—	—	312
	—	—	—	309
	—	2,269	1	4,202
	—	—	—	1,589
	656	5	48,203	369,536
	<u>(44,189)</u>	<u>(62,135)</u>	<u>(30,758)</u>	<u>(319,353)</u>
	<u>(43,533)</u>	<u>(59,861)</u>	<u>17,446</u>	<u>56,595</u>
	<u>(4,301)</u>	<u>(15,261)</u>	<u>(10,140)</u>	<u>95,302</u>
	1,094,251	725,458	439,356	3,919,584
	—	—	25	6,380
	1,094,251	725,458	439,381	3,925,964
	—	—	—	(1,568)
\$	<u>1,089,950</u>	<u>\$ 710,197</u>	<u>\$ 429,241</u>	<u>\$ 4,019,698</u>

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, 2018

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	95,302
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Amounts reported for governmental activities in the Statement of Activities are different due to:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):

Capital outlay	\$	425,183	
Depreciation expense and amortization		<u>(221,414)</u>	203,769

Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.		(3,604)
---	--	---------

Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		59,056
--	--	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.		(5,511)
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Some expenses 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. Some expenditures reported in the governmental funds either increase or decrease items reported in the Statement of Net Position.		<u>(7,108)</u>
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Change in net position - governmental activities	\$	<u><u>341,904</u></u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2018
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 311,612	\$ 24,085	\$ 106,667	\$ 442,364	\$ 93,339
Receivables (net)	4,118	10,938	31,720	46,776	7,665
Interfund loans receivable (Note 12)	—	—	—	—	35
Due from other governments	22	—	94	116	—
Due from other funds (Note 12)	—	3,315	11	3,326	13
Due from component units	—	2,993	—	2,993	36
Inventories	—	—	4,852	4,852	3,541
Short-term investments (Note 3)	—	4,263	—	4,263	—
Securities lending collateral (Note 3)	—	—	206	206	270
Other current assets	—	5	80	85	1,209
Total current assets	315,752	45,599	143,630	504,981	106,108
Noncurrent assets:					
Advances to other funds (Note 12)	—	5,556	—	5,556	—
Advances to component units	—	20,736	—	20,736	—
Long-term investments (Note 3)	—	684	21,619	22,303	46,020
Long-term notes/loans receivable	662	38,692	11	39,365	—
Other long-term assets	—	1,854	1,178	3,032	—
Capital assets (Note 5):					
Land	—	—	800	800	236
Land improvements	—	—	3,830	3,830	95
Buildings/improvements	—	—	10,146	10,146	6,070
Equipment	—	4	9,542	9,546	249,614
Infrastructure	—	—	1,175	1,175	—
Construction work in progress	—	—	7,791	7,791	4,277
Intangible assets	—	—	78	78	2,086
Other capital assets	—	—	4,251	4,251	—
Less accumulated depreciation	—	(3)	(15,987)	(15,990)	(148,653)
Total capital assets	—	1	21,626	21,627	113,725
Total noncurrent assets	662	67,523	44,434	112,619	159,745
Total assets	316,414	113,122	188,064	617,600	265,853
DEFERRED OUTFLOWS OF RESOURCES					
	—	90	3,921	4,011	13,984

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 2,204	\$ 604	\$ 20,909	\$ 23,717	\$ 14,713
Lottery prizes payable	—	—	3,047	3,047	—
Interfund loans payable (Note 12)	—	—	—	—	12
Due to other governments	—	—	83	83	—
Due to other funds (Note 12)	—	—	13,645	13,645	1,718
Unearned revenue	—	—	2,197	2,197	1,474
Lease/installment purchase payable (Note 10)	—	—	213	213	3,132
Short-term debt (Note 11)	—	105,110	—	105,110	—
Bonds/notes payable - net (Note 11)	—	—	—	—	779
Amounts held in custody for others	—	—	30	30	1
Securities lending liability (Note 3)	—	—	206	206	270
Estimated insurance claims (Note 8)	—	—	13,877	13,877	22,029
Compensated absences payable (Note 11)	—	33	1,000	1,033	4,094
Total current liabilities	2,204	105,747	55,207	163,158	48,222
Noncurrent liabilities:					
Lottery prizes payable	—	—	754	754	—
Advances from other funds (Note 12)	—	—	—	—	4,206
Lease/installment purchase payable (Note 10)	—	—	18	18	9,971
Bonds/notes payable - net (Note 11)	—	—	—	—	699
Estimated insurance claims (Note 8)	—	—	5,083	5,083	10,875
Compensated absences payable (Note 11)	—	29	980	1,009	3,410
Arbitrage rebate tax payable (Note 11)	—	17	—	17	—
Net pension liability (Note 6)	—	419	16,039	16,458	64,195
Total OPEB liability (Note 7)	—	19	923	942	2,961
Other liabilities	—	1,855	—	1,855	—
Total noncurrent liabilities	—	2,339	23,797	26,136	96,317
Total liabilities	2,204	108,086	79,004	189,294	144,539
DEFERRED INFLOWS OF RESOURCES					
	—	17	814	831	1,669
NET POSITION					
Net investment in capital assets	—	1	21,394	21,395	94,723
Restricted for:					
Unemployment compensation	314,210	—	—	314,210	—
Other purposes	—	1,368	82,010	83,378	—
Unrestricted	—	3,740	8,763	12,503	38,906
Total net position	\$ 314,210	\$ 5,109	\$ 112,167	\$ 431,486	\$ 133,629

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	\$ 129	\$ 37	\$ 175,503	\$ 175,669	\$ 154,028
Investment earnings	6,958	250	1,381	8,589	760
Securities lending income	—	—	5	5	21
Financing income	—	2,304	—	2,304	—
Contributions/premiums	114,549	—	114,081	228,630	184,497
Grants/contracts/donations	7,009	—	48,079	55,088	3,657
Other operating revenues	—	—	4,302	4,302	9,284
Total operating revenues	128,645	2,591	343,351	474,587	352,247
Operating expenses:					
Personal services	—	381	16,670	17,051	61,657
Contractual services	—	168	21,104	21,272	36,048
Supplies/materials	—	10	88,405	88,415	27,379
Benefits/claims	113,259	52	139,531	252,842	180,481
Depreciation	—	1	1,037	1,038	12,706
Amortization	—	—	116	116	1,077
Utilities/rent	—	51	1,349	1,400	7,317
Communications	—	13	1,195	1,208	13,087
Travel	—	4	307	311	525
Repairs/maintenance	—	—	1,024	1,024	20,230
Grants	—	—	—	—	229
Lottery prize payments	—	—	32,551	32,551	—
Securities lending expense	—	—	2	2	14
Arbitrage rebate tax	—	(1)	—	(1)	—
Interest expense	—	1,906	24	1,930	496
Other operating expenses	584	63	3,365	4,012	7,183
Total operating expenses	113,843	2,648	306,680	423,171	368,429
Operating income (loss)	14,802	(57)	36,671	51,416	(16,182)
Nonoperating revenues (expenses):					
Tax revenues (Note 1)	—	—	28,846	28,846	—
Non-employer pension revenue	—	6	227	233	917
Insurance proceeds	—	—	—	—	230
Gain (loss) on sale of capital assets	—	—	(228)	(228)	(234)
Federal indirect cost recoveries	—	—	—	—	8,858
Increase (decrease) value of livestock	—	—	4	4	—
Total nonoperating revenues (expenses)	—	6	28,849	28,855	9,771
Income (loss) before contributions and transfers	14,802	(51)	65,520	80,271	(6,411)
Capital contributions	—	—	3,474	3,474	80
Transfers in (Note 12)	—	—	762	762	1,723
Transfers out (Note 12)	—	—	(52,436)	(52,436)	(904)
Change in net position	14,802	(51)	17,320	32,071	(5,512)
Total net position - July 1 - as previously reported	298,631	5,084	91,293	395,008	128,785
Adjustments to beginning net position (Note 2)	777	76	3,554	4,407	10,356
Total net position - July 1 - as adjusted	299,408	5,160	94,847	399,415	139,141
Total net position - June 30	\$ 314,210	\$ 5,109	\$ 112,167	\$ 431,486	\$ 133,629

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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					
Receipt from sales and service	\$ 114,838	\$ 37	\$ 286,430	\$ 401,305	\$ 337,217
Payments to suppliers for goods and services	(94)	(311)	(108,811)	(109,216)	(102,769)
Payments to employees	—	(430)	(17,545)	(17,975)	(65,947)
Grant receipts (expenses)	6,879	—	48,118	54,997	3,433
Cash payments for claims	(112,856)	—	(138,657)	(251,513)	(173,228)
Cash payments for prizes	—	—	(32,321)	(32,321)	—
Other operating revenues	339	—	4,302	4,641	18,143
Other operating payments	—	—	(3,361)	(3,361)	(7,184)
Net cash provided by (used for) operating activities	9,106	(704)	38,155	46,557	9,665
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	—	—	28,846	28,846	—
Transfer to other funds	—	—	(52,438)	(52,438)	(904)
Transfer from other funds	—	—	761	761	1,723
Proceeds from interfund loans/advances	—	—	—	—	220
Payment of interfund loans and advances	(75)	—	—	(75)	(1,727)
Payment of principal and interest on bonds and notes	—	(4,529)	(24)	(4,553)	(817)
Proceeds from nonemployer pension contributions	—	6	227	233	917
Net cash provided by (used for) noncapital financing activities	(75)	(4,523)	(22,628)	(27,226)	(588)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	230
Acquisition of capital assets	—	—	(83)	(83)	(18,634)
Proceeds from sale of capital assets	—	—	—	—	368
Net cash provided by (used for) capital and related financing activities	—	—	(83)	(83)	(18,036)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	(4,235)	(5,189)	(9,424)	(6,063)
Proceeds (loss) on sales or maturities of investments	—	10,917	—	10,917	—
Proceeds (loss) from securities lending transactions/ investments	—	—	5	5	21
Interest and dividends on investments	6,958	296	1,381	8,635	760
Payment of securities lending costs	—	—	(2)	(2)	(14)
Collections of principal and interest on loans	—	36,265	—	36,265	—
Cash payment for loans	—	(20,630)	—	(20,630)	—
Net cash provided by (used for) investing activities	6,958	22,613	(3,805)	25,766	(5,296)
Net increase (decrease) in cash and cash equivalents	15,989	17,386	11,639	45,014	(14,255)
Cash and cash equivalents, July 1	295,623	6,699	95,028	397,350	107,594
Cash and cash equivalents, June 30	\$ 311,612	\$ 24,085	\$ 106,667	\$ 442,364	\$ 93,339

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT		TOTAL	ACTIVITIES
		BONDS	NONMAJOR		INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 14,802	\$ (57)	\$ 36,671	\$ 51,416	\$ (16,182)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	—	1	1,037	1,038	12,706
Amortization	—	—	116	116	1,077
Securities lending expense	—	—	2	2	14
Investment earnings	(6,958)	(250)	(1,381)	(8,589)	(760)
Securities lending income	—	—	(5)	(5)	(21)
Financing income	—	(2,304)	—	(2,304)	—
Interest expense	—	1,906	24	1,930	496
Other revenue	775	4	—	779	8,854
Arbitrage rebate tax	—	(1)	—	(1)	—
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	565	51	(4,335)	(3,719)	(1,891)
Decr (Incr) in due from other funds	—	—	(11)	(11)	19
Decr (Incr) in due from component units	—	—	—	—	(36)
Decr (Incr) in due from other governments	16	—	39	55	1
Decr (Incr) in inventories	—	—	636	636	(584)
Decr (Incr) in other assets	—	(5)	187	182	600
Incr (Decr) in accounts payable	(94)	(2)	4,872	4,776	(4,458)
Incr (Decr) in due to other funds	—	—	101	101	(116)
Incr (Decr) in due to other governments	—	—	9	9	—
Incr (Decr) in lottery prizes payable	—	—	230	230	—
Incr (Decr) in unearned revenue	—	—	197	197	(150)
Incr (Decr) in compensated absences payable	—	—	(5)	(5)	41
Incr (Decr) in total OPEB liability	—	(68)	(152)	(220)	32
Incr (Decr) in estimated claims	—	—	(1,280)	(1,280)	(846)
Incr (Decr) in other payables	—	(4)	(181)	(185)	7,191
Incr (Decr) in net pension liability and related accounts	—	25	1,384	1,409	3,678
Net cash provided by (used for) operating activities	\$ 9,106	\$ (704)	\$ 38,155	\$ 46,557	\$ 9,665
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	\$ —	\$ —	\$ 3,474	\$ 3,474	\$ 80
Incr (Decr) in fair value of investments	—	14	294	308	862
Total noncash transactions	\$ —	\$ 14	\$ 3,768	\$ 3,782	\$ 942

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 JUNE 30, 2018
(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)	\$ 297,410	\$ 85,549	\$ 1,221,292	\$ 11,097
Receivables (net):				
Accounts receivable	28,248	—	—	607
Interest	437	33	2,180	—
Due from primary government	32,014	—	—	—
Due from other PERB plans	673	—	—	—
Long-term loans/notes receivable	16	—	—	—
Total receivables	<u>61,388</u>	<u>33</u>	<u>2,180</u>	<u>607</u>
Investments at fair value:				
Equity in pooled investments (Note 3)	11,308,857	—	12,028	—
Other investments (Note 3)	738,309	164,815	—	—
Total investments	<u>12,047,166</u>	<u>164,815</u>	<u>12,028</u>	<u>—</u>
Securities lending collateral (Note 3)	73,608	—	167	—
Capital Assets:				
Land	35	—	—	—
Buildings/improvements	186	—	—	—
Equipment	96	—	—	—
Construction work in progress	787	—	—	—
Accumulated depreciation	(242)	—	—	—
Intangible assets	6,477	—	—	—
Total capital assets	<u>7,339</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other assets	—	37,607	—	302
Total assets	<u>12,486,911</u>	<u>288,004</u>	<u>1,235,667</u>	<u>12,006</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>569</u>	<u>—</u>	<u>—</u>	<u>—</u>
LIABILITIES				
Accounts payable	38,708	1	2,145	673
Due to other PERB plans	673	—	—	—
Unearned revenue	440	—	—	—
Amounts held in custody for others	—	—	—	11,333
Securities lending liability (Note 3)	73,608	—	167	—
Compensated absences payable	600	—	—	—
Net pension liability (Note 6)	1,777	—	—	—
Total OPEB liability (Note 7)	224	—	—	—
Total liabilities	<u>116,030</u>	<u>1</u>	<u>2,312</u>	<u>12,006</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>89</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION				
Held in trust for pension benefits and other purposes	<u>\$ 12,371,361</u>	<u>\$ 288,003</u>	<u>\$ 1,233,355</u>	<u>\$ —</u>

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

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2018

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 253,455	\$ —	\$ —
Employee	240,153	—	—
Other contributions	114,862	16,743	1,516,370
Net investment earnings:			
Investment earnings	1,078,508	9,620	17,429
Administrative investment expense	(71,584)	—	—
Securities lending income	2,220	—	3
Securities lending expense	(886)	—	(1)
Charges for services	601	—	—
Other additions	886	4,993	—
Total additions	<u>1,618,215</u>	<u>31,356</u>	<u>1,533,801</u>
DEDUCTIONS			
Benefits	881,509	—	—
Refunds	24,731	—	—
Distributions	—	33,030	1,346,652
Administrative expenses:			
Personal services	4,924	—	—
Contractual services	5,287	822	—
Supplies/materials	145	—	—
Depreciation	10	—	—
Amortization	1,238	—	—
Utilities/rent	375	—	—
Communications	238	—	—
Travel	55	—	—
Repair/maintenance	26	—	—
Other operating expenses	391	—	—
Local assistance	11	—	—
Transfers to MUS-RP	198	—	—
Transfers to PERS-DCRP	2,069	—	—
Total deductions	<u>921,207</u>	<u>33,852</u>	<u>1,346,652</u>
Change in net position	<u>697,008</u>	<u>(2,496)</u>	<u>187,149</u>
Net position - July 1 - as previously reported	11,673,439	290,499	1,046,206
Adjustments to beginning net position (Note 2)	914	—	—
Net position - July 1 - as adjusted	<u>11,674,353</u>	<u>290,499</u>	<u>1,046,206</u>
Net position - June 30	<u>\$ 12,371,361</u>	<u>\$ 288,003</u>	<u>\$ 1,233,355</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana (State) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State includes funds that comprise the primary government and its component units. The component units are entities that the State is financially accountable for, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The condensed financial statements, presented in Note 18, include the financial data of the entities listed below.

Complete financial statements for each of the individual discretely presented component units may be obtained at the following addresses:

Montana Board of Housing
301 South Park, Room 240
PO Box 200528
Helena, MT 59620-0528

Montana State Fund
855 Front Street
PO Box 4759
Helena, MT 59604-4759

Facility Finance Authority
2401 Colonial Drive, 3rd Floor
PO Box 200506
Helena, MT 59620-0506

Universities and Colleges
Commissioner of Higher Education
560 North Park Ave, 4th Floor
PO Box 203201
Helena, MT 59620-3201

Montana Board of Housing (MBOH) – MBOH, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. The State of Montana has the ability to modify or approve: the budget; the rate or fee changes affecting revenues; and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of MBOH. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. MBOH issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. MBOH is audited annually by the State's Legislative Audit Division.

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The State of Montana has the ability to modify or approve: the budget; the rate or fee changes affecting revenues; and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of FFA. FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State of Montana may be pledged for the amounts so issued. FFA is attached to the State of Montana, Department of Commerce

for administrative purposes only. Individual financial reports are issued every two years and are audited by the State’s Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Section 39-71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers’ compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. This Board has full power, authority, and jurisdiction in the administration of MSF. A financial benefit/burden relationship exists between MSF and the primary government. MSF is attached to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State’s Legislative Audit Division.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. If MSF is dissolved by an act of law, the assets held by MSF are subject to the disposition provided by the Legislature enacting the dissolution with due regard given to obligations incurred and existing (Section 39-71-2322, MCA).

MSF handles the administration of the claims of Montana State Fund and State of Montana (Old Fund) including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid. Old Fund covers workers’ compensation claims that were incurred before July 1, 1990, and is reported within the governmental activities of the primary government, on the government-wide financial statements.

Universities and Colleges – The Montana Constitution, Article X, Section 9, grants governance authority over the Montana University System (MUS) to the Board of Regents (Board), with seven members appointed by the Governor and confirmed by the Senate. All state funds appropriated by the Legislature to the Board for the support of the MUS are channeled through the Office of the Commissioner of Higher Education (OCHE). The Constitution charges the Board with hiring a Commissioner of Higher Education who serves as its executive staff. OCHE is the state-level administrative organization of the MUS.

The Board has responsibility for the following institutions: Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and Great Falls College Montana State University; and University of Montana - Missoula and the units under it including Montana Technological University, University of Montana - Western and Helena College University of Montana. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State’s Legislative Audit Division.

Though the following organizations perform functions related to the MUS, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private nonprofit corporation; and (3) the Student Assistance Foundation of Montana, a private nonprofit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The state and federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund.

Fiduciary Fund Component Units

Complete financial statements for each of the individual fiduciary fund component units may be obtained at the following addresses:

Teachers’ Retirement System
1500 East Sixth Avenue
PO Box 200139
Helena, MT 59620-0139

Public Employees’ Retirement Board
100 North Park, Suite 200
PO Box 200131
Helena, MT 59620-0131

Teachers’ Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to benefit recipients of Montana's public teaching profession. The plan is funded from employer and employee contributions, investment earnings, and the State’s General Fund. The benefit payments and administrative costs of the Teachers’

Retirement System are paid from the same funding sources. The system is audited annually by the State's Legislative Audit Division. Further detail related to the Teachers' Retirement System is provided in Note 6.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The Public Employees' Retirement Board (PERB) is appointed by the Governor and administers eleven separate plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; the Firefighters' Unified Retirement Systems; the Volunteer Firefighters' Compensation Act; and the State of Montana Deferred Compensation Program (457 Plan) retirement plans. The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

PERB is responsible for the eleven separate public employee plans, including the Deferred Compensation Program and Other Post Employment Benefit plan. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Further detail related to the PERB is provided in Note 6 and its OPEB plan information is provided in Note 7.

B. Government-wide and Fund Financial Statements

The government-wide financial statements, Statement of Net Position and Statement of Activities, report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the impact of interfund activity has been removed from these statements. Governmental activities, which are normally supported by fees, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues. The State does not allocate indirect expenses to functions in the Statement of Activities.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary fund statements are reported only in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

As a general rule, material interfund revenues and expenses have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to

have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue available if it is expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences, claims, and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts for activities funded from state resources used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately an \$86.2 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a \$23.5 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the State Special Revenue Fund.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government. One specific fund is defined in statute as an Enterprise Fund, however, per GASB 34, this fund should be reported within Internal Service Funds. The respective effect on net position is approximately a \$4.4 million increase.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – To account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans and other post employment benefit plan. Plan members receive retirement, disability, death, and lump-sum payments from the fund. Further detail related to the individual plans is provided in Note 6 and Note 7.

Private-Purpose Trust Funds – 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. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation, and bonds held in trust.

Investment Trust Fund – To account for the receipt of monies and the distribution of related investment earnings to local government agencies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP).

Agency Funds – To account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds

The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Severance Tax Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

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.

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act (EDBA) programs and the Municipal Finance Consolidation Act (MFCA) programs. The EDBA programs provide qualifying Montana businesses access to tax-exempt funds through the issuance of conduit (no-commitment) debt. The MFCA programs provide low cost funds to eligible Montana governments to finance capital expenditures. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. Further detail related to cash and cash equivalents is provided in Note 3.

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided, short-term loans and notes, interest and dividends, taxes due within 60 days of fiscal year-end, and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail related to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are reported at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method generally to be appropriate for most agencies. Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, inventory balances are shown as nonspendable, indicating they do not constitute available expendable resources. Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Equity in Pooled Investments

To account for equity in pooled investments, the Montana Board of Investments (BOI) uses one internal investment pool and one external investment pool. The internal investment pool is the Consolidated Asset Pension Pool (CAPP). The external investment pool is the Trust Fund Investment Pool (TFIP). Current State agency participation in the pools is within the enterprise funds, permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The State's nine retirement funds can only participate in CAPP. Other State agencies and qualifying local governments can participate in TFIP. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to cash and cash equivalents and investments is provided in Note 3.

I. Investments

For agencies whose investment needs are not met by BOI's established investment pools, BOI provides separate investments, which are combined and reported as Separately Managed Investments (SMI). SMI participants have direct fixed income, equity and Montana mortgage and loan investments. SMI investments are reported at fair value. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Other State agencies, on a limited basis by statute, may administer other long-term investments. Most investments are reported at fair value on the Statement of Net Position. Further detail related to investments is provided in Note 3.

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds is capitalized. Interest incurred during the construction of capital assets for higher education component units is expensed. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation on the Statement of Net Position and depreciation expense on the Statement of Activities for these assets. Further detail related to capital assets is provided in Note 5.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated or amortized. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 10 to 50 years for infrastructure, 7 to 20 years for building improvements and 3 to 10 years for equipment. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate. Amortization is on a straight-line basis with estimated useful lives of 4 years for software (internally and externally generated), 30 years for land use rights, and 20 years for other intangibles.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure and internally-generated software is \$500,000. The capitalization threshold for intangible assets is \$100,000. The capitalization limit for other capital assets is \$5,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

K. Deferred Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investment, OPEB, and pension related components and are reported on the government-wide, proprietary fund, and fiduciary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue is recognized as a liability on government-wide, governmental and proprietary fund financial statements. Further detail related to deferred outflows of resources and deferred inflows of resources is provided in Note 4.

L. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported on the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund on the fund financial statements. The remaining portion of such obligations is reported on the government-wide financial statements. Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. Further detail related to leases/installment purchases payable and state debt is provided in Note 10 and Note 11, respectively.

M. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, on the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. On the governmental fund financial statements no asset or liability is recorded related to assets under capital leases. Rather, on the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditures and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to capital leases is provided in Note 10.

N. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the period they are incurred. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds payable are recorded net of any applicable premium or discount. Further detail related to long-term debt is provided in Note 11.

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2017, was 20,984 hours. For fiscal year 2018, 795 sick leave hours, 176 annual leave hours, and 1,859 excess annual leave hours were contributed to the sick leave pool, and 4,504 hours were withdrawn, leaving a balance of 19,310 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only on the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. Further detail related to compensated absences is provided in Note 11.

P. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

Q. Fund Balance/Net Position

Fund Balance

The classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is legally or contractually required to remain intact or is not in spendable form such as inventories, and, in the General Fund, long-term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State Constitution or external parties, such as the federal government, or through enabling legislation. For the purpose of determining restricted amounts, enabling legislation does not include commitments resulting from State legislation if these constraints can be removed or changed by a similar legislative action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the State's Legislature, through legislation passed into law.

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. There is not a projected spend down for fiscal year 2019, thus a related assignment of fund balance is not reported at 2018 fiscal year-end.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the General Fund. When resources meeting more than one of these spendable classifications are commingled in an account on the State's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-General Fund money be spent first whenever possible so any related available unassigned balance would be spent last.

General Fund - Fund Balance

As of June 30, 2018, the State did not maintain a stabilization fund. However, based on fiscal year 2018 unaudited General Fund revenue totals, \$45.7 million was transferred into the Budget Stabilization Reserve Fund during fiscal year 2019, in accordance with 2017 Special Session Senate Bill 9. Additionally, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance is in compliance with the minimum ending fund balance of General Fund appropriations for the biennium. Under circumstances when a deficit of this level is projected during a biennium, the Governor may direct reductions from any General Fund expenditure not exempted by Section 17-7-140, MCA, including House Bill (HB) 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of General Fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately one-third of General Fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of \$3.4 billion.

Certain investments of the Economic Development Bonds Fund are classified as restricted net position on the Statement of Fund Net Position for proprietary funds because their use is limited by applicable bond indenture agreements. Net position associated with the Unemployment Insurance Fund is also classified as restricted.

R. Property Taxes

Real property taxes are normally levied in October and are usually payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Property tax payments are recognized as deferred inflows of resources if received prior to levy or availability.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Activities, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	\$ 24,430	\$ 33,259	\$ —	\$ 20	\$ 57,709
Agriculture	—	10,774	—	—	10,774
Car Rental	3,644	1,215	—	—	4,859
Cigarette/tobacco/etc.	33,792	44,830	1,600	—	80,222
Contractors gross receipts	4,267	—	—	—	4,267
Energy tax	8,042	145	—	—	8,187
Fire protection	—	3,824	—	—	3,824
Hospital benefit assessment	4,351	—	—	—	4,351
Insurance premium	75,239	31,017	—	—	106,256
Light vehicle registration	—	4,280	—	—	4,280
Liquor tax	5,452	2,203	—	28,826	36,481
Livestock	—	9,749	—	—	9,749
Other taxes	218	932	—	—	1,150
Public service commission	—	3,994	—	—	3,994
Railroad car companies	3,629	—	—	—	3,629
Telephone license	16,068	—	—	—	16,068
Video gaming	60,324	9	—	—	60,333
Total other taxes	\$ 239,456	\$ 146,231	\$ 1,600	\$ 28,846	\$ 416,133

T. Tax Abatements

In the Montana Board of Investment's (BOI) Commercial Loan Program within the SMI, by statute, the infrastructure loan program is funded by an \$80.0 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to BOI for the loan repayment. BOI reviews each loan and, only upon verification that the entities meet the loan requirements, is the loan approved by BOI. The local government entity must pass a resolution authorizing the acceptance of the commitment agreement. BOI indemnifies the local government regarding repayment of the loan.

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is \$16.7 thousand times the number of full-time jobs created and the minimum loan size is \$250.0 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job creation. The reduction will be reflected in the user fee rate charged to the basic sector business upon BOI review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. BOI may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must annually provide payroll documentation to BOI.

Pursuant to statute, a business that is created or expanded as the result of an Infrastructure Loan is entitled to a credit against either their State individual income taxes or corporate income taxes for the portion of the fees attributable to the use of the infrastructure. The total amount of tax credit claimed may not exceed the amount of the loan. The credit may be carried forward for seven years or carried back for three years.

During the fiscal year ended June 30, 2018, basic sector business entities made total user fee payments of \$3.5 million, representing \$2.4 million of principal and \$1.1 million in interest. During the fiscal year ended June 30, 2018, a total of \$1.4 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2018 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed			
	Tax Year 2017	Tax Year 2016	Total
Corporate income tax	\$ —	\$ 706	\$ 706
Individual income tax	66	624	690
Total amount claimed	<u>\$ 66</u>	<u>\$ 1,330</u>	<u>\$ 1,396</u>

U. Irrevocable Split Interest Agreements

Irrevocable split-interest agreements are used by donors to provide resources to two or more beneficiaries, including governments. These agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. The University of Montana campuses have three irrevocable split interest agreements during the fiscal year ended June 30, 2018. Further detail related to these agreements are provided in Note 3.

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The objective of this Statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves the information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. An actuarial valuation of the total OPEB liability is required at least biennially for all plans. Montana State Fund (MSF), a discretely presented component unit of the State of Montana, has a December 31 year-end. Therefore, MSF financial information related to OPEB is reported under GASB 45 in this report. MSF will implement GASB 75 for their December 31, 2018 reporting period.

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). This Statement requires recognition of resources by a government in the following circumstances: (1) A government, acting as the intermediary, recognizes assets, liabilities to other beneficiaries, and deferred inflows of resources at the inception of the agreement when the government receives the resources pursuant to an irrevocable split-interest agreement; (2) A government recognizes assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, and deferred inflow, when the government becomes aware of the agreement and has sufficient information to measure the beneficial interest; (3) A government recognizes revenue for the amount reported as deferred inflows of resources at the termination of the irrevocable split-interest agreement or applicable reporting period.

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to (1) blending component units in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) reporting amounts previously reported as goodwill and “negative” goodwill, (3) measuring certain money market investments and participating interest earning investment contracts at amortized cost, and (4) postemployment benefits (pensions and other postemployment benefits OPEB).

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). The objective of this Statement is to provide guidance for (1) transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt (in-substance defeasance of debt), (2) prepaid insurance on debt that is extinguished, and (3) notes disclosure to financial statements for debt that is defeased in substance. In financial statements using the economic resources measurement focus, governments should (1) no longer report the debt as a liability, and (2) recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. In financial statements using the current financial resources measurement focus, governments should recognize the reacquisition price as a debt service expenditure in the period of the defeasance. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the gain or loss.

For the year ended June 30, 2018, the Montana University Systems, discretely presented component units of the State of Montana, early implemented the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 replaces the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense or an expenditure in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus or the current financial resources measurement focus,

respectively. This statement does not change the recording of interest costs incurred before the end of a construction period for financial statements prepared using the current financial resources measurement focus (modified accrual). As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported on the financial statements. The State of Montana did not early implement GASB 89 for the year ended June 30, 2018.

B. Adjustments to Beginning Net Position

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires a retroactive restatement of financial statements for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect of applying the statements is presented as a restatement of beginning net position for the earliest period restated. In accordance with GASB 75, the State of Montana restated OPEB liabilities beginning with the year ended June 30, 2018. A significant decrease of OPEB liabilities for the primary government has been reported in the amount of \$245.0 million, creating an increase to beginning net position in the same amount. A significant decrease of OPEB liabilities for the discretely presented component units of the State of Montana aggregated has been reported in the amount of \$82.0 million, creating an increase to beginning net position in the same amount.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$	3,799,431
Equity in pooled investments	\$	13,649,012
Investments	\$	3,294,000

Carrying amounts for the bank balance for cash deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

Outside of statutory requirements, the State does not maintain a statewide risk policy for cash/cash equivalents or investments, held outside of the Montana Board of Investments (BOI). The investment risk policy for State cash/cash equivalents and investments, including the Economic Development Bonds (EDB) deposits and investments managed by BOI, have been detailed below.

(1) BOI was created by the Legislature to manage the Unified Investment Program (UIP) established by the State Constitution. The UIP is comprised of involuntary participating state funds, including pensions, trusts, insurance, operating funds and by statute voluntarily participating local government funds. BOI manages the UIP pursuant to the “Prudent Expert Principle” mandated by State law, which requires an investment manager to:

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the Unified Investment Program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
3. discharge the duties solely in the interest of and for the benefit of the funds forming the Unified Investment Program.

BOI is not registered with the US Securities and Exchange Commission as an investment company. BOI’s investment program is governed by Investment Policy Statements (IPS) approved by BOI.

Currently, only the nine retirement funds participate in the Consolidated Asset Pension Pool (CAPP). The Defined Contribution Disability Plan, and the Montana State Fund (Workers’ Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and SMI participant, which provides BOI staff a broad strategic framework under which the investments are managed. The IPS’s also reflect BOI approved asset allocation ranges. By statute, local government entities can voluntarily invest in the Short Term Investment Pool (STIP). By statute, with a qualifying event, local government entities may also voluntarily invest in the Trust Funds Investment Pool (TFIP).

To facilitate management of the UIP, BOI uses a combination of one internal investment pool, two external investment pools and the SMI to meet the financial goals and expectations of state and local government agencies and entities which entrust these funds to BOI. The investment activity reported within BOI’s financial statements is included as part of the governmental, proprietary, and fiduciary fund financial statements within this report. Three pools and SMI are contained within the UIP:

- The Consolidated Pension Asset Pool (CAPP), an internal investment pool
- Trust Funds Investment Pool (TFIP), an external investment pool
- Short Term Investment Pool (STIP), an external investment pool
- Separately Managed Investments (SMI)

As of June 30, 2018, BOI separately managed investments outside of the pools on behalf of 16 participants. The investments are combined for reporting purposes in the SMI portion of the UIP. In prior years, the SMI portion of the UIP was referred to as All Other Funds (AOF). SMI participants include the State Treasurer's Cash Fund, State agency insurance reserves, and other State agencies. SMI participation is at the discretion of BOI staff for State agencies allowed to participate in the UIP.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMI.

Separately issued investment pool financial statements may be obtained by contacting:

Montana Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126

BOI's separately issued Unified Investment Program financial statements include the activity for Montana State Fund (MSF) within SMI on a June 30, 2018, basis. MSF, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents and investments.

(a) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in STIP, cash held by trustees, undeposited cash held by individual State agencies, and investments categorized as cash equivalents. For the fiscal year ending June 30, 2018, BOI reevaluated the measurement of cash and cash equivalents, now reporting such investments at cost. Under GASB, cash equivalents can be reported under fair value or cost basis. BOI analyzed the immaterial difference of cash equivalents between their fair value and cost and determined the more relevant disclosure was under the cost method. The change did not cause a restatement of beginning net position due to the immaterial impact on beginning net position.

Cash deposited with the State Treasurer's pooled cash account is invested by BOI in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. BOI also manages STIP, which provides individual State agencies and local governments an opportunity to invest excess cash in a pool that is managed to preserve principal while providing 24-hour liquidity. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

(b) Investment securities are reported by investment portfolio and type in Table 2 – Cash Equivalents, Table 3 – Equity in Pooled Investments, and Table 4 – Investments. Unrealized gains and losses are included as a component of investment income. Unrealized gains and losses are computed based on changes in the fair value of investments held from the beginning of the year, but unsold at the fiscal year end. The net change in fair value of investments also consists of the realized gains or losses. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Investments are reported at fair value on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market prices represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. All investment portfolios are presented at "fair" value. BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices are determined using unobservable inputs.

(c) Security Lending - BOI is authorized by law to lend its securities and has contracted with the custodial bank, to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the custodial bank split the earnings, 80/20 respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies BOI's credit risk exposure to the borrowers.

During fiscal year 2018, the custodial bank lent BOI's public securities and received as collateral: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2018. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2018 resulting from a borrower default. As of June 30, 2018, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in an investment fund, the Navigator Securities Lending Government Money Market (Navigator) portfolio.

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 10 days and the average weighted final maturity was 70 days within the Navigator portfolio.

(d) Investment Pools and SMI are described in the following paragraphs.

CAPP

The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by BOI. BOI annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Due to a longer-term focus, CAPP's asset classes differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Equities
- Natural Resources
- Real Estate
- US Treasury Inflation-Protected Securities (TIPS)
- Broad Fixed Income
- US Treasury/Agency
- Investment Grade
- Mortgage Backed Securities
- High Yield
- Cash
- Diversifying Strategies

The CAPP IPS is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class and High Yield Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made.

TFIP

The TFIP IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations, also known as Yankee bonds, and a 3% portfolio limit in non-agency mortgage pass-through (MBS) securities. TFIP invests primarily in investment grade, US dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

STIP

The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer except for US Treasury and US Agency securities as well as any repurchase agreements with a financial institution.

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 60 days or less. STIP is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

SMI

SMI invests primarily in investment grade, US dollar denominated fixed income securities. However, one participant portfolio has exposure to core real estate. The SMI portfolio also includes Veteran's Home Loan Mortgages (VHLM) and commercial loans.

The SMI Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by BOI and Montana Facility Finance Authority. The VHLM are also funded from the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust Fund loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and the MSTA portfolio was assigned to BOI.

(e) Investment Risk Disclosures are described in the following paragraphs, with more detail provided in later sections.

Custodial Credit Risk

Custodial credit risk for cash and cash equivalents and investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial institution must hold short-term and long-term credit ratings by at least one Nationally Recognized Statistical Rating Organization (NRSRO) with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

As of June 30, 2018, all the public securities, as well as securities held by the separate public equity account managers, were registered in the nominee name for BOI and held in the possession of BOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. Concentration of credit risk for 2018 is addressed within all IPS as set by BOI.

Credit Risk and Interest Rate Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for US government securities, the pools' fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases

around investment grade NRSRO ratings as appropriate. The US government guarantees its securities directly or indirectly. Obligations of the US government, or obligations explicitly guaranteed by the US government, are not considered to have credit risk and do not require disclosure of credit risk.

The CAPP's cash equivalents' position held at its custodial bank was unrated, with approximately \$330.3 million held in Money Market Funds and an additional \$4.3 million held by the CAPP's fiscal agent as of June 30, 2018. BOI determined that there was no significant credit quality risk associated with the cash equivalents.

As a matter of STIP investment policy, BOI can only purchase securities from a pre-approved Approved Issuer list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered US Treasury or US Government money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30, 2018, all the STIP money market investments were in US Governmental Money Markets. BOI determined that there was no significant credit quality risk associated with the cash equivalents and did not suffer a loss event on the cash equivalents as of June 30, 2018.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses effective duration as a measure of interest rate risk for all fixed income portfolios. CAPP, TFIP, and SMI at fair value investments are categorized to disclose credit and interest rate risk for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using the weighted effective duration. The credit quality ratings have been calculated excluding non-rated investment types. NRSRO provides the credit ratings. According to the STIP investment policy, "The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account."

CAPP, TFIP, SMI, and STIP may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example the London Interbank Offered Rate (LIBOR).

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2018. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months or years) weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 46 days for the portfolio. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BOI's foreign currency exposure by denomination and investment type are reported, in US dollars, at fair value.

CAPP is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class, and High Yield Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made.

Other Policy Considerations

For other risk, BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the TIPS PAC, US Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage-Backed PAC, average duration will be maintained in a range within 20% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for SMI is contemplated in each

individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

Fair Value of Derivative Instruments

The UIP invests in currency forward contract, index futures (long duration) and rights which are classified as investment derivatives. The derivatives increase in fair value for the year ended June 30, 2018, by \$170.0 thousand. The contracts had a fair value of \$15.0 thousand, and the notional amount of the contracts was \$818.0 thousand as of June 30, 2018.

STIP Reserve

In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to its participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. Prior to the year ending June 30, 2018, the STIP reserve was reported as a liability, instead of as a component of BOI's fiduciary net position in accordance with GAAP. BOI restated the liability as an increase to fiduciary net position of \$24.2 million as of July 1, 2017. The STIP reserve for the year ending June 30, 2018, is detailed as follows:

	STIP Reserve (in thousands)	
Beginning STIP Reserve		\$ 24,235
Additions		
Interest Income		350
Other income		
Transfer of daily STIP income		4,192
Recoveries from write offs		3,626
Perm Coal enhancement fees		162
Total additions		<u>8,330</u>
Total STIP Reserve Activity		<u>\$ 8,330</u>
Ending STIP reserve		<u><u>\$ 32,565</u></u>

(2) The EDB deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. The bond trust indenture addresses custodial credit risk, concentration of credit risk, credit risk, interest rate and credit quality risk, by detailing the permitted investments. BOI's STIP IPS details custodial credit risk, concentration of credit risk, and credit risk. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

For the fiscal year ending June 30, 2018, BOI reevaluated the measurement of cash and cash equivalents, now reporting such investments at cost. Under GASB, cash equivalents can be reported under fair value or cost basis. BOI analyzed the immaterial difference of cash equivalents between their fair value and cost and determined the more relevant disclosure was under the cost method. The change did not cause a restatement of beginning net position due to the immaterial impact on beginning net position.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial institution must hold short-term and long-term credit rating by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by the trustee in the name of BOI.

Investments – As of June 30, 2018, EDB securities were recorded by the trustee in the name of BOI by specific account.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities, as well as, any repurchase agreements with a financial institution. As of June 30, 2018, STIP concentration risk was within the policy as set by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The EDB's US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality. Permitted investments, as described in the indenture, include, "Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

BOI's STIP investment policy statement specifies that STIP securities have a minimum of two credit ratings as provided by nationally recognized statistical rating organizations, to assist in the monitoring and management of credit risk. The purchase of STIP securities other than US government or US agency obligations are restricted to those which are pre-approved. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Permitted investments as described in the Indenture details the allowable investments, including those in STIP. STIP interest rate risk is determined using the WAM method. According to the STIP IPS, "The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account."

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2018. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. The credit quality ratings have been calculated excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as management of BOI determined that these securities did not contain these risk elements. There were no derivative transactions during the 2018 fiscal year for investments held by the trustee. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk and a loss event did not occur as of June 30, 2018.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$ 91,359
Uninsured and uncollateralized cash	8,214
Undeposited cash	512
Cash in US Treasury	316,605
Cash in MSU component units	8,065
Cash in UM component units	11,465
Less: outstanding warrants	(82,211)
	<u>\$ 354,009</u>

As of June 30, 2018, the carrying amount of deposits for component units was \$182.5 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less that are measured at cost. Cash equivalents may be under the control of BOI or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value
Treasuries ⁽¹⁾	\$ 92,881
Corporate commercial paper ⁽²⁾	288,944
Corporate notes ⁽²⁾	225,121
Certificate of deposit ⁽²⁾	546,591
Money market fund unrated	152,372
STIP cash and cash equivalents ⁽²⁾	2,250,669
Less: STIP included in pooled investment balance	(111,156)
Total cash equivalents	<u>\$ 3,445,422</u>

(1) A portion is also included in the Investments Measured at Fair Value and NAV table.

(2) Also included in the Investments Measured at Fair Value and NAV table.

As of June 30, 2018, local governments had invested \$1.2 billion and component units of the State of Montana had invested \$412.7 million in STIP.

STIP Cash Equivalent Credit Quality Ratings
(in thousands)

	Total Fixed Income Investments at Fair Value	Credit Quality Rating
Treasuries	\$ 239,483	A-1+
Asset backed commercial paper	1,105,685	A-1
Corporate commercial paper	233,356	A-1+
Corporate notes	55,004	A-1+
Certificate of deposit	124,915	A-1
US government agency	351,707	A-1+
US Government money market funds	140,357	A-1+
Cash held at fiscal agent	162	NR
Total cash equivalents	<u>\$ 2,250,669</u>	

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2018
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	\$ 19,900	A-1+	97
Corporate:			
Commercial Paper	288,944	A-1	71
Notes	225,121	A-1+	67
Certificates of Deposit	546,591	A-1	42
Total STIP fixed income investments at fair value	<u>\$ 1,080,556</u>		

C. Equity in Pooled Investments

These securities consist of investments held by BOI in pooled investment funds. The Consolidated Asset Pension Pool (CAPP) and Trust Funds Investment Pool (TFIP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated “Prudent Expert Principle” (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	Fair Value ⁽¹⁾
CAPP:	
Consolidated asset pension pool	\$ 11,315,343
TFIP:	
Trust funds investment pool	2,333,070
Total pooled investments	13,648,413
Pool adjustments (net)	599
Total equity in pooled investments	<u>\$ 13,649,012</u>

⁽¹⁾ Includes cash/cash equivalents and investments.

As of June 30, 2018, the fair value of the underlying securities on loan was \$937.7 million. Collateral provided for the securities on loan totaled \$957.5 million, consisting of \$106.2 million in cash and \$851.3 million in securities.

As of June 30, 2018, local governments invested \$12.0 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2018, as required for applicable pools.

Credit Quality Rating and Effective Duration as of June 30, 2018
Fair Value (in thousands)

Security Investment Type	CAPP	TFIP	SMI	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Duration (Years)
Treasuries	\$ 1,226,714	\$ 536,787	\$ 330,905	\$ 2,094,406	AAA	3.61-7.59
Agency or Government Related	130,363	137,558	264,686	532,607	AAA	3.06-6.06
Asset Backed Securities	14,743	81,854	44,314	140,911	AAA	2.07-2.74
Mortgage Backed Securities:						
Noncommercial	480,163	446,905	38,563	965,631	AAA	5.11-5.82
Commercial	56,498	144,288	16,406	217,192	AAA	4.36-6.12
Corporate:						
Financial	261,035	275,280	250,987	787,302	BBB+, A-	3.15-4.46
Industrial	431,025	416,570	316,685	1,164,280	BB+, A	4.09-6.66
Utility	24,967	23,463	21,413	69,843	BBB, BBB+	2.75-4.69
High Yield Bond Fund	—	100,994	—	100,994	B	3.64
Total fixed income investments at fair value	<u>\$ 2,625,508</u>	<u>\$ 2,163,699</u>	<u>\$ 1,283,959</u>	<u>\$ 6,073,166</u>		

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – *Fair Value Measurement and Application*, as defined below.

CAPP, STIP, and SMI – Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

CAPP – Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraisal value.

Pools and SMI – Investments measured at cost are included to account for all investments within each pool and SMI. These assets represent cash equivalents and Montana Mortgages and Loans.

Each of the investment pools and SMI have the following fair value measurements as of June 30, 2018:

Investments Measured at Fair Value
(in thousands)

	Fair Value Measurements Using			
	June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by fair value level</u>				
Fixed income investments:				
Treasuries	\$ 2,114,306	\$ 2,114,306	\$ —	—
Agency or Government Related	532,607	—	532,607	—
Asset Backed Securities	140,911	—	140,911	—
Mortgage Backed Securities	965,631	—	965,631	—
Commercial Mortgage Backed Securities	217,192	—	217,192	—
Corporate:				
Commercial Paper	288,944	—	288,944	—

Investments Measured at Fair Value
(in thousands)

	June 30, 2018	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Commercial Notes	225,121	—	225,121	—
Certificates of Deposit	546,591	—	546,591	—
Financial	787,302	—	787,302	—
Industrial	1,164,280	—	1,164,280	—
Utility	69,843	—	69,843	—
Equity investments:				
Consumer Discretionary	269,082	269,082	—	—
Consumer Staples	71,850	71,850	—	—
Energy	108,933	108,933	—	—
Financials	267,097	267,097	—	—
Health Care	228,681	228,681	—	—
Industrials	274,462	274,462	—	—
Information Technology	444,999	444,999	—	—
Materials	90,942	90,942	—	—
Mutual Funds	2,233,394	2,233,394	—	—
Real Estate	41,022	41,022	—	—
Telecommunication Services	12,920	12,920	—	—
Utilities	30,738	30,738	—	—
International equity investments:				
Consumer Discretionary	111,748	111,748	—	—
Consumer Staples	84,360	84,360	—	—
Energy	50,331	50,331	—	—
Financials	154,819	154,819	—	—
Health Care	54,635	54,635	—	—
Industrials	116,210	116,210	—	—
Information Technology	128,410	128,410	—	—
Materials	37,300	37,300	—	—
Mutual Funds	270,338	270,338	—	—
Private Placement	1,239	1,239	—	—
Real Estate	13,427	13,427	—	—
Rights/Warrants	15	15	—	—
Telecommunication Services	12,031	12,031	—	—
Utilities	4,876	4,876	—	—
Direct Real Estate	19,185	—	—	19,185
Residential Mortgages	3,861	—	—	3,861
Total investments by fair value level	\$ 12,189,633	\$ 7,228,165	\$ 4,938,422	\$ 23,046
Investments measured at the net asset value (NAV)				
Commingled Equity Index Funds	1,116,165			
Private Equity – Private Equity Partnerships	1,365,239			
Core Real Estate	557,350			
Non-core Real Estate	396,524			
Timber	110,153			
High Yield Bond Fund	100,994			
Total investments measured at NAV	3,646,425			
Total investments measured at fair value	15,836,058			

Investments Measured at Fair Value
(in thousands)

	June 30, 2018	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments not required to be categorized				
Cash and cash equivalents held at custodial bank	2,585,318			
Montana Mortgages and Loans at cost	180,618			
Total investments not categorized	2,765,936			
Total investments	<u>\$ 18,601,994</u>			

The investments measured at NAV for the year ended June 30, 2018, are detailed below.

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
CAPP				
Commingled Equity Index Funds	\$ 936,139	\$ —	Daily	1 day
Private Equity – Private Equity Partnerships	1,365,239	938,879		
Core Real Estate	329,903	80,000	Monthly, quarterly	45-90 days
Non-core Real Estate	396,524	285,064		
Timber	110,153	17,657		
Total investments measured at the NAV	<u>\$ 3,137,958</u>	<u>\$ 1,321,600</u>		
TFIP				
Core Real Estate	138,538		Monthly, quarterly	45-90 days
High Yield Bond Fund	100,994		Monthly	30 days
Total investments measured at NAV	<u>\$ 239,532</u>			
SMI				
Core Real Estate	88,909		Monthly, quarterly	45-90 days
Commingled Equity Index Funds	180,026		Daily	1 day
Total investments measured at NAV	<u>\$ 268,935</u>			

STIP and \$1.7 billion of SMI are included, and also reported in Tables 2 and 4, respectively.

Commingled Equity Index Funds – This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

High Yield Bond Fund – This type consists of predominantly US corporate credits, whether in the form of bonds or loans, that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

Core Real Estate – This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel), through commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Non-Core Real Estate – This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds in order to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Timber – This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 12 to 20 years; these investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Private Equity Partnerships – This type includes investments in limited partnerships. Generally, the types of partnership strategies included in this portfolio are: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of BOI's ownership interest in partners' capital.

As of the June 30, 2018, exchange date, BOI's foreign currency exposure by deposits and investment type are reported, in US dollars, at fair value in the table below. Excluded are the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country

(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Australian Dollar	\$ —	\$ 23,306	\$ —	\$ —
Brazilian Real	—	14,814	—	—
Canadian Dollar	65	53,456	—	—
Danish Krone	—	13,104	—	—
EMU – Euro	46	168,668	21,400	2,000
Hong Kong Dollar	1	37,984	—	—
Indonesian Rupiah	25	623	—	—
Korean Fortnit	4	15,946	—	—
Japanese Yen	322	109,401	—	—
Malaysian Ringgit	16	2,626	—	—
Mexican Peso	2	2,430	—	—
New Israeli Sheqel	—	3,686	—	—
New Zealand Dollar	—	238	—	—
Norwegian Krone	—	11,022	—	—
Philippine Peso	1	1,201	—	—
Philippine Piso	—	34	—	—
Polish Zloty	3	2,161	—	—
Pound Sterling	248	103,975	—	—
Singapore Dollar	77	12,089	—	—
South African Rand	—	14,129	—	—
South Korean Won	—	25,224	—	—
Swedish Krona	—	22,659	—	—
Swiss Franc	—	32,240	—	—
New Taiwan Dollar	—	4,887	—	—
Thailand Baht	6	5,141	—	—
Yuan Renminbi	94	7,774	—	—
Total cash and securities	<u>\$ 910</u>	<u>\$ 688,818</u>	<u>\$ 21,400</u>	<u>\$ 2,000</u>

Investments in alternative equity are usually made through limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to CAPP alternative equity managers by pension asset class (PAC), as of June 30, 2018.

Commitments to Fund Managers

(in thousands)

Pool	Original Commitment	Commitment Remaining
Private Equities PAC	\$ 2,580,722	\$ 807,355
Real Estate PAC	1,655,262	365,064
Natural Resources PAC	420,000	149,181
Total	<u>\$ 4,655,984</u>	<u>\$ 1,321,600</u>

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes BOI to manage the State's Unified Investment Program. Long-term investments are administered by the following agencies, as allowed by state law, Section 17-6-201, MCA:

Long-term Investments	
Department	Percent Administered
Board of Investments	50.97%
Universities	19.06
MPERA (Montana Public Employee Retirement Administration)	22.14
College Savings Plan	4.71
Montana Board of Housing	1.67
Other ⁽¹⁾	1.45
Total	100.00%

⁽¹⁾ Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Commerce, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, the Department of Revenue, and State Auditor.

BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to BOI's custodial bank or trustee. State investments are categorized within the fair value hierarchy established by GASB Statement No. 72.

The PERS Defined Contribution Retirement Plan (DCRP) and the Deferred Compensation Plan's Montana Fixed Fund is a stable value investment option administered by outside vendors; Pacific Investment Management Company LLC (PIMCO), custodial bank State Street Bank and Trust Company (State Street), and third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). All money invested in the Montana Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The third party record keeper, Empower™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	\$ 8,823	\$ 8,823	\$ —	\$ —
Agency/Government Related ⁽¹⁾	47,962	—	47,962	—
Government Securities	5,958	3,867	2,091	—
Stocks	5,447	5,447	—	—
Other	19,166	—	19,166	—
Total investments at fair value	87,356	18,137	69,219	—
<u>Investments at cost</u>				
Montana Mortgages and Loans ⁽³⁾	180,618			
Total investments at cost	180,618			
Total primary government	267,974			

Component units/fiduciary funds

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	272,324	272,324	—	—
Agency/Government Related ⁽¹⁾	216,724	—	216,724	—
Asset Backed Securities ⁽¹⁾	44,314	—	44,314	—
Mortgage Backed Securities ⁽¹⁾	38,563	—	38,563	—
Commercial Mortgage Backed Securities ⁽¹⁾	16,406	—	16,406	—
Financial-Corporate ⁽¹⁾	250,987	—	250,987	—
Industrial-Corporate ⁽¹⁾	316,685	—	316,685	—
Utility-Corporate ⁽¹⁾	21,413	—	21,413	—
529 College Savings Plan	154,733	—	154,733	—
VEBA	6,956	—	6,956	—
State Auditor	10,082	—	10,082	—
MSU Component Unit Investments ⁽²⁾	295,063	153,063	44,027	97,973
UM Component Unit Investments ⁽²⁾	175,380	130,426	34,012	10,942
Board of Housing ⁽²⁾	53,249	20,872	32,377	—
Total investments at fair value	1,872,879	576,685	1,187,279	108,915
<u>Investments at net asset value (NAV)</u>				
Core Real Estate	88,909			
Commingled Equity Index Funds	180,026			
Deferred Compensation ⁽²⁾	501,608			
Defined Contribution ⁽²⁾	225,634			
UM Component Unit Investments ⁽²⁾	123,987			
UM Other Investments ⁽²⁾	612			
UM Interest in Split Interest ⁽²⁾	4,239			
Total investments at NAV	1,125,015			
<u>Investments at cost</u>				
MSU Component Unit Investments ⁽²⁾	26,390			
Board of Housing ⁽²⁾	1,742			
Total Investments at Cost	28,132			
Total component unit/fiduciary investments	3,026,026			
Total investments	\$ 3,294,000			
Securities lending investment pool	\$ 14,392			

(1) The credit quality rating and duration are included in above sections for the rated investments.

(2) For more detail, refer to component unit separately issued financial statements.

(3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included on SMI financial statements. This amount of \$9.7 million is considered advances to other funds/component units and amounts due from component units in the Coal Tax Severance column of the governmental fund financial statements.

As of June 30, 2018, the fair value of the investments on loan was \$131.4 million. Collateral provided for the investments on loan totaled \$134.1 million consisting of \$14.4 million in cash and \$119.7 million in securities.

\$1.7 billion of SMI is included, and also reported in the Investments Measured at Fair Value and NAV table.

EDB – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2018
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating⁽¹⁾	Effective Duration⁽¹⁾
Short-term investments			
US Treasury obligations	\$ 3,182	AA	0.24
US Agency obligations	1,080	AA	0.63
Restricted investments			
US Treasury obligations	685	AA	2.42
Total investments	<u>\$ 4,947</u>		

⁽¹⁾ Credit Quality Rating and Effective Duration are weighted.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2018, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	\$ —	\$ 6,156	\$ 1,054	\$ 556	\$ —	\$ —	\$ 10,416
Contributions/premiums	—	—	—	6,909	—	—	1,790
Grants/contracts/donations	—	11	—	—	—	—	351
Investment income	3,225	—	1,350	217	1,956	3,549	4,229
License and permits	—	—	—	—	—	—	7,785
Other receivables	—	49,019	8,133	—	—	—	146
Reimbursements/overpayments	—	133	14,587	—	—	—	14,919
Taxes	7,244	—	387,843	—	—	2,474	99,298
Total receivables	10,469	55,319	412,967	7,682	1,956	6,023	138,934
Less: allowance for doubtful accounts	—	(2,085)	(127,081)	(17)	—	—	(18,116)
Receivables, net	\$ 10,469	\$ 53,234	\$ 285,886	\$ 7,665	\$ 1,956	\$ 6,023	\$ 120,818

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	\$ —	\$ 26,927	\$ —
Contributions/premiums	—	5,017	5,662
Loans/investment income	10,675	191	—
Other receivables	263	80	—
Reimbursements/overpayments	—	—	1,819
Total receivables	10,938	32,215	7,481
Less: allowance for doubtful accounts	—	(495)	(3,363)
Receivables, net	\$ 10,938	\$ 31,720	\$ 4,118

B. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred outflows ⁽¹⁾	\$ —	\$ 895	\$ 58	\$ —	\$ —
Pension deferred outflows ⁽²⁾	26	354,870	13,926	—	105
Refunding deferred outflows	—	—	—	3,006	—
Total deferred outflows	\$ 26	\$ 355,765	\$ 13,984	\$ 3,006	\$ 105

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
OPEB deferred outflows ⁽¹⁾	\$ —	\$ 17
Pension deferred outflows ⁽²⁾	90	3,904
Total deferred outflows	\$ 90	\$ 3,921

⁽¹⁾ Further detail regarding OPEB related deferred outflows of resources is provided in Note 7.

⁽²⁾ Further detail regarding pension related deferred outflows of resources is provided in Note 6.

C. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued interest	\$ 4	\$ 369	\$ 21	\$ 2,267	\$ 51
Payroll	7,714	21,139	3,760	37	20,882
Tax refunds	—	169,494	—	—	—
Vendors/individuals	280,290	68,069	10,932	2,408	156,870
Payables, net	\$ 288,008	\$ 259,071	\$ 14,713	\$ 4,712	\$ 177,803

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued interest	\$ 578	\$ 4	\$ —
Payroll	20	1,037	—
Vendors/individuals	6	19,868	2,204
Payables, net	\$ 604	\$ 20,909	\$ 2,204

D. Deferred Inflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred inflows ⁽¹⁾	\$ —	\$ 4,358	\$ 280	\$ —	\$ —
Pension deferred inflows ⁽²⁾	1	66,962	1,389	—	24
Refunding deferred inflows	—	—	—	530	—
Total deferred inflows	\$ 1	\$ 71,320	\$ 1,669	\$ 530	\$ 24

All deferred inflows of resources in the governmental fund financial statements consist of unavailable revenue.

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
OPEB deferred inflows ⁽¹⁾	\$ 2	\$ 84
Other deferred inflows	—	5
Pension deferred inflows ⁽²⁾	15	725
Total deferred inflows	\$ 17	\$ 814

⁽¹⁾ Further detail regarding OPEB related deferred inflows of resources is provided in Note 7.

⁽²⁾ Further detail regarding pension related deferred inflows of resources is provided in Note 6.

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2018, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 694,036	\$ 25,847	\$ (800)	\$ 719,083
Construction work in progress	835,991	337,733	(246,647)	927,077
Easements	181,017	11,570	—	192,587
Museum and art ⁽²⁾	84,581	859	—	85,440
Other ⁽²⁾	28,889	393	—	29,282
Total capital assets not being depreciated	1,824,514	376,402	(247,447)	1,953,469
Capital assets being depreciated:				
Infrastructure	5,273,579	273,138	(116,767)	5,429,950
Land improvements	62,272	3,236	—	65,508
Buildings/improvements	600,939	8,904	(18,549)	591,294
Equipment	379,018	31,349	(12,864)	397,503
Easements - amortized	1,523	—	(73)	1,450
Other	7,197	246	(2,041)	5,402
Total capital assets being depreciated	6,324,528	316,873	(150,294)	6,491,107
Less accumulated depreciation for:				
Infrastructure	(1,546,498)	(177,612)	108,261	(1,615,849)
Land improvements	(27,623)	(2,984)	176	(30,431)
Buildings/improvements	(374,600)	(19,762)	10,927	(383,435)
Equipment	(239,325)	(22,155)	7,856	(253,624)
Other	(5,825)	(226)	2,009	(4,042)
Total accumulated depreciation	(2,193,871)	(222,739)	129,229	(2,287,381)
Total capital assets being depreciated, net	4,130,657	94,134	(21,065)	4,203,726
Intangible assets	36,793	10,410	(13,705)	33,498
Governmental activities capital assets, net	\$ 5,991,964	\$ 480,946	\$ (282,217)	\$ 6,190,693

⁽¹⁾ The increases and decreases noted above include adjustments related to prior periods and correction of errors.

⁽²⁾ The restatement of beginning balance from museum and art to other is due to a correction of prior period reclassification.

Business-type Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 800	\$ —	\$ —	\$ 800
Construction work in progress	4,615	3,375	(199)	7,791
Other	4,309	10	(68)	4,251
Total capital assets not being depreciated	<u>9,724</u>	<u>3,385</u>	<u>(267)</u>	<u>12,842</u>
Capital assets being depreciated:				
Infrastructure	1,175	—	—	1,175
Land improvements	3,830	—	—	3,830
Buildings/improvements	10,123	23	—	10,146
Equipment	9,375	309	(138)	9,546
Total capital assets being depreciated	<u>24,503</u>	<u>332</u>	<u>(138)</u>	<u>24,697</u>
Less accumulated depreciation for:				
Infrastructure	(708)	(19)	—	(727)
Land improvements	(1,766)	(149)	—	(1,915)
Buildings/improvements	(6,185)	(318)	—	(6,503)
Equipment	(6,362)	(552)	69	(6,845)
Total accumulated depreciation	<u>(15,021)</u>	<u>(1,038)</u>	<u>69</u>	<u>(15,990)</u>
Total capital assets being depreciated, net	<u>9,482</u>	<u>(706)</u>	<u>(69)</u>	<u>8,707</u>
Intangible assets	<u>194</u>	<u>—</u>	<u>(116)</u>	<u>78</u>
Business-type activities capital assets, net	<u>\$ 19,400</u>	<u>\$ 2,679</u>	<u>\$ (452)</u>	<u>\$ 21,627</u>

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Depreciation ⁽²⁾
General government	\$ 8,248
Public safety	7,474
Transportation, including depreciation of the highway system maintained by the State	180,824
Health and human services	2,768
Education	253
Natural resources, including depreciation of the state's dams	10,466
Depreciation on capital assets held by the internal service funds	12,706
Total depreciation expense – Governmental Activities	<u>\$ 222,739</u>

Depreciation expense was charged to business-type activities as follows (in thousands):

	Depreciation ⁽²⁾
Liquor Stores	\$ 142
State Lottery	51
Prison Funds	559
West Yellowstone Airport	233
Other Enterprise Funds	53
Total depreciation expense – Business-type Activities	<u>\$ 1,038</u>

(2) Depreciation expenses noted above include adjustments related to prior periods and correction of errors.

NOTE 6. RETIREMENT PLANS

A. General

The funding policies for each plan provide for periodic employee, employer, and State of Montana (State) nonemployer contributions at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls. Benefits are established by state law and can only be amended by the Legislature.

Montana State Fund, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for some pension related items.

Public Employees' Retirement Board

The Public Employees' Retirement Board (PERB) oversees eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Sheriffs' Retirement System (SRS); Game Wardens' and Peace Officers' Retirement System (GWORS); Municipal Police Officers' Retirement System (MPORS); Firefighters' Unified Retirement System (FURS); and Volunteer Firefighters' Compensation Act (VFCA). The PERB also oversees two defined contribution plans: Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the 457-Deferred Compensation Plan (457 Plan). The PERB also oversees education funds related to the pension plans. All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be attained here: <http://mpera.mt.gov/>. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

The PERB is an independent, seven-member board, appointed by the Governor. The members are assigned five-year, staggered terms. The PERB consists of two members at large, two active defined benefit public employees, one active defined contribution public employee, one member experienced in investments, and one retired public employee. The PERB approves the annual operating budget, developed by MPERA management, before the beginning of the fiscal year. As governed by statute, the PERB's defined benefit administrative expenses may not exceed 1.5% of the total defined benefit plan retirement benefits paid. In addition, the PERB decides legislative policy and priorities, hires the executive director, establishes the policies and procedures that govern operations at MPERA, and hear and rule on appeal matters of disabilities, retirees, and members. PERB members do not receive compensation for their service to the MPERA, but are reimbursed for necessary expenses incurred while serving.

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability OPEB Plan provides a defined benefit for disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at <https://trs.mt.gov/>.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB

members are appointed from the public at large. TRB members serve staggered five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2018, follows:

Classification of Participant	GWPORS	PERS- DBRP	PERS- DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	544	316	57	33	27	235	365
Nonemployer contributing entity	—	1	—	—	1	1	1	1
Total Participants	7	545	316	57	34	28	236	366

There are approximately 700 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position, the items have been determined on the same accrual basis as they are reported by the MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

The TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS, and additions to/deductions from TRS's fiduciary net position, the items have been determined on the same accrual basis as they are reported by the TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The TRS adheres to all applicable GASB statements.

The pension trust fund financial statements presented in this report are prepared using the accrual basis of accounting in the same manner as that described for the pension plan administrators above.

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2018, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution		
	Plan Designation	JRS	HPORS ⁽¹⁾	GWPORS	PERS-DBRP ⁽²⁾	SRS	MPORS ⁽¹⁾	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member												
Active		55	233	1,010	28,646	1,429	787	691	2,029	19,267	2,690	4,904
Inactive entitled to, but not yet receiving, benefits or a refund:												
Vested		3	14	123	3,793	129	78	41	815	1,772	559	4,484
Nonvested		1	23	382	17,973	539	153	66	—	13,967	724	—
Inactive members and beneficiaries currently receiving benefits:												
Service retirements ⁽³⁾		64	319	298	21,901	629	748	623	1,469	15,933	97	—
Disability retirements		1	7	3	158	27	32	9	1	—	8	—
Survivor benefits ⁽⁴⁾		5	12	11	497	25	32	20	4	—	2	—
Total Membership		129	608	1,827	72,968	2,778	1,830	1,450	4,318	50,939	4,080	9,388

(1) Includes DROP in the Active count.

(2) The inactive Nonvested count includes dormant accounts that were previously not counted.

(3) Includes "Alternative Payees" and "Death After Retirement" benefit payments. As of Fiscal Year 2018, the TRS plan stopped reporting separate benefit recipient categories.

(4) Includes "Death Before Retirement" benefit payments.

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2018, based on a June 30, 2017, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	\$ 60,798	\$ 96,653	\$ (35,855)	(1,291)	\$ 4,631	\$ 1,172
HPORS	218,922	140,537	78,385	9,107	13,919	299
GWPORS	213,201	175,841	37,360	7,386	14,653	703
PERS-DBRP	3,936,327	2,903,127	1,033,200	127,773	230,916	21,056
SRS	19,767	16,071	3,696	50	3,404	5,410
FURS	11,360	8,835	2,525	458	1,051	19
TRS	161,230	113,003	48,227	12,062	29,886	1,820
Totals	\$ 4,621,605	\$ 3,454,067	\$ 1,167,538	\$ 155,545	\$ 298,460	\$ 30,479

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The

JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member’s current salary¹ or highest average compensation (HAC)²

¹Hired prior to July 1, 1997, and non-Guaranteed Annual Benefit Adjustment (GABA) – monthly compensation at time of retirement;

²Hired on or after July 1, 1997, or electing GABA – HAC during any consecutive 36 months;

²Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s HAC.

Eligibility for benefit

Age 60, 5 years of membership service;

Any age with 5 years of membership service – involuntary termination, actuarially reduced.

Vesting

5 years of membership service.

Monthly benefit formula

3⅓% of current salary¹ (non-GABA) or HAC² (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member’s benefit.

Minimum benefit adjustment (non-GABA)

If hired prior to July 1, 1997, and member did not elect GABA – current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member’s salary and remitted by the participating employer. An individual account is established for each member’s contributions and interest allocations until a retirement or refund request is processed. Plan members are required to contribute 7.0% of the member’s monthly compensation.

Employer contributions to the system – As the employer, the State is required to contribute 25.81% of a member’s compensation until January 1, 2018, at which time the contribution rate is reduced to 0%.

Actuarial Assumptions

The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.17%
- General Wage Growth 3.50%
- Inflation at 2.75%

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
JRS Net Pension (Asset)	\$ (29,908)	\$ (35,855)	\$ (40,986)

Net Pension Asset

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the JRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension asset (NPA), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability (Asset) as of 6/30/16	Net Pension Liability (Asset) as of 6/30/17	Percent of Collective NPA
Employer's Proportionate Share	\$ (33,852)	\$ (35,855)	100%

At June 30, 2018, the employer reported a net pension asset of \$35.9 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the JRS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality assumption was updated

Changes in benefit terms: The following changes to plan provisions were identified:

1. Refunds
 - a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
 - b. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
 - c. Trust, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
2. Interest credited to member accounts
 - a. Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.
3. Lump-sum payouts
 - a. Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension asset and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension asset.

Other Items Related to and Changes in Net Pension Asset

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2016	\$ 53,953	\$ 87,805	\$ (33,852)
Service Costs	1,628	—	1,628
Interest	4,044	—	4,044
Difference between Expected and Actual Experience	862	—	862
Changes of assumptions	3,865	—	3,865
Contributions – employer	—	1,800	(1,800)
Contributions – member	—	488	(488)
Net Investment Income	—	10,368	(10,368)
Benefit Payments	(3,554)	(3,554)	—
Administrative Expense	—	(254)	254
Net Changes	6,845	8,848	(2,003)
Balances at 6/30/2017	<u>\$ 60,798</u>	<u>\$ 96,653</u>	<u>\$ (35,855)</u>

Pension Expense

At June 30, 2018, the employer recognized pension expense/(income) of \$(1.3) million for the JRS.

Deferred Outflows and Inflows

At June 30, 2018, the employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$1.8 million.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between projected and actual earnings on pension plan investments	\$ —	\$ 243
Changes of assumptions	2,899	—
Differences between expected and actual experience	647	929
Contributions paid to JRS subsequent to the measurement date – FY 2018 Contributions	1,085	—
Totals	<u>\$ 4,631</u>	<u>\$ 1,172</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<i>(in thousands)</i>	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	\$	16
2020		1,638
2021		1,443
2022		(723)
2023		—
Thereafter		—

Highway Patrol Officers’ Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established in July 1, 1945, and governed by Title 19, chapters 2 & 6, MCA. This plan provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their statutory beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other member rights are vested after 5 or 10 years of service.

Section 19-6-709, MCA provides eligible members retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the General Fund. Factors impacting eligibility include the number of years the recipient has received a service retirement or disability benefit, the recipient’s age, and whether the recipient is employed in a position covered by a retirement system under Title 19, MCA.

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member’s DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member’s DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2018, was approximately \$1.2 million.

Summary of Benefits

Member’s highest average compensation (HAC)

Hired prior to July 1, 2013 – HAC during any consecutive 36 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s HAC.

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.

Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Vesting

Hired prior to July 1, 2013 – 5 years of membership service.

Hired on or after July 1, 2013 – 10 years of membership service.

Monthly benefit formula

Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.

Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 – after the member has completed 36 full months of retirement, the member's benefit increase by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

Minimum Monthly Benefit (non-GABA)

If hired prior to July 1, 1997, and member did not elect GABA – the minimum monthly benefit is equal to 2% of the service credit multiplied by the current base compensation of a probationary highway patrol officer. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.

Hired prior to July 1, 1997, and not electing GABA – Plan members are required to contribute 13.00%.

Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 13.05%.

Employer contributions to the system – As the employer, the State is required to contribute 38.33% of a member's compensation. The first 28.15% is payable from the same sources used to pay a member's compensation. The remaining amount, equal to 10.18%, is payable from the General Fund through a statutory appropriation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.28%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
 - If electing GABA or hired on or after July 1, 1997 – 3.00%
 - Hired on or after July 1, 2013 – 1.50%

- Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the HPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the HPORS’s target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
HPORS Net Pension Liability	\$ 108,542	\$ 78,385	\$ 53,937

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the HPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to

record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows or resources, and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Employer's Proportionate Share	\$ 71,779	\$ 78,385	100%

At June 30, 2018, the employer reported a liability of \$78.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the HPORS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality was updated.
5. The salary merit scale was updated.

Changes in benefit terms: The following changes in plan provisions were identified:

1. Working Retiree Limitations - Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
 - a. Members who return for less than 480 hours in a calendar year:
 - i. may not become an active member in the system; and
 - ii. are subject to a \$1 reduction in their retirement benefit for each \$3 earned in excess of \$5,000 in the calendar year.
 - b. Members who return for 480 or more hours in a calendar year:
 - i. must become an active member of the system;
 - ii. will stop receiving a retirement benefit from the system; and
 - iii. will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
 - c. Employee, employer and state contributions apply as follows:
 - i. Employer contributions and state contributions (if any) must be paid on all working retirees;
 - ii. Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.
2. Second Retirement Benefit - Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
 - a. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - i. is not awarded service credit for the period of reemployment;
 - ii. is refunded the accumulated contributions associated with the period of reemployment;
 - iii. starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - iv. does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following second retirement.
 - b. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - i. is awarded service credit for the period of reemployment;
 - ii. starting the first month following termination of service, receives:

1. the same retirement benefit previously paid to the member; and
 2. a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - iii. does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 1. on the initial retirement benefit in January immediately following second retirement; and
 2. on the second retirement benefit starting in January after receiving that benefit for at least 12 months
 - c. A member who returns to covered service is not eligible for a disability benefit.
3. Refunds
 - a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
 - b. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
 - c. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
 4. Interest credited to member accounts
 - a. Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%
 5. Lump-sum payout
 - a. Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	\$ 200,752	\$ 128,973	\$ 71,779
Service Costs	3,665	—	3,665
Interest	15,121	—	15,121
Difference expected and actual experience	2,774	—	2,774
Changes in assumptions	7,892	—	7,892
Contributions – employer	—	5,782	(5,782)
Contributions – non-employer	—	263	(263)
Contributions – member	—	1,950	(1,950)
Net Investment Income	—	15,099	(15,099)
Refund of Contributions	(245)	(245)	—
Benefit Payments	(11,037)	(11,037)	—
Administrative Expense	—	(248)	248
Net Changes	18,170	11,564	6,606
Balances at 6/30/2017	\$ 218,922	\$ 140,537	\$ 78,385

Pension Expense

At June 30, 2018, the employer recognized pension expense of 9.1 million for the HPORS.

Deferred Outflows and Inflows

At June 30, 2018, the employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$5.7 million.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources related to the HPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,156	\$ —
Changes of assumptions	5,920	—
Net difference between projected and actual earnings on pension plan investments	—	299
Contributions paid to HPORS subsequent to the measurement date – FY 2018 Contributions	5,843	—
Totals	\$ 13,919	\$ 299

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	1,881
2020		3,867
2021		3,077
2022		(1,048)
2023		—
Thereafter		—

Game Wardens’ & Peace Officers’ Retirement System – The GWPORS, administered by the MPERA, is a multi-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

The State of Montana and its discretely presented component units are the only employers who participate in the GWPORS. Therefore, while the plan is considered to be a multi-employer, cost-sharing defined benefit plan for actuarial valuation purposes, in accordance with GASB 68, the plan is treated as if it were a single-employer defined benefit pension plan type for financial reporting.

Summary of Benefits

Member’s highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s HAC.

Eligibility for benefit

Service Retirement
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)

Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting

5 years of membership service.

Monthly benefit formula

2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member’s benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member’s salary and remitted by participating employers. Plan members are required to contribute 10.56% of member’s compensation.

Employer contributions to the system – State agency and university employers are required to contribute 9.0% of a member’s compensation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage each January, inclusive of other adjustments to the member’s benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the GWPORS’s target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Primary Government GWPORS Net Pension Liability	\$ 66,423	\$ 35,297	\$ 10,179
Discretely Presented Component Units GWPORS Net Pension Liability	3,632	2,063	557
Total Employer GWPORS Net Pension Liability	<u>\$ 70,055</u>	<u>\$ 37,360</u>	<u>\$ 10,736</u>

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the GWPORS. Statement 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Primary Government Employer Proportionate Share	\$ 31,020	\$ 35,297	94.815012%
Discretely Presented Component Unit Share	1,829	2,063	5.184988%
Total Employer GWPORS Proportionate Share	<u>\$ 32,849</u>	<u>\$ 37,360</u>	<u>100%</u>

At June 30, 2018, the employer reported a total liability of \$37.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of GWPORS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.

The following changes in method was identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes in plan terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or after July 1, 2017, to covered employment in the system from which they retired.
2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.

3. Beneficiaries of GWPORS members who die prior to retirement are eligible for either a lump-sum benefit or a monthly survivor benefit. The monthly survivor benefit may be paid out as an option 1, 2, 3 or 4, at the survivor's discretion. Previously, statute provided for lump-sum payments only.
4. Refunds
 - a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
 - b. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
 - c. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
5. Interest credited to member accounts increased from 0.25% to 0.77%.
6. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

The State, as the primary government employer, has the following balances and changes related to the GWPORS's Net Pension Liability:

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	\$ 176,947	\$ 145,928	\$ 31,019
Service Costs	8,176	—	8,176
Interest	13,529	—	13,529
Difference between Expected and Actual Experience	3,549	—	3,549
Changes in assumptions	5,573	—	5,573
Contributions – employer	—	4,231	(4,231)
Contributions – member	—	5,004	(5,004)
Net Investment Income	—	17,626	(17,626)
Benefit Payments	(5,508)	(5,508)	—
Administrative Expense	—	(312)	312
Refunds of Contributions	(982)	(982)	—
Net Changes	24,337	20,059	4,278
Balances at 6/30/2017	\$ 201,284	\$ 165,987	\$ 35,297

The State's discretely presented component units, as employers, have the following balances and changes related to the GWPORS's Net Pension Liability:

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	\$ 10,587	\$ 8,757	\$ 1,830
Service Costs	446	—	446
Interest	740	—	740
Difference between Expected and Actual Experience	193	—	193
Changes in assumptions	305	—	305
Contributions - employer	—	231	(231)
Contributions - member	—	274	(274)
Net Investment Income	—	963	(963)
Benefit Payments	(300)	(300)	—
Administrative Expense	—	(17)	17
Refunds of Contributions	(54)	(54)	—
Net Changes	1,330	1,097	233
Balances at 6/30/2017	<u>\$ 11,917</u>	<u>\$ 9,854</u>	<u>\$ 2,063</u>

Pension Expense

At June 30, 2018, the employer recognized a total pension expense of \$7.4 million for its proportionate share of the GWPORS pension expense: \$7.0 million related to the primary government and \$361.4 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2018, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$4.2 million. As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,945	\$ —
Net difference between projected and actual earnings on pension plan investments	—	514
Changes in assumptions	4,458	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	162	75
Contributions paid to GWPORS subsequent to the measurement date – FY 2018 Contributions	4,340	—
Totals	<u>\$ 13,905</u>	<u>\$ 589</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	1,483
2020		3,566
2021		2,722
2022		1,118
2023		—
Thereafter		—

The State’s discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$229.6 thousand.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources for the State’s discretely presented component units, as employers, related to the GWPORS are from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 270	\$ —
Net difference between projected and actual earnings on pension plan investments	—	28
Changes in assumptions	244	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	86
Contributions paid to GWPORS subsequent to the measurement date – FY 2018 Contributions	234	—
Totals	\$ 748	\$ 114

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	81
2020		195
2021		149
2022		61
2023		—
Thereafter		—

(2) State as an Employer and/or a Nonemployer Contributing Entity to Cost-Sharing Multiple-Employer Plans

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, MCA. This plan covers employees of the State and local governments, and certain employees of the Montana University System and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System-Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – HAC during any consecutive 36 months;

Hired on or after July 1, 2011 – HAC during any consecutive 60 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011 –

Age 60, 5 years of membership service;

Age 65, regardless of membership service; or

Any age, 30 years of membership service.

Hired on or after July 1, 2011 –

Age 65, 5 years of membership service;

Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 –

Age 50, 5 years of membership service; or

Any age, 25 years of membership service.

Hired on or after July 1, 2011 – Age 55, 5 years of membership service.

Second retirement (all require returning to PERS-covered employment or PERS service):

Retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit:

- A refund of member's contributions from second employment plus regular interest (.77%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on laws in effect at second retirement; and
- GABA starts the January after receiving recalculated benefit for 12 months

Retire on or after January 1, 2016 and accumulate 5 or more years of additional service credit:

- The same retirement benefit as prior to their return to service;
- A second retirement benefit for second period of service based on laws in effect at second retirement;
- GABA starts on both benefits in the January after receiving the original and new benefit for 12 months

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011 –

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 –

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA) – After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member’s benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Contributions are deducted from each member’s salary and remitted by participating Employers. Plan members are required to contribute 7.90% of member’s compensation. The 7.90% member contribution rate is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional Employer and additional member contribution rates.

Employer contributions to the system

State and University System employers are required to contribute 8.57% of member compensation. Local government entities are required to contribution 8.47% of member compensation. School district employers contributed 8.20% of member compensation.

Per the 2013 Legislative Session’s House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. As of January 1, 2018, the additional contributions will not be terminated.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employer's reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non-Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.

The State contributes 0.37% of member compensation on behalf of school district entities.

The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund. Funding provided for the year ended June 30, 2018, totaled \$31.4 million.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.26%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 4.8%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member's benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.50% for each year PERS is funded at or above 90%
 - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the PERS-DBRP’s target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an Employer in PERS-DBRP – Net Pension Liability	\$ 1,504,767	\$ 1,033,200	\$ 637,355
State as a Nonemployer Contributing Entity to PERS-DBRP – Net Pension Liability	28,577	19,622	12,104

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer

contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

In accordance with GASB 68, the PERS-DBRP has a special funding situation where the State is legally responsible for making contributions directly to the PERS-DBRP on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district’s collective net pension liability that is associated with the non-State employer.

The State also has a funding situation that is not considered a special funding situation whereby the General Fund provides contributions received from the Coal Severance Tax collections and interest accrued on the Coal Tax Permanent Trust Fund. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as a grant revenue.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	\$ 906,880	\$ 1,033,200	53.049189%
State's Proportionate Share as a Nonemployer Contributing Entity	16,287	19,622	1.007464%
State of Montana Totals	<u>\$ 923,167</u>	<u>\$ 1,052,822</u>	<u>54.056653%</u>

At June 30, 2018, the State reported a liability of \$1.1 billion for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The proportion of the net pension liability is based on the employer’s and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2016, through June 30, 2017, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Decreased administrative expense load from 0.27% to 0.26%.

The following changes in method was identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following benefit changes were identified:

1. Interest credited to member accounts increased from 0.25% to 0.77%.
2. Lump-sum payouts in all systems are limited to the member’s accumulated contributions rather than the present value of the member’s benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer’s reporting date there were no changes in proportion that would have an effect on the employer’s proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

At June 30, 2018, the State as an employer recognized a pension expense of \$127.8 million for its proportionate share of the PERS-DBRP’s pension expense. The State as a nonemployer contributing entity recognized grant expense of \$1.0 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP’s pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2018, were \$128.8 million.

Support Revenue

As of the fiscal year ended June 30, 2018, the State as an employer recognized grant revenue of \$14.8 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$55.6 million.

As of the fiscal year ended June 30, 2018, the State as an employer has the following proportionate shares of the PERS-DBRP’s deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 25,444	\$ 1,495
Net difference between projected and actual earnings on pension plan investments	—	6,939
Change of assumptions	141,228	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,360	12,622
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2018 Contributions	54,884	—
Totals	\$ 230,916	\$ 21,056

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	36,598
2020		80,792
2021		62,838
2022		(21,990)
2023		—
Thereafter		—

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$28.8 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 483	\$ 28
Net difference between projected and actual earnings on pension plan investments	—	132
Change of assumptions	2,682	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	546	—
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2018 Contributions	34,706	—
Totals	\$ 38,417	\$ 160

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2019	\$	695
2020		1,534
2021		1,193
2022		(417)
2023		—
Thereafter		—

Sheriffs' Retirement System – The SRS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit

Service Retirement: 20 years of membership service, regardless of age.

Early Retirement: Age 50, 5 years of membership service, actuarially reduced.

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions and are a percentage of the member's compensation. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 10.495% of member's compensation.

Employer contributions to the system – The employers are required to contribute 13.115% of member compensation. Employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.21%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. SRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the SRS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer's SRS Net Pension Liability	\$ 6,526	\$ 3,696	\$ 1,380

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the SRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Employer Proportionate Share	\$ 9,582	\$ 3,696	4.856692%

At June 30, 2018, the State as an employer reported a liability of \$3.7 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of SRS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.17% to 0.21%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

The following changes in contributions were identified:

1. Employee contributions increased from 9.245% to 10.495% of a members' compensation.
2. Employer additional contributions increased from 0.58% to 3.58% for a total rate of 13.115%
3. Employee contributions will return to 9.245% and employer contributions will return to 9.535% when reducing the employee rate and terminating additional employer contributions will not cause the amortization period to exceed 25 years.

Changes in benefit terms: The following benefit changes were identified:

1. Interest credited to member accounts increased from 0.25% to 0.77%.
2. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the Employer's proportionate share of the collective net pension liability.

Pension Expense

At June 30, 2018, the employer recognized a pension expense of \$50.0 thousand for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$368.0 thousand.

As of the fiscal year ended June 30, 2018, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 24	\$ 11
Net difference between projected and actual earnings on pension plan investments	—	45
Changes of Assumptions	2,884	4,718
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	636
Contributions paid to SRS subsequent to the measurement date – FY 2018 contributions	496	—
Totals	\$ 3,404	\$ 5,410

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	(549)
2020		(326)
2021		(413)
2022		(578)
2023		—
Thereafter		—

Municipal Police Officers’ Retirement System – The MPORS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan that was established in 1974 and is governed by Title 19, chapters 2 & 9, MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation.

Deferred Retirement Option Plan (DROP)

Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member’s DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member’s DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2018, the balance held by MPERA for DROP participants was approximately \$14.5 million.

The State is not an employer participant in the MPORS plan. However, because the PERB is a fiduciary component unit of the State, this CAFR presents certain information to help ensure compliance with GASB 67. In addition, the State provides nonemployer entity contributions classified as special funding in accordance with GASB 68. Disclosures made in this financial report for MPORS are meant to reflect the aforementioned relationships.

Summary of Benefits

Member’s final average compensation (FAC)

Hired prior to July 1, 1977 – average monthly compensation of final year of service;

Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s FAC.

Eligibility for benefit

Service Retirement: Age 50, with 5 years of membership service, or 20 years of membership service, regardless of age.

Second Retirement: Age 50, reemployed in a MPORS position

Vesting

Death and disability rights are vested immediately.

5 years of membership service.

Monthly benefit formula

2.5% of FAC per year of service credit.

Second retirement benefit formula for members re-employed in a MPORS position after July 1, 2017:

- 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - a. Is not awarded service credit for the period of reemployment;
 - b. Is refunded the accumulated contributions associated with the period of reemployment;
 - c. Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- 2) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - a. Is awarded service credit for the period of reemployment;
 - b. Starting the first month following termination of service, receives:
 - i. The same retirement benefit previously paid to the member, and
 - ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - i. On the initial retirement benefit in January immediately following second retirement, and
 - ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- 3) A member who returns to covered service is not eligible for a disability benefit.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA) If hired before July 1, 1997, and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed officer of the employer where the member was last employed.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member’s salary and remitted by the participating Employer. For fiscal year 2018:

- If hired prior to July 1, 1975, member contributions as a percentage of salary are 5.80%
- If hired after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.00%;
- If hired after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.50%; and,
- If hired on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary are 9.00%.

Employer Contributions – Employers are required to contribute 14.41% of a member’s compensation.

Nonemployer Entity Contributions – The State contributes 29.37% of a member’s compensation from the General Fund. These amounts are considered a special funding situation in accordance with GASB 68.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin expense as a % of Payroll 0.24%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.60%
- Postretirement Benefit Increases
 - GABA
 - Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit
 - Minimum benefit adjustment (non-GABA)
 - If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor’s benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to

all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a Nonemployer Entity Net Pension Liability	\$ 173,784	\$ 119,354	\$ 75,713

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the MPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the MPORS has a special funding situation in which the State is legally responsible for making contributions directly to the MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government's collective net pension liability that is associated with the non-State employer.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State as a Nonemployer Contributing Entity – Proportionate Share	\$ 119,708	\$ 119,354	67.085433%

At June 30, 2018, the State as a nonemployer contributing entity reported a liability of \$119.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2016, through June 30, 2017, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.20% to 0.24%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes to benefit terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or after July 1, 2017, to covered employment in the system from which they retired.
2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.
3. Interest credited to member accounts increased from 0.25% to 0.77%.
4. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State recognized grant expense of \$14.5 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$13.2 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ —	\$ 4,072
Net difference between projected and actual earnings on pension plan investments	104	—
Change of assumptions	8,056	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	391	—
Contributions paid to MPORS subsequent to the measurement date – FY 2018 Contributions	15,283	—
Totals	\$ 23,834	\$ 4,072

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer’s contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	\$ (170)
2020	3,404
2021	2,614
2022	(1,760)
2023	—
Thereafter	—

Firefighters’ Unified Retirement System – The FURS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation.

Summary of Benefits

Member’s compensation

- Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);
- Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s highest average compensation.
- Part-time firefighter – 15% of regular compensation of a newly confirmed full-time firefighter.

Eligibility for benefit

Service retirement: 20 years of membership service, regardless of age.
Early Retirement: Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately
5 years of membership service.

Monthly benefit formula

Members hired prior to July 1, 1981, and not electing GABA are entitled to the greater of:
2.5% of HMC per year of service; **or**

- if less than 20 years of service – 2% of HMC for each year of service;
- if more than 20 years of service – 50% of the member’s HMC plus 2% of the member’s HMC for each year of service over 20 years.

Members hired on or after July 1, 1981, and those electing GABA: 2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit.

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor’s benefit may not be less than 50% of the compensation of a newly confirmed active firefighter of the employer that last employed the member.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan. Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Member contributions to the system – Contributions are deducted from each member’s salary and remitted by the participating Employer. For members:

Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;

Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

Employer contributions to the system – Employers are required to contribute 14.36% of member’s compensation.

Nonemployer entity contributions to the system – The State contributes 32.61% of a member’s compensation from the General Fund.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.23%

- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases
 - GABA
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member’s benefit.
 - Minimum Benefit Adjustment (non-GABA)
Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor’s benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the FURS’s target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as

what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an Employer in FURS – Net Pension Liability	\$ 4,196	\$ 2,525	\$ 1,175
State as a Nonemployer Contributing Entity to FURS – Net Pension Liability	127,496	76,724	35,703

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the FURS. GASB 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the FURS has a special funding situation in which the State is legally responsible for making contributions directly to the FURS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or fire district’s collective net pension liability that is associated with the non-State employer.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	\$ 2,583	\$ 2,525	2.233929%
State's Proportionate Share as a Nonemployer Contributing Entity	77,448	76,724	67.876338%
State of Montana Totals	<u>\$ 80,031</u>	<u>\$ 79,249</u>	<u>70.110267%</u>

At June 30, 2018, the State reported a liability of \$79.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2016, through June 30, 2017, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.19% to 0.23%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes to benefit terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or

- after July 1, 2017, to covered employment in the system from which they retired.
- 2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.
- 3. Interest credited to member accounts increased from 0.25% to 0.77%.
- 4. Lump-sum payouts in all systems are limited to the member’s accumulated contributions rather than the present value of the member’s benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer’s reporting date there were no changes in proportion that would have an effect on the employer’s proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2018, the State as an employer recognized pension expense of \$458.1 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of \$11.5 million for special funding support provided by the General Fund for its proportionate share of the FURS’s pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2018, was \$12.0 million.

Deferred Outflows and Inflows

At June 30, 2018, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$472.0 thousand.

As of the fiscal year ended June 30, 2018, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	\$ 17	\$ 19
Net difference between projected and actual earnings on pension plan investments	2	—
Change of assumptions	315	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	199	—
Contributions paid to FURS subsequent to the measurement date – FY 2018 Contributions	518	—
Totals	\$ 1,051	\$ 19

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	26
2020		134
2021		87
2022		2
2023		66
Thereafter		—

At June 30, 2018, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2017 contributions of \$14.0 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 505	\$ 580
Net difference between projected and actual earnings on pension plan investments	63	—
Change in assumptions	9,568	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	5	—
Contributions paid to FURS subsequent to the measurement date – FY 2018 Contributions	15,272	—
Totals	\$ 25,413	\$ 580

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer’s contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2019	\$	775
2020		4,065
2021		2,647
2022		55
2023		2,014
Thereafter		—

Volunteer Firefighters’ Compensation Act – The VFCA, administered by the MPERA, is a statewide retirement and disability plan established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and includes volunteer

fire departments, fire districts, and fire service areas under the laws of the State. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. The VFCA also provides limited benefits for death or injuries incurred in the line of duty. A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit

Age 55, 20 years of credited service;

Age 60, 10 years of credited service.

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive \$7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at \$250 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting

10 years of credited service.

Monthly benefit formula (effective January 1, 2016)

\$8.75 per year of credited service up to 20 years;

\$7.50 per year of credited service after 20 years

Contributions to the Plan

The State, as a nonemployer contributing entity, is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. This requires the plan to be treated as a special funding situation in accordance with GASB 68. The State Auditor makes annual payments from the General Fund to the VFCA fund. Rates are specified by state law for contributions to the VFCA plan. The State legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

- Investment Return 7.65%
- Inflation at 2.75%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

For VFCA, administrative expenses are assumed to equal \$89.3 thousand. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected

to be adequate to make all the projected future benefit payments of current plan members through the year 2109. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the VFCA. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the VFCA’s target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

		<i>(in thousands)</i>		
		1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a Nonemployer Entity	\$	14,675	\$ 10,087	\$ 6,202
Net Pension Liability				

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the VFCA. GASB 68 became effective June 30, 2015, and includes requirements to record and report proportionate shares of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the VFCA has a special funding situation in which the State is legally responsible for making contributions directly to the VFCA on behalf of volunteer employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a volunteer fire company’s collective net pension liability that is associated with the non-State volunteer employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State as a Nonemployer Proportionate Share	\$ 10,599	\$ 10,087	100%

At June 30, 2018, the State reported a liability of \$10.1 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2016, through June 30, 2017, relative to total contributions received.

Changes in actuarial assumptions and methods: The following changes have been made to the actuarial assumptions:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The non-disabled mortality and withdrawal assumptions were updated.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the nonemployer's reporting date that are expected to have a significant effect on the nonemployer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of \$1.3 million for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$2.1 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ —	\$ 908
Change of assumptions	1,521	—
Net difference between projected and actual earnings on pension plan investments	103	—
Contributions paid to VFCA subsequent to the measurement date – FY 2018 Contributions	2,207	—
Totals	<u>\$ 3,831</u>	<u>\$ 908</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in grant expense as follows:

<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	\$ (39)
2020	858
2021	147
2022	(250)
2023	—
Thereafter	—

Teachers’ Retirement System – The TRS is administered by the Teachers’ Retirement Board (TRB), which is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan that provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college, or unit of the university system. The TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

The TRB is the governing body of the TRS and the TRS’s staff administer the TRS in conformity with the laws set forth in Title 19, chapter 20, MCA, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Benefits are established by state law and can only be amended by the Legislature.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation—1.85% of the AFC multiplied by the years of creditable service—for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1 of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier 1 members is 1.5% of the benefit payable as of January 1. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system’s funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Contributions to the System

All active employees in the TRS, regardless of employer type, are required to provide a contribution equal to 8.15% of their compensation.

All State and University employers are required to contribute 11.25% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.87% of an active, nonreemployed, member's compensation to the System.

Section 19-20-605, MCA, requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to Section 19-20-609, MCA, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of reemployed retiree compensation.

The TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The System receives 0.11% of reportable compensation from the General Fund for all TRS members. The TRS also receives 2.38% of reportable compensation from the General Fund for school districts and other employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1 of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability as of June 30, 2017, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017, valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total wage increases 4.00% to 8.51% for non-university members
(includes 4% general wage increase assumption) 5.00% for university members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases (starting three years after retirement)
 - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.
 - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute \$25 million annually to the TRS payable July 1 of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected

rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the TRS’s target asset allocation as of June 30, 2017, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	<i>(in thousands)</i>		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS – Net Pension Liability	\$ 66,458	\$ 48,227	\$ 32,872
State as a Nonemployer Contributing Entity to TRS – Net Pension Liability	886,016	642,958	438,252

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the TRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. In accordance with GASB 68, the TRS has a special funding situation in which the State is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of the TRS. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district’s collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's as an Employer Entity	\$ 57,016	\$ 48,227	2.860298%
State's as a Nonemployer Entity	707,527	642,958	38.133267%
State of Montana Totals	<u>\$ 764,543</u>	<u>\$ 691,185</u>	<u>40.993565%</u>

At June 30, 2018, the State reported a liability of \$691.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The employer’s proportion of the net pension liability was based on the State’s contributions received by the TRS during the measurement period, July 1, 2016, through June 30, 2017, relative to the all contributions received from the TRS’s participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: Since the previous measurement date, there have been no changes in actuarial assumptions or methods.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer’s reporting date.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2018, the State as an employer recognized a pension expense of \$12.1 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of \$31.5 million for special funding support provided by the State’s General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension related expenses for fiscal year 2018 was \$43.6 million.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$17.4 million.

As of the fiscal year ended June 30, 2018, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 177	\$ 72
Net difference between projected and actual earnings on pension plan investments	—	191
Change of assumptions	—	202
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,411	1,355
Contributions paid to TRS subsequent to the measurement date – FY 2018 Contributions	17,298	—
Totals	\$ 29,886	\$ 1,820

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized in pension expense as follows:

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	\$	4,971
2020		4,603
2021		2,047
2022		(853)
2023		—
Thereafter		—

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of \$43.0 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,365	\$ 961
Net difference between projected and actual earnings on pension plan investments	—	2,544
Changes of assumptions	—	2,688
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,375	32,164
Contributions paid to TRS subsequent to the measurement date – FY 2018 Contributions	43,718	—
Totals	<u>\$ 52,458</u>	<u>\$ 38,357</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in grant expense as follows:

	(in thousands)	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2019	\$	(23,280)
2020		3,570
2021		1,441
2022		(11,348)
2023		—
Thereafter		—

D. Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), and the Teachers' Retirement System (TRS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP.

Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2018, is \$6.9 million and contribution forfeitures were \$746.1 thousand.

Local government entities contribute 8.47% of member compensation. School district employers contributed 8.20% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.57% of member compensation.

The total contribution rate of 8.57%, referenced in the preceding paragraph, is allocated as follows: 8.23% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. Refer to PERB's annual financial report for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 53 non-state entity employers participate in the 457-Plan.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Empower Retirement™ is the record keeper for the plan. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association (TIAA). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.47% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA. Individuals are immediately vested with all contributions. The Montana University System records employee/ employer contributions, and remits monies to TIAA. Total contributions made to the plan by the employer were \$16.9 million and the total employee contributions were \$19.5 million for the fiscal year ended June 30, 2018.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's

ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at either fair value or cost, depending on the underlying investment type. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of direct real estate investments is based on appraised value. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of “1-for-5” additional service. In fiscal year 2018, there were 254 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2018 totaled \$261.8 thousand. The outstanding balance at June 30, 2018, totaled \$16.0 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson & Williams PC, in Great Falls, Montana and MPERA legal counsel. The State responded and filed an amended answer to the complaint before filing a motion and brief to change venue and/or to dismiss the matter for lack of subject matter jurisdiction. Following a hearing on June 1, 2017, the State's motions were denied. Discovery requests and responses have been served by both parties. The plaintiff's motion for class certification was filed October 31, 2017. A third set of discovery requests resulted in plaintiff expanding the issues to include conversion of a disability benefit to a service retirement benefit at normal retirement age. A supplemental set of briefs were filed as of October 2018 and the parties await a ruling from Judge Pinski on plaintiff's motion for class certification.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information Non-trust Plans

The State of Montana (State) and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and MUS offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan. Further detail on State Retirement Plans are provided in Note 6. MUS provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from their plan, or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. They must elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for both plans.

Montana State Fund, a discretely presented component of the State and participant in the State OPEB plan, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for OPEB related information.

B. Plan Descriptions

Both healthcare OPEB plans for the State and MUS are reported as single employer plans. In addition to the primary government, the participating employers under the State OPEB plan are: Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS OPEB plan are: Office of Commissioner of Higher Education (OCHE), Montana State University - Billings (MSU-Billings), Montana State University - Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University - Northern (MSU-Northern), Montana Technological University, Helena College UM, University of Montana - Missoula (UM-Missoula), and University of Montana - Western (UM-Western). Participating employers under MUS, but excluded from the total OPEB liability due to not qualifying as component units, are: Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), and Miles Community College (Miles CC). Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The State and MUS pay for post employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

As of December 31, 2017, the State OPEB plan's administratively established retiree medical premiums vary between \$439.00 and \$1,633.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and \$70.00 and vision hardware premiums vary between \$7.64 and \$22.26, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

As of June 30, 2018, the MUS OPEB plan's administratively established retiree medical premiums vary between \$327.00 and \$2,403.00 per month. Retiree dental premiums vary between \$52.00 and \$156.00 per month while vision premiums vary from \$9.71 to \$28.31, depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

C. Basis of Accounting

Total OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. Total OPEB liability is not reported on the governmental fund financial statements, as it is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Both OPEB plans state, "An employee enrolled in the State OPEB plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD), within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the State OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost," and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2018.

The number of State Plan participants as of March 31, 2018, follows:

Enrollment	State Plan Participants						Total
	State ⁽¹⁾	Facility Finance Authority ⁽²⁾	Montana Board of Housing ⁽²⁾	Public Employee Retirement Board ⁽²⁾	Montana State Fund ⁽²⁾	Teachers Retirement System ⁽²⁾	
Active employees	12,210	1	15	46	293	20	12,585
Retired employees, spouses, and surviving spouses	2,846	2	3	1	14	7	2,873
Total	15,056	3	18	47	307	27	15,458

The number of MUS Plan participants as of March 31, 2018, follows:

Enrollment	MUS Plan Participants									Total
	MSU-GFC ⁽²⁾	UM-HC ⁽²⁾	MSU-Billings ⁽²⁾	MSU-Bozeman ⁽²⁾	MSU-Northern ⁽²⁾	OCHE ⁽¹⁾	UM-Missoula ⁽²⁾	UM-MT Tech ⁽²⁾	UM-Western ⁽²⁾	
Active employees	120	97	462	3,094	176	61	2,143	437	188	6,778
Retired employees, spouses, and surviving spouses	7	20	136	578	42	23	579	102	61	1,548
Total	127	117	598	3,672	218	84	2,722	539	249	8,326

⁽¹⁾ Primary Government

⁽²⁾ Discrete Component Units of Primary Government

D. Schedule of Changes in Total OPEB liability

The following table presents the other items related to and changes in the Total OPEB liability:

Annual OPEB Cost & Changes in Total OPEB liability
(in thousands)

	State Plan			MUS Plan		
	Primary Government OPEB liability	Discrete Component Unit OPEB liability	Total State Plan	Primary Government OPEB liability	Discrete Component Unit OPEB liability	Total MUS Plan
Balances at 6/30/2017 (Restated)	\$ 48,914	\$ 955	\$ 49,869	\$ 421	\$ 33,837	\$ 34,258
Changes for the year:						
Service Cost	1,775	114	1,889	(12)	1,966	1,954
Interest	1,889	125	2,014	17	1,393	1,410
Difference between Expected and Actual Experience	(4,430)	(293)	(4,723)	(15)	(1,308)	(1,323)
Changes of assumptions or other inputs	(277)	(18)	(295)	(2)	(180)	(182)
Benefit Payments	1,599	106	1,705	(8)	(671)	(679)
Net Changes	556	34	590	(20)	1,200	1,180
Balances at 6/30/2018	\$ 49,470	\$ 989	\$ 50,459	\$ 401	\$ 35,037	\$ 35,438

E. Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The schedule of changes in the State's and MUS's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the State's and MUS's TOL and related ratios are based on the substantive plan (*the plan as understood by the employer and the plan members*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The State's OPEB Plan TOL in December 31, 2017, rolled forward to March 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

**Other Postemployment Benefits
State Single Employer Plan**

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	\$ 13,572	\$ 5,268
After Medicare eligibility	5,271	4,403
Actuarial valuation date	December 31, 2017	
Actuarial measurement date ⁽¹⁾	March 31, 2018	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.89%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Medical plans moved from Cigna to Allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.

Additional information as of the latest actuarial valuation for MUS OPEB plan follows:

	Other Postemployment Benefits	
	MUS Single Employer Plan	
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	\$ 11,264	\$ 4,728
After Medicare eligibility	4,806	3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date ⁽¹⁾	March 31, 2018	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 year period	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.89%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS and MUS-RP, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS and MUS-RP, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017, and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements, lapse rates were removed to reflect a return to standard retiree contribution levels, added employees covered by the MUS-RP, changes in revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Increased deductible, increased out-of-pocket limits for Medical and RX, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retirees became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services and massage therapy moved into rehabilitation benefit.

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

State OPEB plan (in thousands)			
	1.0% Decrease (2.89%)	Current Discount Rate (3.89%)	1.0% Increase (4.89%)
Primary Government	\$ 60,653	\$ 49,470	\$ 40,919
Discrete Component Units	1,269	989	778
Total OPEB liability	<u>\$ 61,922</u>	<u>\$ 50,459</u>	<u>\$ 41,697</u>

MUS OPEB plan (in thousands)			
	1.0% Decrease (2.89%)	Current Discount Rate (3.89%)	1.0% Increase (4.89%)
Primary Government	\$ 487	\$ 401	\$ 335
Discrete Component Units	42,264	35,037	29,416
Total OPEB liability	<u>\$ 42,751</u>	<u>\$ 35,438</u>	<u>\$ 29,751</u>

Sensitivity of the TOL to changes in the healthcare cost trend rates

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current healthcare cost trend rates:

State Plan (in thousands)			
	1.0% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% Increase (8.5%)
Primary Government	\$ 40,684	\$ 49,470	\$ 61,332
Discrete Component Unit	774	989	1,285
Total OPEB liability	<u>\$ 41,458</u>	<u>\$ 50,459</u>	<u>\$ 62,617</u>

MUS Plan (in thousands)			
	1.0% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% Increase (8.5%)
Primary Government	\$ 330	\$ 401	\$ 495
Discrete Component Unit	28,790	35,037	42,278
Total OPEB liability	<u>\$ 29,120</u>	<u>\$ 35,438</u>	<u>\$ 42,773</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the State OPEB plan's OPEB expense is \$3.9 million and MUS OPEB plan's OPEB expense is \$3.3 million.

At June 30, 2018, the State OPEB plan deferred outflows and inflows of resources are from the following sources:

	State Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 4,430
Changes of assumptions or other inputs	—	277
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	968	—
Total	<u>\$ 968</u>	<u>\$ 4,707</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ 114	\$ 407
Changes of assumptions or other inputs	7	25
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	24	—
Total	<u>\$ 145</u>	<u>\$ 432</u>

At June 30, 2018, MUS OPEB plan deferred outflows and inflows of resources are from the following sources:

	MUS Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 15
Changes of assumptions or other inputs	—	2
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	1	—
Total	<u>\$ 1</u>	<u>\$ 17</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ —	\$ 1,308
Changes of assumptions or other inputs	—	180
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	100	—
Total	<u>\$ 100</u>	<u>\$ 1,488</u>

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense				
State Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units		State Plan Total
2019	\$ (388)	\$ (26)	\$	(414)
2020	(388)	(26)		(414)
2021	(388)	(26)		(414)
2022	(388)	(26)		(414)
2023	(388)	(26)		(414)
Thereafter	(2,832)	(116)		(2,948)

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense				
MUS Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units		MUS Plan Total
2019	\$ (1)	\$ (124)	\$	(125)
2020	(1)	(124)		(125)
2021	(1)	(124)		(125)
2022	(1)	(124)		(125)
2023	(1)	(124)		(125)
Thereafter	(10)	(867)		(877)

F. General Information Trust Plan

General Information

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description

The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

Public Employees' Retirement Board
100 North Park, Suite 200
P.O. Box 200131
Helena, MT 59620-0131

G. Termination Benefits

During the year ended June 30, 2018, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for fifty-two employees provided for up to eighteen months, one-time lump-sum incentive payments for fifty employees, and paid administrative leave for four employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2018, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for one hundred fifteen employees.

During the year ended June 30, 2018, the cost of termination benefits for the fiscal year was \$867.3 thousand and \$6.1 million for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 764 policies during the 2018 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2018 growing season, with an 85% share of premiums and losses allotted to the Reinsurer and a 15% share of each allotted to the State Hail Insurance. The fund recorded a liability of \$34.5 thousand which is 15% of the estimated claims (\$209.0 thousand) plus adjustment expenses through June 30, 2018. The amount deducted from the estimated claims as of June 30, 2018, for reinsurance was \$177.7 thousand (85% of estimated claims). The premiums ceded to the reinsurer through June 30, 2018 were \$1.3 million which was 85% of total premiums of \$1.6 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and Navitus is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$10.2 million as of June 30, 2018, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers'

compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of \$750.0 thousand per occurrence (\$500.0 thousand for claims occurring prior to July 1, 2013) and \$1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1.0 million above the self-insured amount of \$750.0 thousand (\$500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2018, the program ceded \$323.5 thousand in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers' Compensation Program Committee based on actuarial calculations of premium need and composite premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$5.8 million for estimated claims at June 30, 2018. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The Employment Relations Division sets the assessment and surcharge rates annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Covered employers share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers for April 1st, of the previous fiscal year, through March 31st of the recent year.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. The benefit to an insured employer is that the insurer's liability is limited to 104 weeks on the claim. This can favorably impact the employer's modification factor, which in turn can keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2018, the amount of this liability was estimated to be \$2.9 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2018	2017	2018	2017	2018	2017
Unpaid claims and claim adjustment expenses at beginning of year	\$ 2	\$ 134	\$ 10,000	\$ 9,100	\$ 7,298	\$ 7,764
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	120	819	86,485	84,186	2,794	3,096
Less excess insurance reimbursement	-	-	-	-	-	-
Increase (decrease) in provision for insured events of prior years	12	434	-	-	(1,273)	(1,368)
Total incurred claims and claim adjustment expenses	132	1,253	86,485	84,186	1,521	1,728
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(85)	(817)	(86,285)	(83,286)	(605)	(940)
Claims and claim adjustment expenses attributable to insured events of prior years	(14)	(568)	-	-	(2,383)	(1,254)
Total payments	(99)	(1,385)	(86,285)	(83,286)	(2,988)	(2,194)
Total unpaid claims and claim adjustment expenses at end of year	\$ 35	\$ 2	\$ 10,200	\$ 10,000	\$ 5,831	\$ 7,298

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and State-administered foreclosure of housing units. The State self-insures the \$2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below \$2.0 million of value, with State agencies paying the first \$1.0 thousand. Commercial property insurance protects approximately \$5.5 billion of State-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$2.0 million for earthquake and \$2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Willis Towers Watson Company, and issued for the accident period July 1, 2008, through June 30, 2018, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2018, estimated claims liability was \$15.2 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. Navitus is the administrator for the pharmacy program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2018, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$17.7 million as

provided by Actuaries Northwest, a consulting actuarial firm. In fiscal year 2019, \$17.5 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers’ compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Willis Towers Watson, as of June 30, 2018, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2018, \$31.1 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2018	2017	2018	2017	2018	2017
Amount of claims liabilities at the beginning of each fiscal year	\$ 16,054	\$ 15,444	\$ 17,696	\$ 17,873	\$ 32,212	\$ 38,410
Incurred claims:						
Provision for insured events of the current year	4,714	4,786	171,930	159,835	-	-
Increase (decrease) in provision for insured events of prior years	11,070	17,592	(4,013)	518	6,002	1,554
Total incurred claims	15,784	22,378	167,917	160,353	6,002	1,554
Payments:						
Claims attributable to insured events of the current year	(1,852)	(1,681)	(154,468)	(142,173)	-	-
Claims attributable to insured events of prior years	(14,806)	(20,087)	(13,422)	(18,357)	(7,105)	(7,752)
Total payments	(16,658)	(21,768)	(167,890)	(160,530)	(7,105)	(7,752)
Total claims liability at end of each fiscal year	\$ 15,180	\$ 16,054	\$ 17,723	\$ 17,696	\$ 31,109	\$ 32,212

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2018, the Department of Transportation had contractual commitments of approximately \$280.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2018, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$38.3 million for capital projects construction. The primary government will fund \$7.7 million of these projects, with the remaining \$30.6 million funding coming from the Montana University System.

At June 30, 2018, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately \$4.5 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2018, BOI had committed, but not yet purchased, \$29.4 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$5.9 million for loans as of June 30, 2018. As of June 30, 2018, another \$3.5 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2018, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2018, totaled \$38.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2018, the outstanding tax-exempt bonds distributed by the Facility Finance Authority were issued in the amount of \$14.3 million of which \$1.9 million in principal payments are scheduled to be paid by June 30, 2019. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds.

E. Department of Labor and Industry Commitments

At June 30, 2018, Department of Labor and Industry, had \$3.2 million contractual commitments for Montana State AmeriCorps Programs and a \$0.8 million commitment for IT contracts. The funding for these programs is federal grants and state special funds.

F. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

<u>Enterprise Funds</u>	<u>Amount</u>
HUD Section 8	\$ 69
Liquor Warehouse	25
Other Enterprise	4
Prison Industries	3
West Yellowstone Air	18
Subtotal - Enterprise funds	<u>\$ 119</u>
<u>Internal Service Funds</u>	
Buildings & Grounds	\$ 180
Labor Central Services	628
Print and Mail	1
SABHRS Finance and Budget Bureau	19
Warrant Processing	19
Subtotal - Internal Service funds	<u>\$ 847</u>

G. Encumbrances

As of June 30, 2018, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	<u>Federal Special Revenue Fund</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
Encumbrances	\$ 20,335	\$ 7,998	\$ 68	\$ 51,126	\$ 79,527

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2018, were as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2019	\$ 3,594	\$ 219
2020	3,406	18
2021	3,066	—
2022	2,355	—
2023	1,273	—
2024 - 2028	570	—
Total minimum payments	14,264	237
Less: interest	(566)	(6)
Present value of minimum payments	\$ 13,698	\$ 231

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	\$ 1,988
Equipment	18,990
Less: Accum Depreciation	(5,025)
Net Book Value	\$ 15,953

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2018 totaled \$27.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2019	\$ 23,965	\$ 752
2020	19,240	572
2021	15,228	450
2022	14,189	453
2023	12,001	461
2024 - 2028	40,705	1,672
2029 - 2033	17,613	—
Thereafter	9,364	—
Total future rental payments	\$ 152,305	\$ 4,360

NOTE 11. STATE DEBT**A. General Information**

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2018, the State issued two bond anticipation notes. The proceeds of Water/Wastewater 2017B and Drinking Water 2017C will be used to fund water and wastewater system improvements and rehabilitation. As of June 30, 2018, no bond anticipation notes have been authorized but not issued. The State issued three bond anticipation notes during fiscal year 2016, two of which were paid off during fiscal year 2018 and one that is still active. The State issued one bond anticipation note in 2017 that is still active as of the end of fiscal year 2018. Drinking Water 2017C replaced Drinking Water 2016D. The following schedule summarizes the activity for the year ended June 30, 2018 (in thousands):

BANS	Beginning Balance	Additions	Reductions	Ending Balance
Coal Severance Tax – 2015A	\$ 1,250	\$ —	\$ 1,250	\$ —
Drinking Water – 2015B	1,540	1,000	2,190	350
Water/Wastewater – 2016C	825	1,000	1,825	—
Coal Severance Tax – 2016E ⁽¹⁾	1,034	346	200	1,180
Water/Wastewater – 2017B ⁽¹⁾	—	1,900	1,450	450
Drinking Water – 2017C ⁽¹⁾	—	900	—	900

⁽¹⁾ These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2018, were as follows (in thousands):

Series	Amount		Balance
	Issued		June 30, 2018
2000	\$ 15,000	\$	14,255
2003	15,000		14,330
2004	18,500		18,000
2007	15,000		14,695
2010	12,000		11,900
2013	12,000		11,970
2017	20,000		19,960
			<u>\$ 105,110</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2018 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$ 107,880	\$ —	\$ 2,770	\$ 105,110

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2018, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2018
				Fiscal Year 2019	In Year of Maturity ⁽²⁾	
General obligation bonds						
Hard Rock Mining Reclamation	2002C	\$ 2,500	3.5-4.7	\$ 160	200 (2023)	\$ 900
CERCLA Program ⁽⁶⁾	2005D	2,000	3.25-4.3	105	140 (2026)	980
Energy Conservation Program ⁽⁵⁾	2006B	3,750	4.0-6.0	295	330 (2022)	1,250
Long-Range Bldg Program	2008D	3,100	3.375-4.35	145	220 (2028)	1,790
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	655	710 (2021)	2,050
Drinking Water Revolving Fund Refunding ⁽³⁾	2010B	5,400	2.0-4.0	495	110 (2026)	2,245
Trust Land (Taxable)	2010F	21,000	1.55-4.9	940	1,450 (2031)	15,175
Long-Range Bldg Program	2010G	550	1.5-2.7	60	60 (2021)	180
Renewable Resource Program (Taxable) ⁽⁴⁾	2010H	1,000	1.0-3.85	110	70 (2021)	290
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	625	720 (2023)	3,360
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	635	115 (2025)	4,315
Water Pollution Control Revolving Fund (Taxable) ⁽³⁾	2013D	1,035	0.4-3.7	100	120 (2024)	655
Water Pollution Control Revolving Fund ⁽³⁾	2013E	5,000	2.0-3.0	500	575 (2024)	3,210
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	1,940	820 (2028)	21,530
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,380	1,260 (2020)	3,640
Water Pollution Control Revolving Fund ⁽³⁾	2015C	24,365	3.0-5.0	835	1,860 (2036)	22,890
Total general obligation bonds		<u>\$140,605</u>		<u>\$ 9,980</u>		<u>\$ 84,460</u>
Special revenue bonds						
State Hospital Project ⁽⁷⁾	1997	\$ 25,915	4.0-5.05	\$ 1,570	1,820 (2022)	\$ 6,775
Renewable Resource Program ⁽⁸⁾	2003A	3,000	1.05-4.05	170	215 (2024)	1,155
Renewable Resource Program ⁽⁸⁾	2010B	1,730	2.0-3.6	80	115 (2031)	1,225
Renewable Resource Program (Taxable) ⁽⁸⁾	2010C	6,720	0.9-4.2	380	170 (2031)	4,315
U.S. Highway 93 GARVEE ⁽⁹⁾	2012	50,915	0.9-1.9	10,590	11,040 (2020)	21,630
Renewable Resource Program ⁽⁸⁾	2013A	2,255	2.0-3.625	135	185 (2029)	1,735
Renewable Resource Program (Taxable) ⁽⁸⁾	2013B	3,390	1.0-4.75	200	290 (2029)	2,620
U.S. Highway 93 GARVEE Refunding ⁽⁹⁾	2016	22,540	0.74-1.86	3,070	3,740 (2023)	16,980
Total special revenue bonds		<u>\$116,465</u>		<u>\$ 16,195</u>		<u>\$ 56,435</u>

Governmental Activities	Principal Payments				Balance June 30, 2018
	Amount Issued	Interest Range (%) ⁽¹⁾	Fiscal Year 2019	In Year of Maturity ⁽²⁾	
	Notes Payable				
Middle Creek Dam Project ⁽¹⁰⁾	\$ 3,272	8.125	\$ 88	225 (2034)	\$ 2,033
Tongue River Dam Project ⁽¹¹⁾	11,300	—	290	290 (2038)	5,795
ITSD Software Licenses	2,890	2.41	494	494 (2019)	494
ITSD IBM Mainframes Maintenance	500	1.07	126	127 (2020)	253
ITSD IBM Professional Services	758	0.19	159	72 (2023)	732
Total notes payable	<u>\$ 18,720</u>		<u>\$ 1,157</u>		<u>\$ 9,307</u>
Subtotal governmental activities, before unamortized balances					150,202
Unamortized discount					(8)
Unamortized premium					9,095
Total governmental activities	<u>\$275,790</u>		<u>\$ 27,332</u>		<u>\$ 159,289</u>

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.

(11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2018, were as follows (in thousands):

Year Ended June 30:	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 9,980	\$ 3,350	\$ 16,195	\$ 2,234	\$ 1,157	\$ 63
2020	9,170	3,030	16,915	1,595	671	54
2021	8,120	2,735	6,160	947	552	48
2022	7,320	2,424	6,445	738	560	45
2023	7,085	2,117	4,860	518	466	41
2024 - 2028	25,975	6,772	4,575	756	2,041	204
2029 - 2033	11,490	2,589	1,285	70	2,185	204
2034 - 2038	5,320	408	—	—	1,675	41
Total	<u>\$ 84,460</u>	<u>\$ 23,425</u>	<u>\$ 56,435</u>	<u>\$ 6,858</u>	<u>\$ 9,307</u>	<u>\$ 700</u>

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2018, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$ 98,625	\$ —	\$ 14,165	\$ 84,460	\$ 9,980	\$ 74,480
Special revenue bonds	73,550	—	17,115	56,435	16,195	40,240
Notes payable	10,004	1,258	1,955	9,307	1,157	8,150
	182,179	1,258	33,235	150,202	27,332	122,870
Unamortized discount	(9)	1	—	(8)	—	(8)
Unamortized premium	11,202	—	2,107	9,095	—	9,095
Total bonds/notes payable ⁽²⁾	193,372	1,259	35,342	159,289	27,332	131,957
Other liabilities						
Lease/installment purchase payable	6,537	9,778	2,617	13,698	3,352	10,346
Operating lease rent holiday	27	—	10	17	9	8
Pension benefits payable	4	—	—	4	2	2
Compensated absences payable ⁽¹⁾	103,565	53,794	55,600	101,759	55,317	46,442
Arbitrage rebate tax payable ⁽¹⁾	83	—	—	83	—	83
Estimated insurance claims ⁽¹⁾	65,962	189,703	191,652	64,013	29,396	34,617
Pollution remediation	208,781	3,021	13,157	198,645	22,162	176,483
Net pension liability	1,789,810	114,395	73,904	1,830,301	—	1,830,301
Total OPEB liability ⁽³⁾	48,403	527	—	48,930	—	48,930
Total other liabilities	2,223,172	371,218	336,940	2,257,450	110,238	2,147,212
Total governmental activities long-term liabilities	\$ 2,416,544	\$ 372,477	\$ 372,282	\$ 2,416,739	\$ 137,570	\$ 2,279,169
Business-type activities						
Lease/installment purchase payable	\$ 415	\$ —	\$ 184	\$ 231	\$ 213	\$ 18
Compensated absences payable	2,047	1,029	1,034	2,042	1,033	1,009
Arbitrage rebate tax payable	23	—	6	17	—	17
Estimated insurance claims	20,242	88,138	89,420	18,960	13,877	5,083
Net pension liability	14,293	2,686	521	16,458	—	16,458
Total OPEB liability ⁽³⁾	937	5	—	942	—	942
Total business-type activities long-term liabilities	\$ 37,957	\$ 91,858	\$ 91,165	\$ 38,650	\$ 15,123	\$ 23,527

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

(3) The total OPEB liability beginning balances were restated due to the implementation of GASB Statement No. 75. For more detail, see Note 7.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make two prepayments: \$350.0 thousand and \$165.0 thousand on Series 2005F general obligation bonds resulting in a payoff.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)

BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2018, QZAB debt outstanding aggregated \$5.0 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2018, QSCB debt outstanding aggregated \$5.1 million.

Beginning Farm Loan Program

The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2018, was as follows: Hershberger Project, outstanding \$27.6 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2018, was \$198.6 million. Of this liability, \$11.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$181.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI receives a credit enhancement fee at FFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. BOI and FFA have entered into an agreement detailing repayment to BOI. The credit enhancement fee received during the fiscal year was \$449.0 thousand. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2018 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 71,416	\$ 36,470	\$ 26,435	\$ 81,451

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments' INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2018, consisted of the following (in thousands):

	Due to Other Funds							Total
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds ⁽³⁾	Nonmajor Governmental Funds	State Special Revenue	
Due from Other Funds								
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ 6
Economic Development Bonds	—	—	—	1,700	—	1,615	—	3,315
Federal Special Revenue	—	—	1,917	—	—	—	663	2,580
General Fund	—	819	—	18	13,354	—	14,648	28,839
Internal Service Funds	1	—	8	—	—	—	4	13
Nonmajor Enterprise Funds	—	—	—	—	—	—	11	11
Nonmajor Governmental Funds ⁽¹⁾	—	197	—	—	—	—	131	328
State Special Revenue ⁽²⁾	—	—	430	—	—	562	—	992
Total	\$ 1	\$ 1,016	\$ 2,355	\$ 1,718	\$ 13,354	\$ 2,183	\$ 15,457	\$ 36,084

- (1) Total due from other funds to the non-major governmental funds on the financial statements is reported as \$1.5 million. The difference of \$1.2 million between the amount reported above of \$328.0 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.
- (2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as \$10.6 million. The difference of \$9.6 million between the amount reported above of \$992.0 thousand and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.
- (3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as \$13.6 million. The difference of \$291.3 thousand between the amount reported above of \$13.4 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide statement and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2018, consisted of the following (in thousands):

	Interfund Loans Payable						Total
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Land Grant	
Interfund Loans Receivable							
General Fund	\$ 1,689	\$ 65,260	\$ —	\$ 303	\$ 5,215	\$ —	\$ 72,467
Internal Service Funds	—	35	—	—	—	—	35
State Special Revenue	—	60,204	12	—	—	6	60,222
Total	\$ 1,689	\$ 125,499	\$ 12	\$ 303	\$ 5,215	\$ 6	\$ 132,724

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments' INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2018, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax	\$ —	\$ —	\$ 1,935	\$ —	\$ 1,935
Economic Development Bonds	—	4,206	1,350	—	5,556
General Fund	300	—	—	189	489
Nonmajor Governmental Funds	—	—	—	7,471	7,471
State Special Revenue	35,296	—	4,293	—	39,589
Total	\$ 35,596	\$ 4,206	\$ 7,578	\$ 7,660	\$ 55,040

Additional detail for certain advance balances at June 30, 2018, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Departmental Function	Balance
Natural Resources and Conservation	\$ 1,350
Transportation	4,206
Total	\$ 5,556

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2018, consisted of the following (in thousands):

	Transfers Out								
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds ⁽¹⁾	Land Grant	Nonmajor Enterprise Funds ⁽²⁾	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers In									
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 656	\$ —	\$ 656
Federal Special Revenue	—	—	81	—	—	—	—	2,437	2,518
General Fund	17,938	418	—	—	5	45,118	5,450	73,513	142,442
Internal Service Funds	—	—	1,194	—	—	—	—	529	1,723
Land Grant	—	—	—	—	—	—	—	5	5
Nonmajor Enterprise Funds	—	—	—	69	—	—	—	693	762
Nonmajor Governmental Funds	551	16,328	12,366	160	2,496	—	2,744	13,558	48,203
State Special Revenue	25,700	15,635	45,514	3	59,634	7,318	21,908	—	175,712
Total	\$ 44,189	\$ 32,381	\$ 59,155	\$ 232	\$ 62,135	\$ 52,436	\$ 30,758	\$ 90,735	\$ 372,021

⁽¹⁾ Total transfers-out for internal service funds on the fund financial statements is reported as \$904.0 thousand. The difference of \$672.0 thousand between the amount reported above of \$232.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

⁽²⁾ Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as \$52.4 million. The difference of \$3.0 thousand between the amount reported above of \$52.4 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2018, as follows (in thousands):

<u>Fund Type/Fund</u>	<u>Deficit ⁽¹⁾</u>
Governmental Funds	
Federal Special Revenue ⁽²⁾	\$ (10,069)
Internal Service Funds	
Information Tech Services	\$ (13,046)
Admin Insurance	(417)
Building and Grounds	(594)
Admin Central Services	(1,617)
Labor Central Services	(4,982)
Commerce Central Services	(1,280)
OPI Central Services	(2,070)
DEQ Indirect Cost Pool	(4,223)
Payroll Processing	(1,837)
Investment Division	(3,286)
Aircraft Operation	(309)
Justice Legal Services	(438)
Personnel Training	(257)
Other Internal Services	(469)
Enterprise Fund	
State Lottery	\$ (1,877)
Subsequent Injury	(1,573)
Local Government Audits	(137)

⁽¹⁾ The allocation of net pension and OPEB liabilities is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7 respectively.

⁽²⁾ The primary reason causing fund deficit in Federal Special Revenue Fund is due to CY2017 fire season federally reimbursable costs. The federal fund reimbursement was unavailable to receive within 60 days of 6/30/2018, creating a deferred inflow and a fund deficit in the same amount.

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2018.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	\$ 73,544	\$ 41,795	\$ 22,009	\$ 1,824	\$ 159	\$ 81,567	\$ 220,898
Taxes	219,789	4,289	258,926	—	(1)	20,651	503,654
Charges for services	39,658	13,878	4,299	32,194	1,882	17,935	109,846
Investment earnings	554	1,287	206	134	186	7,215	9,582
Securities lending income	—	38	—	1	4	71	114
Sale of documents/ merchandise/property	2,208	2,830	104	100	17	4,741	10,000
Rentals/leases/royalties	317	20	438	48	5	406	1,234
Contributions/premiums	27,471	—	—	—	—	—	27,471
Grants/contracts/donations	1,705	693	561	11,896	5,378	4,041	24,274
Federal	6,944	36	2	2,356	—	—	9,338
Federal indirect cost recoveries	—	—	43,953	62	—	4,992	49,007
Other revenues	1,990	517	284	126	148	100	3,165
Transfers in	48,932	4,207	1,564	7,132	543	113,334	175,712
Total State Special Revenue	\$ 423,112	\$ 69,590	\$ 332,346	\$ 55,873	\$ 8,321	\$ 255,053	\$ 1,144,295

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 1
Charges for services	812	26	—	5,561	11,896	—	18,295
Investment earnings	212	9	—	—	127	99	447
Grants/contracts/donations	—	—	—	18	—	—	18
Federal	97,025	14,614	441,953	1,924,357	191,216	99,492	2,768,657
Federal indirect cost recoveries	9	—	—	66,546	94	697	67,346
Other revenues	3	6	—	499	3	5	516
Transfers in	81	1,403	—	1,034	—	—	2,518
Total Federal Special Revenue	\$ 98,142	\$ 16,058	\$ 441,953	\$ 1,998,015	\$ 203,336	\$ 100,294	\$ 2,857,798

Governmental Fund Balance By Function, June 30, 2018

(in thousands)

	Special Revenue			Permanent		Nonmajor	Total
	General	State	Federal	Coal Severance Tax	Land Grant		
Fund balances:							
Nonspendable							
Inventory	\$ 3,798	\$ 21,030	\$ —	\$ —	\$ —	\$ —	\$ 24,828
Permanent fund principal	—	500	—	561,938	710,197	334,376	1,607,011
Long-term notes/receivables	489	—	—	—	—	—	489
Prepaid expense	327	346	57	—	—	—	730
Total nonspendable	4,614	21,876	57	561,938	710,197	334,376	1,633,058
Restricted							
General government	—	18,273	—	—	—	5,942	24,215
Public safety	—	219,315	—	—	—	1	219,316
Transportation	—	85,046	—	—	—	—	85,046
Health and human services	—	3,438	—	—	—	6,329	9,767
Education	—	13,040	—	—	—	20	13,060
Natural resources	—	703,893	—	—	—	8,986	712,879
Total restricted	—	1,043,005	—	—	—	21,278	1,064,283
Committed							
General government	—	122,732	—	528,012	—	40,481	691,225
Public safety	—	48,094	—	—	—	—	48,094
Transportation	—	16,583	—	—	—	—	16,583
Health and human services	—	40,628	—	—	—	—	40,628
Education	—	16,094	—	—	—	—	16,094
Natural resources	—	292,048	—	—	—	32,491	324,539
Total committed	—	536,179	—	528,012	—	72,972	1,137,163
Assigned							
General government	—	—	—	—	—	23	23
Public safety	—	—	—	—	—	592	592
Encumbrance	7,998	—	—	—	—	—	7,998
Total assigned	7,998	—	—	—	—	615	8,613
Unassigned							
	186,707	—	(10,126)	—	—	—	176,581
Total fund balance	\$ 199,319	\$ 1,601,060	\$ (10,069)	\$ 1,089,950	\$ 710,197	\$ 429,241	\$ 4,019,698

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans, prior to transferring its portfolio, owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees and its business operations are managed by the Student Assistance Foundation (SAF). A Board of Regents board member is also a MHESAC Board of Directors member, an Office of the Commissioner of Higher Education staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT, from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013 and ending June 30, 2021. The annual lease amount is currently set at \$21.3 thousand.

The relative of a member of Montana Department of Transportation's (MDT) Management Team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration and state agencies are required to use the DOA issued term contracts for such supplies. Statewide, MDT purchased supplies from this business in the amount of \$112.6 thousand for the fiscal year ended June 30, 2018.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. Department-wide, MDT purchased services in the amount of \$9.4 thousand for the fiscal year ended June 30, 2018.

MDT has proper conflict of interest procedures and internal controls in place for identified related party transactions.

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the department is eligible to issue GO bonds for the purpose of making private sale loans. Department of Natural Resources and Conservation has applied and received "recycled loan funds" from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for fiscal year 2018 was \$4.3 million. The loans have interest rates ranging from 3.0% to 4.3% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

Per ARM 17.58.101, the Montana Petroleum Tank Release Compensation Board (Board) is an independent board that is attached to Department of Environmental Quality (DEQ) for administrative purposes only. Board members are required to follow Montana's code of ethics, that includes recusing oneself in matters related to a conflict of interest. To ensure we are following state law, all contracts are required to go through a competitive bidding process.

Four Board members were identified as having related party transactions with DEQ. These relationships include members who are: 1) an employee of a company that had a release and is receiving funds; 2) an agent for an insurer that covered a station tank release and is receiving funds; 3) a shareholder in a bank that receives funds; and 4) a contractor for DEQ, the agency responsible for clean-up oversight, who is also a shareholder of a separate company that receives funds. Total payments to all related parties were direct payments to the contractors in the amount of \$164.5 thousand with a matching Board amount of \$9.0 thousand and indirect payments to the bank and insurance company in the amount of \$93.6 thousand and \$15.9 thousand, respectively, for the fiscal year ended June 30, 2018.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In *State of Montana v. Philip Morris, Inc.*, No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1.0 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a settlement amount calculated annually on cigarette sales by Participating Manufacturers in perpetuity. The base amount was augmented by \$90.0 million in 1999 for a strategic contribution portion for those states instrumental in obtaining the settlement, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017. Multiple other tobacco product manufacturers joined the MSA after the initial signing period. Collectively, the signing manufacturers are known as "Participating Manufacturers."

The settlement provides that the tobacco product manufacturers may potentially offset, against their payment in any year, certain amounts of money if it is found that the Participating Manufacturers have lost more than 2% of their national market share (from 1997) to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "Qualifying Statute" and diligently enforced the statute during the year in question. Montana enacted such a Qualifying Statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the Participating Manufacturers had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its Qualifying Statute during 2003. The Participating Manufacturers moved to compel arbitration of the question. The First Judicial District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the “no contest” for 2003 has no precedential effect in any subsequent year for Montana or any other state’s case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically articulated that Defendants’ consent to its terms “is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year.”

Despite Montana’s successful defense of its 2003 and 2004 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2005-2017, for which years the Participating Manufacturers have already received a determination that MSA terms were a “substantial factor” reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

The Participating Manufacturers conceded that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect during 2005-2016 and thereafter to date. Factual arguments exist to show that Montana diligently enforced its Qualifying Statute during 2005-2017. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2005-2017, which would be recouped through an offset of payments due to Montana in future years. The Participating Manufacturers will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and Participating Manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration; this arbitration continues.

Montana filed a Declaratory Judgment Motion in 2017 for the 2004 NPM Adjustment to have its MSA Court (First Judicial District) declare that Montana had a qualifying statute in place and diligently enforced its Qualifying Statute for the 2004 calendar year. The Participating Manufacturers conceded that Montana has a Qualifying Statute. As part of this action, Montana successfully obtained a ruling from its MSA Court on the burden of proof whereby the Participating Manufacturers must prove that Montana did not diligently enforce its Qualifying Statute to succeed under the NPM Adjustment. Montana is the only state party to the MSA with this ruling on the burden of proof. On the eve of trial, the Participating Manufacturers settled with Montana for all of the 2004 NPM Adjustment funds previously withheld plus interest and earnings. The settlement does not provide precedent for future NPM Adjustment proceedings with the exception of the ruling on the burden of proof. A portion of tobacco litigation proceeds are to be received through an agreement made subsequent to the balance sheet date. Refer to Note 17 - *Subsequent Events* for additional information.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost \$41.0 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court’s finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court’s decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river’s navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael

McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the \$41.0 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with \$1.2 million for PPL's costs relating to the appellate proceedings. All, but approximately \$31.0 thousand, relate to premiums that PPL paid for a supersedeas bond in support of staying the \$41.0 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for \$31.3 thousand. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgement. Several procedural motions have taken place since the prior fiscal year-end, but none that require the State to revise its earlier held opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately \$1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision is expected to be issued in early 2018.

On June 21, 2017, the Special Master issued a report and recommended order regarding the partial payment of Plaintiffs' counsels' attorney fees. This recommendation was based on a stipulation the State and the Plaintiffs' counsel had reached, agreeing that the State would pay counsel \$400.8 thousand for claims made by individuals that could be documented. The State has paid this amount to class counsel.

The Special Master issued a second report and recommended order expanding the class on August 8, 2018. The principal findings of this recommendation are to expand the class definition to include those individuals who did not submit claims to the State for processing; to expand the class to end June 30, 2016; and to redefine the class as (a) employees, employee dependents, retirees and retiree dependents who participate or participated in the State of Montana's health benefit plan(s), administered or operated by the State and/or the third party administrators whose claims for covered benefits took place no earlier than eight years prior to the filing of the complaint in this action, which was October 23, 2008; (b) who were injured through the legal fault of persons who have legal obligations to compensate them for all damages sustained; and (c) who have not been made whole for their damages (or for whom the State and TPAs conducted no made whole analysis) because the State and the third party administrators programmatically failed to pay benefits for their covered medical costs. The District Court Judge has yet to approve these recommendations.

As of June 30, 2018, the State paid Plaintiffs \$1.7 million in base payments plus interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Lair, et al. v. Mangan, et al. is a challenge to the State's campaign contribution limits. The case has been ongoing for several years and the same case has been referred to as Lair v. Bullock and Lair v. Motl through its progression. The state won at the Ninth Circuit Court of Appeals, but the plaintiffs have petitioned for certiorari at the United States Supreme Court, which is pending. If the Court grants certiorari and the State were to ultimately lose the case, the plaintiffs' claim for attorney fees would likely be over \$1.0 million, although the State would contest that amount.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at the Department of Corrections' (Department), Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the Department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the Department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. On June 19, 2018, the Federal District Court accepted the revised Class Action Settlement Agreement, which includes the Department's agreement to pay attorney's fees. The parties are currently in the process of attempting to negotiate a resolution to the attorney's fees requested. At the moment, the Class attorneys indicated they would be seeking in the neighborhood of \$1.5 million in attorney's fees for a period spanning from 2008 until the present. The Department will likely contest that amount before the Court. That projected sum does not include the anticipated two-year monitoring period as well. At this time, the Department can state that it will have a financial obligation in excess of \$700.0 thousand for past attorney's fees and costs, but cannot be more specific about the anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. The District Court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The Department of Corrections (Department) has exchanged settlement proposals and has met with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff's chances of success of getting the lower court's decision overturned are fair, given the current political climate in the Ninth Circuit as it relates to placing seriously mentally ill inmates in restrictive housing. The Plaintiff has made a number of unreasonable demands that would cost the Department millions of dollars and at least \$800.0 thousand in

attorney's fees and undisclosed expert witness fees. At this time the Department cannot specify an anticipated amount of financial obligation.

Michael Jackson v. Montana Department of Corrections (Department), Montana State Prison (MSP) (Cause # DV-18-70) is a case pending in Powell County District Court. Mr. Jackson is a current employee, suing the Department for allowing race discrimination at MSP and creating a hostile work environment. He is seeking lost wages, humiliation, and emotional distress damages as well as attorney's fees and costs. The Human Rights Bureau found no reasonable cause in his claims. His chances of success are poor to fair. The Department has hired outside legal counsel to represent it in this matter. At this time, the Department cannot specify an anticipated amount of financial obligation.

Kila Sheperd v. Montana Department of Corrections (Department) is a Step III Grievance proceeding, in accordance with 2.21.8017, Administrative Rules of Montana (ARM), and the Department has hired outside counsel to represent it regarding Ms. Sheperd's termination from her position at the Department. Ms. Sheperd seeks in excess of \$1.0 million for punitive damages, lost wages, loss of benefits, emotional distress, and attorney's fees.

Montana Health Care Association, et al, v. Department of Public Health and Human Services (Cause # DDV-2018-565) is a case filed by a group of Medicaid nursing facility providers, alleging a violation of the Montana Administrative Procedure Act and other related allegations. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates. The potential liability for this case is estimated to be between \$3.0 and \$3.2 million. An unfavorable outcome is reasonably possible.

Smith, et al. v. State of Montana (Cause # BDV-2018-804) is a case filed by a group of Medicaid recipients as well as a group of Medicaid providers. The allegations include violations of the Montana Administrative Procedure Act and other related allegations. The complaint also includes an alleged violation of the Americans with Disabilities Act based on a reduction in rates and resulting reductions in services. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates, as well as a reduction in rates for targeted Case Management. The potential liability in this case is estimated to be between \$19.0 and \$21.0 million. An unfavorable outcome is reasonably possible.

Moody's Market, Inc. et al. v. Montana State Fund, Montana Board of Investments, and State of Montana (Cause # DV-18-12) is a case filed by a group of Montana State Fund (MSF) policyholders, in Lake County District Court, in an effort to prevent the Board of Investments (BOI) from charging a 3% management fee on any single investor whose average portfolio balance held by BOI is greater than \$1.0 billion. This fee was allowed to be assessed in accordance with Senate Bill 4 passed during the Special Legislative Session of November 2017. The legislation required the BOI fee to be deposited into the fire suppression fund of the State of Montana (State). As of June 30, 2018, a total of \$14.7 million in MSF assets had been transferred. No action beyond procedural activities have taken place in relation to this proceeding and no additional updates are available at this time.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Sheriffs' Retirement System (SRS). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has four items of litigation, in addition to the case listed above, in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2018, the State distributed \$1.1 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed \$10.4 million in commodities in fiscal year 2018. The value at June 30, 2018, of commodities stored at the State’s warehouse is \$2.1 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2018, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling \$186.6 million. The BOI’s exposure to bond issues of the Economic Development Bonds Fund was \$105.1 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was \$81.5 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2018, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General Fund</u>
Corporate Tax	<u>\$ 14,613</u>

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State’s financial statements as of June 30, 2018. The corporations have appealed the department’s decision to deny or adjust the refund. As of June 30, 2018, these include \$5.2 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State’s financial statements as of June 30, 2018. As of June 30, 2018, these include \$1.9 million of protested property taxes recorded in the General Fund and \$2.2 million recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2018, the Board of Investments (BOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of \$5.9 million.

On July 6, 2018, the BOI terminated one manager in the Domestic Equity Asset within Consolidated Asset Pension Pool (CAPP). The approximate market value of the transition was \$80.0 million.

In August based on Board action, the BOI approved an additional loan guarantee from the Coal Severance Tax Permanent Fund to Montana Facility Finance Authority totaling \$11.0 million. The BOI also directed the Trust Fund Investment Pool (TFIP) purchase of the Montana direct real estate owned within CAPP for \$19.4 million.

On September 28, 2018, the BOI sold PEPAC limited partnerships to an outside 3rd party in a secondary sale. The proceeds of these sales were \$50.0 million.

The BOI's Executive Director retired September 28, 2018 and a new Executive Director started September 29, 2018.

On October 16, 2018, the BOI reallocated assets in the Domestic Equity Asset Class within CAPP from a commingled fund to a new manager. The approximate market value of the transition was \$500.0 million.

Since June 30, 2018, the BOI has committed an additional \$200.0 million to alternative equity partnerships within CAPP, including allocations of: \$80.0 million within the Private Equity Asset Class; \$40.0 million within the Natural Resource Asset Class; and \$80.0 million within the Real Estate Asset Class.

Since June 30, 2018, the BOI has received an additional \$16.7 million in loan reservations from Montana Lenders and committed to \$435.0 thousand in loans from the Coal Severance Tax Permanent Fund.

During fiscal year 2017, the BOI requested a 100% redemption in the amount of \$174.0 million from one manager, pertaining to investments from CAPP, TFIP, and Separately Manged Investments (SMI). Since June 30, 2017, total redemptions in the amount of \$116.4 million have been received, of which \$10.6 million was received since June 30, 2018. The BOI is confident that the full redemption will be received over a reasonable time period.

Since June 30, 2018, the BOI has received recovery payments associated with the recovery of previously written off losses in the amount of \$1.8 million and \$270.0 thousand interest.

Other Subsequent Events

On July 18, 2018, the State and Participating Manufacturers, who are parties to the case of the State of Montana v. Phillip Morris, Inc. disclosed in Note 16 - *Contingencies*, have entered into a settlement agreement in the amount \$27.0 million, including \$3.4 million in back payments and interest, in relation to the State's 2004 NPM adjustment.

On October 15, 2018, the court, in relation to the Smith, et al. v. State of Montana disclosed in Note 16 - *Contingencies*, issued an order dismissing all counts as moot.

On October 29, 2018, another order was received by the parties in the Smith case vacating the previous order and dismissing most counts as moot. The remaining counts include an allegation that the Department of Health Human and Human Services (DPHHS) failed to allow meaningful participation in the decision-making process. In addition, the court issued a separate order, in relation to the Montana Health Care Association, et al., v. DPHHS disclosed in Note 16, dismissing nearly all counts. The two remaining counts include an allegation that the DPHHS has failed to use a bed tax fee appropriately, reducing the reimbursement rate the Plaintiffs would otherwise be receiving, and an allegation that the DPHHS failed to allow meaningful participation in the decision-making process.

In accordance with 2017 Special Legislative Session Senate Bill 9 and based on fiscal year 2018 unaudited General Fund revenue totals, \$45.7 million was transferred into the Budget Stabilization Reserve Fund during fiscal year 2019. In addition, \$45.7 million was returned to State agency fiscal year 2019 budget appropriations and \$21.3 million will remain in the General Fund.

NOTE 18. COMPONENT UNITS**A. Condensed Financial Statements**

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2018 (in thousands):

	Condensed Statement of Net Position					
	Component Units					
	Montana Board of Housing	Facility Finance Authority	Montana State Fund ⁽¹⁾	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	\$ 617,012	\$ 7,956	\$ 1,664,968	\$ 660,979	\$ 542,772	\$ 3,493,687
Due from primary government	—	—	—	393	790	1,183
Due from component units	—	—	—	1	270	271
Capital assets (net) (Note 18C)	1	—	28,219	512,638	387,258	928,116
Total assets	617,013	7,956	1,693,187	1,174,011	931,090	4,423,257
Deferred Outflows of Resources						
	826	45	6,114	40,675	31,266	78,926
Liabilities:						
Accounts payable and other liabilities	9,106	22	116,294	72,797	67,264	265,483
Due to primary government	—	10	—	4,058	2,320	6,388
Due to component units	—	—	—	270	1	271
Advances from primary government	—	—	—	16,737	19,434	36,171
Long-term liabilities (Note 18I)	455,133	214	1,043,687	384,652	245,451	2,129,137
Total liabilities	464,239	246	1,159,981	478,514	334,470	2,437,450
Deferred Inflows of Resources						
	81	37	229	2,406	8,622	11,375
Net Position:						
Net investment in capital assets	1	—	28,219	341,185	281,439	650,844
Restricted	153,518	—	—	307,122	335,535	796,175
Unrestricted	—	7,718	510,872	85,459	2,290	606,339
Total net position	\$ 153,519	\$ 7,718	\$ 539,091	\$ 733,766	\$ 619,264	\$ 2,053,358

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2017.

Condensed Statement of Activities

	Component Units					
	Montana Board of Housing	Facility Finance Authority	Montana State Fund ⁽¹⁾	Montana State University	University of Montana	Total Component Units
Expenses	\$ 20,996	\$ 515	\$ 227,078	\$ 584,734	\$ 447,609	\$ 1,280,932
Program Revenues:						
Charges for services	1,516	613	166,768	280,592	189,675	639,164
Operating grants and contributions	19,336	2,208	—	176,777	150,945	349,266
Capital grants and contributions	—	—	—	5,219	191	5,410
Total program revenues	20,852	2,821	166,768	462,588	340,811	993,840
Net (expense) program revenues	(144)	2,306	(60,310)	(122,146)	(106,798)	(287,092)
General Revenues:						
Unrestricted grants and contributions	—	—	—	111	—	111
Unrestricted investment earnings	—	—	73,073	8,899	17,108	99,080
Transfer from primary government	—	—	—	126,803	101,843	228,646
Gain (loss) on sale of capital assets	—	—	(50)	378	—	328
Miscellaneous	—	—	1,085	—	—	1,085
Contributions to term and permanent endowments	—	—	—	10,587	10,786	21,373
Total general revenues and contributions	—	—	74,108	146,778	129,737	350,623
Change in net position	(144)	2,306	13,798	24,632	22,939	63,531
Total net position – July 1 – as previously reported	153,328	5,270	525,304	663,615	560,251	1,907,768
Adjustments to beginning net position	335	142	(11)	45,519	36,074	82,059
Total net position – July 1 – as restated	153,663	5,412	525,293	709,134	596,325	1,989,827
Total net position – June 30	\$ 153,519	\$ 7,718	\$ 539,091	\$ 733,766	\$ 619,264	\$ 2,053,358

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2017.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	\$ 8,323	\$ 8,306	\$ 1,139	\$ 17,768
Construction work in progress	52,380	26,503	1,385	80,268
Capitalized collections	9,856	18,342	—	28,198
Livestock for educational purposes	3,913	—	—	3,913
Total capital assets not being depreciated	74,472	53,151	2,524	130,147
Capital assets being depreciated:				
Infrastructure	44,999	9,904	—	54,903
Land improvements	26,048	16,370	—	42,418
Buildings/Improvements	688,048	617,047	27,941	1,333,036
Equipment	162,718	94,009	7,268	263,995
Livestock	—	255	—	255
Library books	67,779	62,341	—	130,120
Leasehold improvements	3,810	—	—	3,810
Total capital assets being depreciated	993,402	799,926	35,209	1,828,537
Total accumulated depreciation	(570,732)	(469,360)	(9,633)	(1,049,725)
Total capital assets being depreciated, net	422,670	330,566	25,576	778,812
Intangible assets	2,182	941	120	3,243
MSU Component Unit capital assets, net	13,314	—	—	13,314
UM Component Unit capital assets, net	—	2,600	—	2,600
Discretely Presented Component Units capital assets, net	\$ 512,638	\$ 387,258	\$ 28,220	\$ 928,116

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

Montana State Fund (MSF), prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, MSF is currently reporting the OPEB liability within GASB 45 valuation requirements. For note disclosure requirements for MSF under GASB 45, please refer to Note 1 for how to attain separately issued financial statements.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2017, approximately 24,000 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2017, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2017, \$919.7 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2017, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to \$100.0 million in which MSF retains the first \$5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of \$5.0 million on any one life.

The term of the current aggregate stop loss contract is January 1, 2017 through December 31, 2019. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$9.8 million during the year ended December 31, 2017.

Estimated claim reserves were reduced by \$1.4 million as of December 31, 2017, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional \$12.0 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2017	Year Ended December 31, 2016 ⁽¹⁾
Unpaid claims and claim adjustments expenses at beginning of year	\$ 921,532	\$ 900,296
Incurring claims and claim adjustment expenses:		
Provision for insured event of the current year	137,222	139,240
Increase (decrease) in provision for insured events of prior years	(14,195)	(7,986)
Total incurred claims and claim adjustment expenses	123,027	131,254
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(24,597)	(23,086)
Claims and claim adjustment expenses attributable to insured events of prior years	(100,272)	(86,932)
Total payments	(124,869)	(110,018)
Total unpaid claims and claim adjustment expenses at end of year	\$ 919,690	\$ 921,532

⁽¹⁾ Changes in claims liabilities for the year ended December 31, 2016 are restated. In prior years, they were provided on a statutory accounting basis rather than the governmental accounting basis.

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2018, were as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2019	\$ 198
2020	134
2021	91
2022	47
2023	8
Total minimum payments	478
Less: interest	(42)
Present value of minimum payments	\$ 436

G. Operating Leases

Future rental payments under operating leases at June 30, 2018, are as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2019	\$ 4,588
2020	4,754
2021	4,081
2022	3,175
2023	7,950
Thereafter	10,795
Total future rental payments	<u>\$ 35,343</u>

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2018, were as follows (in thousands):

Year Ended June 30:	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 14,265	\$ 14,943	\$ 11,880	\$ 7,817	\$ 9,350	\$ 3,429
2020	15,845	14,508	10,612	7,475	9,765	3,058
2021	16,335	14,149	10,504	7,111	10,125	2,656
2022	16,645	13,739	10,893	6,753	10,611	2,238
2023	17,200	13,275	6,721	6,436	11,277	1,811
2024 - 2028	96,885	57,655	36,108	27,870	29,787	4,636
2029 - 2033	100,075	40,472	31,130	20,808	11,275	1,670
2034 - 2038	81,955	23,329	30,477	13,878	3,645	314
2039 - 2043	59,975	10,588	29,561	7,702	—	—
2044 - 2048	24,375	2,607	19,264	1,540	—	—
2049 - 2053	1,970	51	—	—	—	—
Total	<u>\$ 445,525</u>	<u>\$ 205,316</u>	<u>\$ 197,150</u>	<u>\$ 107,390</u>	<u>\$ 95,835</u>	<u>\$ 19,812</u>

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2018, was as follows (in thousands):

	Beginning Balance ⁽³⁾	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	\$ 446,617	\$ 80,004	\$ 74,752	\$ 451,869	\$ 14,265	\$ 437,604
Montana State University (MSU)	160,167	58,601	11,903	206,865	11,880	194,985
University of Montana (UM)	92,046	14,125	9,053	97,118	9,385	87,733
Total bonds/notes payable ⁽¹⁾	698,830	152,730	95,708	755,852	35,530	720,322
Other liabilities						
Lease/installment purchase payable	456	93	113	436	173	263
Compensated absences payable	63,868	30,557	31,342	63,083	31,257	31,826
Arbitrage rebate tax payable	561	395	304	652	40	612
Estimated insurance claims	921,531	123,029	124,870	919,690	124,359	795,331
Due to federal government	32,509	260	951	31,818	—	31,818
Derivative instrument liability	4,188	—	1,108	3,080	—	3,080
Reinsurance funds withheld	75,739	11,969	1,838	85,870	—	85,870
Unearned compensation	391	—	—	391	—	391
Net pension liability	206,646	30,850	14,704	222,792	—	222,792
Total OPEB liability ⁽²⁾	76,289	2,897	37,191	41,995	—	41,995
Total other liabilities	1,382,178	200,050	212,421	1,369,807	155,829	1,213,978
	<u>\$ 2,081,008</u>	<u>\$ 352,780</u>	<u>\$ 308,129</u>	<u>\$ 2,125,659</u>	191,359	1,934,300
Long-term liabilities of Montana University System component units ⁽⁴⁾					(118)	3,596
Total discretely presented component units' long-term liabilities					<u>\$ 191,241</u>	<u>\$ 1,937,896</u>

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.

(2) The total OPEB liability beginning balances were restated due to the implementation of GASB No. 75.

(3) Beginning balances are taken from component unit financial statements.

(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Refunded Debt

On July 25, 2017, Montana State University issued Series D 2017 bonds in the amount of \$21.0 million, to refund \$8.3 million of the Series K 2006 and \$12.7 million of the Series M 2011 bonds. As of June 30, 2018, the portion of the Series M 2011 bonds not refunded totaled \$0.9 million.

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2018, \$85.2 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2018, revenue bonds and notes outstanding aggregated \$995.0 million.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)

MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2018, bonds outstanding aggregated \$23.4 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI’s participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA’s statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2018 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 71,416	\$ 36,470	\$ 26,435	\$ 81,451

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2018. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
\$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
\$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2018, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at \$0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option’s value included intrinsic value and time value. The option’s intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2018, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2018, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty’s credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2018 (in thousands):

Cash flow hedges:	Notional	Activity During 2018		Fair Values at June 30, 2018	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	\$ 19,800	Interest expense	\$ 20	Loan receivable	\$ 230
		Investment income	—	Derivative liability	3,080
		Deferred outflow	(1,108)		
Investment derivative –					
Basis swap	\$ 19,800	Investment loss	\$ 412	Investment (excluding interest accrued)	\$ 56

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2018, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$ 19,800	7/21/2005	11/15/2035	\$ —	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2018, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2018, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk

All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk

Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the years ended June 30, 2018, \$237.8 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(c)3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local “start-up” companies. The corporation’s board of directors is comprised equally of members appointed by MAEDF and UM. UM does not provide office space or other services to MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided \$1.2 million during 2018 and Friends of KEMC Public Radio provided \$848.6 thousand during 2018 in support of MSU’s television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund is based on a Petition for Hearing filed before the Workers’ Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least \$2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of \$2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers’ Compensation Court. The matter is Steven Hanson v. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

Mak and Sons Concrete Construction Service v. Montana State Fund is a matter filed in the First Judicial District Court and involves the issue of whether the Montana State Fund breached its contract to provide workers’ compensation insurance coverage. The Montana State Fund canceled Mak and Sons’ policy of insurance due to not receiving timely payment of premium. During the uninsured period, several employees of Mak and Sons were involved in a motor vehicle accident. As a result, Mak and Sons sued the Montana State Fund seeking to have coverage for the injuries as well as for breach of the contract of insurance and breach of the covenant of good faith and fair dealing.

P. Subsequent Events

In November 2017, the Board of Regents authorized the issuance of up to \$4.5 million in Intercap debt to fund the construction of a student activity complex on the Montana State University (MSU) Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt. Funds had not yet been drawn as of June 30, 2018, but the University expects to draw \$4.0 million during the year ending June 30, 2019.

In July 2018, MSU received authorization to refinance the Series J 2005 bonds with the issuance of Series F variable rate debt in the same principal amount of \$19.8 million.

In August 2018, Single Family Mortgage Bonds, 2018 Series B, were issued by the Board of Housing for \$50.0 million to be used for the purpose of acquiring additional mortgage loans in Montana.

On September 11, 2018, a resolution to issue Single Family Mortgage Bonds, Single Family Program Bonds, or Single Family Homeownership Bonds, in one or more series or subseries in an aggregate principle amount not to exceed \$75.0 million with fixed or variable rates was passed by the Board of Housing.

In September 2018, MSU Billings received revised authorization to expend up to \$17.1 million for design, renovation and construction of its Yellowstone Science and Allied Health Building. The 63rd Legislature had appropriated \$10.0 million to the project dependent upon a \$5.0 million match at the local level for a total authority of \$15.0 million. The \$5.0 million gift funding has now been committed by the MSU Billings Foundation, and a portion of the project will also be funded with student fees as was approved by student resolution.

In September 2018, the Department of Education informed the University of Montana (UM) that it was imposing a fine of \$966.6 thousand for its failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) in Section 485 (f) of the Higher Education Act of 1965, 20 U.S.C., Section 1092 (f). UM is appealing the imposed fine through the appeal process, outlined in 34 C.F.R., Part 668, Subpart G.

In November 2018, MSU Bozeman notified the Board of Regents of its intent to plan for the construction of a new academic facility, American Indian Hall, to create additional classrooms and student support space. In October 2018, the MSU Alumni Foundation announced an anonymous gift of \$12.0 million, which, added to previous donations, totals nearly \$16.0 million in private funds. The Associated Students of Montana State University also approved the use of \$2.0 million in student building fees for the project in October 2018. The University intends to request approval both to expend the \$2.0 in student building fees and approval to expend a maximum of \$20.0 million for the project as a whole at the May 2019 meeting.

On November 16, 2018, a loan in the amount of \$300.0 thousand was made to Ouellette Place Limited Partnerships from the Board of Housing's Multifamily funds. The funds will be used for financing of a housing development in Lewistown, Montana.

Q. Commitments

Montana State Fund (MSF or New Fund) is in the first phase of a multi-year project to replace its legacy policy management system. The total system replacement and change management cost is estimated to be almost \$20.0 million. Vendor payments are based on successful completion of terms and an agreed payment schedule. Phase I payments are estimated to be about \$10.0 million with milestones scheduled from January 2018 to September 2019. Costs during the application development phase will be capitalized and recorded as construction work in process until the system is deployed.

As of June 30, 2018, Montana State University (MSU) had issued purchase orders committing the expenditure of approximately \$9.1 million for equipment, supplies and services which had not yet been received.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**Constitutionality of Retirement Plan Funding**

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP), and the Teachers' Retirement System (TRS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2018.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	\$ 126,502	\$ 126,502	\$ 126,637	\$ 135
Taxes:				
Natural resource	68,268	68,268	86,090	17,822
Individual income	1,320,808	1,320,808	1,285,132	(35,676)
Corporate income	168,763	168,763	166,393	(2,370)
Property	278,473	278,473	277,127	(1,346)
Fuel	—	—	—	—
Other	239,607	239,607	237,112	(2,495)
Charges for services/fines/forfeits/settlements	37,674	37,674	35,776	(1,898)
Investment earnings	—	—	12,805	12,805
Sale of documents/merchandise/property	337	337	334	(3)
Rentals/leases/royalties	7	7	7	—
Contributions/premiums	5,232	5,232	5,250	18
Grants/contracts/donations	4,020	4,020	10,856	6,836
Federal	21,068	21,068	21,154	86
Federal indirect cost recoveries	186	186	257	71
Other revenues	6,008	6,008	400	(5,608)
Total revenues	<u>2,276,953</u>	<u>2,276,953</u>	<u>2,265,330</u>	<u>(11,623)</u>
EXPENDITURES				
Current:				
General government	361,887	361,887	350,591	11,296
Public safety	321,098	321,098	311,184	9,914
Transportation	—	—	—	—
Health and human services	540,387	540,387	517,528	22,859
Education	1,016,098	1,016,098	1,007,891	8,207
Natural resources	33,290	33,290	31,394	1,896
Debt service (Note RSI-1):				
Principal retirement	—	—	22	(22)
Interest/fiscal charges	—	—	283	(283)
Capital outlay (Note RSI-1)	—	—	1,381	(1,381)
Total expenditures	<u>2,272,760</u>	<u>2,272,760</u>	<u>2,220,274</u>	<u>52,486</u>
Excess of revenue over (under) expenditures	<u>4,193</u>	<u>4,193</u>	<u>45,056</u>	<u>40,863</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	—	—	—	—
General capital asset sale proceeds	110	110	96	(14)
Energy conservation loans	—	—	—	—
Transfers in (Note 12)	77,412	77,412	142,443	65,031
Transfers out (Note 12)	(251,893)	(251,893)	(59,155)	192,738
Total other financing sources (uses)	<u>(174,371)</u>	<u>(174,371)</u>	<u>83,384</u>	<u>257,755</u>
Net change in fund balances (Budgetary basis)	<u>(170,178)</u>	<u>(170,178)</u>	<u>128,440</u>	<u>298,618</u>
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	—	—	1	1
2. Securities lending costs	—	—	—	—
3. Inception of lease/installment contract	—	—	—	—
4. Adjustments for nonbudgeted activity	—	—	—	—
(GAAP basis)	<u>(170,178)</u>	<u>(170,178)</u>	<u>128,441</u>	<u>298,619</u>
Fund balance - July 1	—	—	66,984	66,984
Prior period adjustments	—	—	4,625	4,625
Increase (decrease) in inventories	—	—	(734)	(734)
Fund balances - June 30	<u>\$ (170,178)</u>	<u>\$ (170,178)</u>	<u>\$ 199,316</u>	<u>\$ 369,494</u>

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

The original and final budget figures reflect adjustments to the original budget for various reasons, including legislative and executive changes.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
\$ 215,742	\$ 215,742	\$ 220,889	\$ 5,147	\$ —	\$ —	\$ —	\$ —
73,861	73,861	82,085	8,224	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
18,257	18,257	18,284	27	—	—	—	—
301,245	301,245	258,920	(42,325)	—	—	—	—
144,681	144,681	146,245	1,564	7	7	1	(6)
113,026	113,026	105,587	(7,439)	16,409	16,409	18,295	1,886
—	—	6,775	6,775	—	—	448	448
13,123	13,123	9,899	(3,224)	2	2	—	(2)
919	919	967	48	—	—	—	—
26,908	26,908	27,421	513	—	—	—	—
12,239	12,239	11,285	(954)	49	49	18	(31)
7,646	7,646	7,859	213	2,811,215	2,811,215	2,768,657	(42,558)
52,032	52,032	48,945	(3,087)	65,362	65,362	67,345	1,983
5,512	5,512	2,795	(2,717)	966	966	516	(450)
985,191	985,191	947,956	(37,235)	2,894,010	2,894,010	2,855,280	(38,730)
314,817	314,817	199,816	115,001	234,735	234,735	92,685	142,050
90,542	90,542	72,333	18,209	42,070	42,070	15,824	26,246
331,293	331,293	220,366	110,927	514,017	514,017	111,201	402,816
171,562	171,562	153,331	18,231	2,237,129	2,237,129	1,997,224	239,905
90,975	90,975	75,176	15,799	282,062	282,062	209,620	72,442
367,883	367,883	220,970	146,913	167,567	167,567	92,184	75,383
—	—	634	(634)	—	—	32	(32)
—	—	355	(355)	—	—	5	(5)
—	—	55,971	(55,971)	—	—	328,856	(328,856)
1,367,072	1,367,072	998,952	368,120	3,477,580	3,477,580	2,847,631	629,949
(381,881)	(381,881)	(50,996)	330,885	(583,570)	(583,570)	7,649	591,219
247	247	299	52	—	—	—	—
144	144	1,787	1,643	24	24	31	7
—	—	1,589	1,589	—	—	—	—
277,830	277,830	171,578	(106,252)	17,379	17,379	2,517	(14,862)
(87,410)	(87,410)	(85,206)	2,204	(70,148)	(70,148)	(32,381)	37,767
190,811	190,811	90,047	(100,764)	(52,745)	(52,745)	(29,833)	22,912
(191,070)	(191,070)	39,051	230,121	(636,315)	(636,315)	(22,184)	614,131
—	—	113	113	—	—	—	—
—	—	(65)	(65)	—	—	—	—
—	—	312	312	—	—	—	—
—	—	(20,665)	(20,665)	—	—	—	—
(191,070)	(191,070)	18,746	209,816	(636,315)	(636,315)	(22,184)	614,131
—	—	1,581,457	1,581,457	—	—	12,078	12,078
—	—	1,691	1,691	—	—	39	39
—	—	(834)	(834)	—	—	—	—
\$ (191,070)	\$ (191,070)	\$ 1,601,060	\$ 1,792,130	\$ (636,315)	\$ (636,315)	\$ (10,067)	\$ 626,248

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2018, reverted governmental fund appropriations were as follows: \$14.9 million in the General Fund, \$117.0 million in the State Special Revenue Fund, and \$196.7 million in the Federal Special Revenue Fund. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information State of Montana as an Employer Entity

Judges' Retirement System Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios¹ For the Fiscal Year Ended June 30 (dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	\$ 1,628	\$ 1,578	\$ 1,653	\$ 1,594
Interest	4,044	3,986	3,934	3,824
Differences between expected and actual experience	862	(1,341)	(1,032)	—
Changes of assumptions	3,865	—	—	—
Benefit payments	(3,554)	(3,416)	(3,041)	(3,023)
Net change in total pension liability	6,845	807	1,514	2,395
Total pension liability – beginning	53,953	53,146	51,632	49,237
Total pension liability – ending	\$ 60,798	\$ 53,953	\$ 53,146	\$ 51,632
Plan Fiduciary Net Position				
Contributions – employer	\$ 1,800	\$ 1,806	\$ 1,684	\$ 1,651
Contributions – member	488	729	534	481
Net investment income	10,368	1,779	3,843	12,421
Benefit payments	(3,554)	(3,416)	(3,041)	(3,023)
Administrative expense	(254)	(197)	(136)	(100)
Other	—	(3)	—	—
Net change in plan fiduciary net position	8,848	698	2,884	11,430
Plan fiduciary net position - beginning	87,805	87,107	84,223	72,793
Plan fiduciary net position - ending	\$ 96,653	\$ 87,805	\$ 87,107	\$ 84,223
Net Pension (Asset) – Beginning	\$ (33,852)	\$ (33,961)	\$ (32,591)	\$ (23,556)
Net Pension (Asset) – Ending	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)
Plan fiduciary net position as a percentage of TPL	159%	163%	164%	163%
Covered payroll	\$ 6,974	\$ 6,920	\$ 6,525	\$ 6,355
Net pension (asset) as a percentage of covered payroll	(514)%	(489)%	(521)%	(513)%

Schedule of Employer Contributions¹ For the Fiscal Year Ended June 30 (in thousands)

	2018	2017	2016	2015
Contractually required contributions	\$ 1,085	\$ 1,800	\$ 1,786	\$ 1,684
Contributions made in relation to the contractually required contributions	1,085	1,800	1,786	1,684
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525
Contributions as a percentage of covered payroll	15%	26%	26%	26%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in eligibility for survivor's benefits. Assumptions in reporting year 2018 were updated in relation to refunds and related termination benefit amounts and for economic/market trends.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	\$ 3,665	\$ 3,799	\$ 3,598	\$ 3,464
Interest	15,121	14,545	14,113	13,518
Changes in benefits	—	—	1,856	—
Difference between expected and actual experience	2,774	18	267	—
Changes of assumptions	7,892	—	—	—
Benefit payments	(11,037)	(10,482)	(10,001)	(9,443)
Refunds of contributions	(245)	(94)	—	—
Net change in total pension liability	18,170	7,786	9,833	7,539
Total pension liability – beginning	200,752	192,966	183,133	175,594
Total pension liability – ending	\$ 218,922	\$ 200,752	\$ 192,966	\$ 183,133
Plan Fiduciary Net Position				
Contributions – employer	\$ 5,782	\$ 5,916	\$ 5,840	\$ 5,736
Contributions – non-employer	263	243	—	—
Contributions – member	1,950	1,917	1,624	1,458
Net investment income	15,099	2,605	5,738	18,677
Benefit payments	(11,037)	(10,482)	(10,001)	(9,443)
Administrative expense	(248)	(197)	(144)	(109)
Refunds of Contributions	(245)	(94)	—	—
Other	—	(2)	—	—
Net change in plan fiduciary net position	11,564	(94)	3,057	16,319
Plan fiduciary net position – beginning	128,973	129,067	126,010	109,691
Plan fiduciary net position – ending	\$ 140,537	\$ 128,973	\$ 129,067	\$ 126,010
Net Pension Liability – Beginning	\$ 71,779	\$ 63,899	\$ 57,123	\$ 65,903
Net Pension Liability – Ending	\$ 78,385	\$ 71,779	\$ 63,899	\$ 57,123
Plan fiduciary net position as a percentage of TPL	64%	64%	67%	69%
Covered payroll	\$ 14,779	\$ 15,276	\$ 14,549	\$ 14,149
Net pension liability as a percentage of covered payroll	530%	470%	439%	404%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 5,843	\$ 5,706	\$ 6,161	\$ 5,782
Contributions in relation to the contractually required contributions	5,843	5,706	6,161	5,782
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549
Contributions as a percentage of covered payroll	38%	39%	40%	40%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.28%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in DROP participation and related assumptions. Amounts for reporting year 2018 reflect changes in working retiree, second retirement benefit, and refund requirements in addition to updates in underlying market and economic factors.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	\$ 8,623	\$ 8,403	\$ 8,008	\$ 7,850
Interest	14,269	12,911	12,398	11,258
Difference between expected and actual experience	3,743	2,705	731	—
Changes of assumptions	5,878	—	—	—
Benefit payments	(5,810)	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,036)	(1,066)	—	—
Net change in total pension liability	25,667	17,885	15,785	13,879
Total pension liability – beginning	187,534	169,649	153,864	139,985
Total pension liability – ending	<u>\$ 213,201</u>	<u>\$ 187,534</u>	<u>\$ 169,649</u>	<u>\$ 153,864</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 4,464	\$ 4,278	\$ 4,088	\$ 3,762
Contributions - member	5,278	5,036	4,924	4,462
Net investment income	18,590	3,167	6,435	20,069
Benefit payments	(5,810)	(5,068)	(5,352)	(5,229)
Administrative expense	(329)	(269)	(200)	(162)
Refunds of contributions	(1,036)	(1,066)	—	—
Other	(1)	(31)	—	—
Net change in plan fiduciary net position	21,156	6,047	9,895	22,902
Plan fiduciary net position – beginning	154,685	148,638	138,743	115,841
Plan fiduciary net position – ending	<u>\$ 175,841</u>	<u>\$ 154,685</u>	<u>\$ 148,638</u>	<u>\$ 138,743</u>
Net Pension Liability – Beginning	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>	<u>\$ 24,144</u>
Net Pension Liability – Ending	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>
Plan fiduciary net position as a percentage of TPL	82%	82%	87%	90%
Covered payroll	\$ 49,381	\$ 47,108	\$ 44,885	\$ 41,637
Net pension liability as a percentage of covered payroll	76%	70%	47%	36%

**Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 4,574	\$ 4,447	\$ 4,240	\$ 4,040
Contributions in relation to the contractually required contributions	4,574	4,447	4,240	4,040
Contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885
Contributions as a percentage of covered payroll	9%	9%	9%	9%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in survivor benefits from 2.0% to 2.5% of HAC, and requires membership election within 90 days. Amounts presented in reporting year 2018 reflect changes to limitations on working retirees and their related second retirement benefit. Assumptions in reporting year 2018 were also updated in relation to refunds and survivor benefit payment options.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Employer's proportion of the net pension liability	53.049189%	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	\$ 1,033,200	\$ 906,880	\$ 749,414	\$ 663,174
Employer's covered payroll	\$ 648,671	\$ 621,755	\$ 620,286	\$ 597,083
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	159%	146%	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	74%	75%	78%	80%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 54,844	\$ 56,256	\$ 59,073	\$ 58,575
Contributions in relation to the contractually required contributions	54,844	56,256	59,073	58,575
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286
Contributions as a percentage of covered payroll	9%	9%	10%	9%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, includes inflation
Salary increases	0% to 4.80%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.26%

Changes of assumptions: Since reporting year 2016, assumptions for GABA, second retirements, and defined contribution (DC) law have been updated to match current law and plan provisions. Since reporting year 2018, assumptions for working retirees, terminations, refunds, disabled DC members, and special funding have been updated to reflect changes in law and plan provisions.

**Required Supplementary Information
State of Montana as a Nonemployer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	1.007464%	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	\$ 19,622	\$ 16,287	\$ 13,365	\$ 11,978
Plan fiduciary net position as a percentage of the total pension liability	74%	75%	78%	80%

**Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 34,706	\$ 28,763	\$ 30,800	\$ 32,397
Contributions in relation to the contractually required contributions	34,706	28,763	30,800	32,397
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Changes of assumptions: Since the 2018 reporting date, assumptions related to special funding provided have changed and may affect trends.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Employer's proportion of the net pension liability	4.856692%	5.454386%	5.637055%	5.535%
Employer's proportionate share of the net pension liability	\$ 3,696	\$ 9,582	\$ 5,434	\$ 2,304
Employer's covered payroll	\$ 3,634	\$ 3,850	\$ 3,836	\$ 3,580
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	102%	249%	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	81%	63%	75%	87%

**Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 496	\$ 368	\$ 389	\$ 388
Contributions in relation to the contractually required contributions	496	368	389	388
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836
Contributions as a percentage of covered payroll	13%	10%	10%	10%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage Inflation	3.50%, includes inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, set back 1 year for males
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.21%

Changes of assumptions: Since the 2018 reporting date, assumptions related second retirement benefit payments, refund payment options to terminated employees, and funding requirements have been updated to reflect current plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nonemployer's proportion of the net pension liability	67.085433%	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	\$ 119,354	\$ 119,708	\$ 110,756	\$ 105,106
Plan fiduciary net position as a percentage of the total pension liability	68%	66%	67%	67%

Schedule of Nonemployer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 15,283	\$ 13,215	\$ 13,752	\$ 13,433
Contributions in relation to the contractually required contributions	15,283	13,215	13,752	13,433
Contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.233929%	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	\$ 2,525	\$ 2,583	\$ 2,454	\$ 1,806
Employer's covered payroll	\$ 1,022	\$ 974	\$ 986	\$ 735
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	247%	265%	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	77%	77%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 518	\$ 472	\$ 475	\$ 142
Contributions in relation to the contractually required contributions	518	472	475	142
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 1,103	\$ 1,022	\$ 974	\$ 986
Contributions as a percentage of covered payroll	47%	46%	49%	14%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Inflation	2.75%
Salary increases	0% to 6.30%
Investment rate of return	7.65%, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin as a % of payroll	0.23%

Changes of assumptions: Since the 2018 reporting date, changes in assumptions for working retiree limitations and effects on second retirement benefits, plan member election and participation, terminating employee provisions, and refund assumptions have been updates to reflect current plan provisions.

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nonemployer's proportion of the net pension liability	67.876338%	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	\$ 76,724	\$ 77,448	\$ 68,892	\$ 66,384
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	77%	77%

**Schedule of Nonemployer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 15,272	\$ 14,042	\$ 13,635	\$ 13,573
Contributions in relation to the contractually required contributions	15,272	14,042	13,635	13,573
Contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	\$ 10,087	\$ 10,599	\$ 10,504	\$ 5,089
Plan fiduciary net position as a percentage of the total pension liability	78%	76%	76%	87%

**Schedule of Nonemployer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 2,207	\$ 2,054	\$ 2,024	\$ 1,913
Contributions in relation to the contractually required contributions	2,207	2,054	2,024	1,913
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: Since the 2016 reporting year, benefit terms were updated to reflect plan provisions. In reporting year 2018, discount, inflation, mortality, and withdrawal assumptions were updated to better reflect market conditions and actual experience.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.860298%	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	\$ 48,227	\$ 57,016	\$ 56,230	\$ 72,168
Employer's covered payroll	\$ 26,944	\$ 28,915	\$ 31,252	\$ 32,937
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	179%	197%	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	69%	70%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 17,298	\$ 17,396	\$ 16,946	\$ 16,234
Contributions in relation to the contractually required contributions	17,298	17,396	16,946	16,234
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252
Contributions as a percentage of covered payroll	71%	65%	58%	52%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Changes of assumptions: Since reporting year 2015, assumptions about mortality, inflation, wage growth, and investment expenses were adjusted to more closely match actual experience and benefit statutes. Since reporting year 2016, termination benefits, assumed rate of university member retirements, load factors for university members, and COLA assumptions for Tier 2 members were updated to more closely reflect actual experience. Since reporting year 2017, the normal cost method was updated to align the most appropriate allocation of plan costs.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	38.133267%	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	\$ 642,958	\$ 707,527	\$ 647,092	\$ 596,724
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	69%	70%

**Schedule of Nonemployer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2018	2017	2016	2015
Contractually required contributions	\$ 43,718	\$ 43,028	\$ 42,400	\$ 42,806
Contributions in relation to the contractually required contributions	43,718	43,028	42,400	42,806
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a \$25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for the State of Montana OPEB plan.

Total OPEB Liability and Related Ratios	
Last 10 Fiscal Years ⁽¹⁾	
(in thousands)	
Total OPEB Liability	2018
Service cost	\$ 1,889
Interest	2,014
Changes of benefit terms	—
Difference between expected and actual experience	(4,723)
Changes of assumptions or other inputs	(295)
Benefit payments	1,705
Net change in total OPEB liability	590
Total OPEB liability - Beginning	49,869
Total OPEB Liability - Ending	\$ 50,459
State and discretely presented component units' proportion of the collective total OPEB liability	100%
Covered employee payroll	\$ 675,661
Total OPEB liability as a percentage of covered employee payroll	7.47%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, the medical plan coverage moved from Cigna to Allegiance as of January 1, 2016, the State plan implemented reference-based pricing hospital contracts effective July 1, 2016, the pharmacy plan moved from

URx to Navitus as of January 1, 2017, and the State plan implemented an employer group waiver program for Medicare retirees effective January 1, 2017.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for MUS plan.

Total OPEB Liability and Related Ratios	
Last 10 Fiscal Years ⁽¹⁾	
(in thousands)	
Total OPEB Liability	2018
Service cost	\$ 1,954
Interest	1,410
Changes of benefit terms	—
Difference between expected and actual experience	(1,323)
Changes of assumptions or other inputs	(182)
Benefit payments	(679)
Net change in total OPEB liability	1,180
Total OPEB liability - Beginning	34,258
Total OPEB liability - Ending	\$ 35,438
State and discretely presented component units' proportion of the collective total OPEB liability	95.62%
Covered employee payroll ⁽²⁾	\$ 434,243
Total OPEB liability as a percentage of covered employee payroll	8.53%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

⁽²⁾ Amount reported is for the whole MUS plan. Community Colleges are included due to lack of ability to separate covered employee payroll.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, MUS plan increased the deductible, increased out-of pocket limits for Medical and Rx, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retirees became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services, and massage therapy moved into rehabilitation benefit.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. Premiums and investment Revenue	\$ 99,369	\$ 100,693	\$ 84,297	\$ 80,764	\$ 79,257	\$ 76,505	\$ 75,911	\$ 73,078	\$ 62,851	\$ 59,573
2. Unallocated expenses including overhead	\$ 5,111	\$ 5,196	\$ 5,129	\$ 5,198	\$ 4,787	\$ 3,938	\$ 4,063	\$ 4,663	\$ 3,629	\$ 3,123
3. Estimated losses and expenses end of accident year	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331	\$ 64,919	\$ 65,575	\$ 60,928
4. Net paid (cumulative) as of:										
End of policy year	\$ 80,393	\$ 75,601	\$ 76,400	\$ 79,388	\$ 63,317	\$ 61,964	\$ 56,981	\$ 57,018	\$ 58,989	\$ 54,121
One year later		\$ 84,575	\$ 85,796	\$ 88,943	\$ 69,073	\$ 67,988	\$ 62,937	\$ 63,495	\$ 66,991	\$ 60,203
Two years later			\$ 85,894	\$ 89,261	\$ 69,074	\$ 68,024	\$ 62,968	\$ 63,538	\$ 67,022	\$ 60,260
Three years later				\$ 89,264	\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041	\$ 60,261
Four years later					\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041	\$ 60,261
Five years later						\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,042	\$ 60,262
Six years later							\$ 62,974	\$ 63,539	\$ 67,042	\$ 60,262
Seven years later								\$ 63,539	\$ 67,042	\$ 60,262
Eight years later									\$ 67,042	\$ 60,262
Nine years later										\$ 60,262
5. Re-estimated ceded losses and expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331	\$ 64,919	\$ 65,575	\$ 60,928
One year later		\$ 84,567	\$ 86,148	\$ 88,824	\$ 71,700	\$ 68,349	\$ 63,446	\$ 63,941	\$ 67,006	\$ 60,208
Two years later			\$ 85,894	\$ 89,261	\$ 69,074	\$ 68,024	\$ 62,968	\$ 63,538	\$ 67,022	\$ 60,260
Three years later				\$ 89,264	\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041	\$ 60,261
Four years later					\$ 69,076	\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,041	\$ 60,261
Five years later						\$ 68,024	\$ 62,974	\$ 63,539	\$ 67,042	\$ 60,262
Six years later							\$ 62,974	\$ 63,539	\$ 67,042	\$ 60,262
Seven years later								\$ 63,539	\$ 67,042	\$ 60,262
Eight years later									\$ 67,042	\$ 60,262
Nine years later										\$ 60,262
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ —	\$ (1,236)	\$ (1,339)	\$ 1,912	\$ (2,800)	\$ (1,302)	\$ (1,357)	\$ (1,380)	\$ 1,467	\$ (666)

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003 State Commissions		\$274,072
94.006 AmeriCorps	\$2,982,207	\$3,175,527
94.009 Training and Technical Assistance		\$53,750
94.013 Volunteers in Service to America		\$785,751
	TOTAL	\$4,289,100
CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL		
DEPARTMENT OF AGRICULTURE		
10.001 Agricultural Research Basic and Applied Research		
South Dakota State University 3TG612		(\$37)
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$1,055,632
10.093 Voluntary Public Access and Habitat Incentive Program		\$335,770
10.162 Inspection Grading and Standardization		\$35,553
10.163 Market Protection and Promotion		\$168,540
10.170 Specialty Crop Block Grant Program - Farm Bill		
10.200 Grants for Agricultural Research, Special Research Grants	\$325,632	\$1,292,023
10.227 1994 Institutions Research Program		\$57,312
Fort Belknap College 2002-38424-12433		\$206
10.310 Agriculture and Food Research Initiative (AFRI)	\$7,501	\$64,516
University of Idaho BDK489-SB-001		\$8,898
10.433 Rural Housing Preservation Grants		\$1,000
10.435 State Mediation Grants		\$24,983
10.460 Risk Management Education Partnerships		\$21,656
10.464 Socially Disadvantaged Farmers and Ranchers Policy Research Center		
Fort Peck Community College		\$38,013
10.475 Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		\$906,949
10.500 Cooperative Extension Service	\$4,504	\$3,095,804
Kansas State University S17157		\$12,217
Kansas State University S18142		\$3,875
Kansas State University S17115		\$14,802
University of Missouri C00055873-6		\$13,765
University of Missouri C00059381-8		\$8,119
10.541 Child Nutrition- Technology Innovation Grant		\$52,915
10.547 Professional Standards for School Nutrition Employees		\$252,617

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	\$4,364,750
10.558	Child and Adult Care Food Program	\$14,071,011
10.560	State Administrative Expenses for Child Nutrition	\$12,008,082
10.567	Food Distribution Program on Indian Reservations	\$925,950
10.572	WIC Farmers' Market Nutrition Program (FMNP)	\$6,100,002
10.576	Senior Farmers Market Nutrition Program	\$50,399
10.578	WIC Grants To States (WGS)	\$95,860
10.579	Child Nutrition Discretionary Grants Limited Availability	\$511,598
10.582	Fresh Fruit and Vegetable Program	\$519,760
10.601	Market Access Program	\$1,771,526
	U.S. Livestock Genetics Export, Inc.	\$46,544
	Western U.S. Agricultural Trade Association	\$1,886
10.605	Quality Samples Program	\$38,126
10.652	Forestry Research	\$622,751
	National Wilderness Stewardship Alliance W/2018	\$1,824
10.664	Cooperative Forestry Assistance	\$2,246,720
10.674	Wood Utilization Assistance	\$3,500
10.676	Forest Legacy Program	\$488
10.678	Forest Stewardship Program	\$85,450
10.680	Forest Health Protection	\$138,344
10.683	National Fish and Wildlife Foundation	\$4,300
10.691	Good Neighbor Authority	\$120,496
10.699	Partnership Agreements	\$353,719
10.855	Distance Learning and Telemedicine Loans and Grants	\$53,850
10.902	Soil and Water Conservation	\$391,981
10.912	Environmental Quality Incentives Program	
	Adams Ranch 2014 MOU	\$1,224
	Mark Machler 2014 MOU	\$9,544
10.924	Conservation Stewardship Program	\$12,463
10.931	Agricultural Conservation Easement Program	\$1,632,283
10.UXX	Miscellaneous Non-Major Grants	\$177,283
	TOTAL	\$58,285,601
Child Nutrition Cluster		
10.553	School Breakfast Program	\$10,330,749
10.555	National School Lunch Program	\$32,569,725

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
10.556	Special Milk Program for Children	\$8,148
10.559	Summer Food Service Program for Children	\$2,149,657
	TOTAL	\$45,058,279
 Food Distribution Cluster		
10.565	Commodity Supplemental Food Program	\$1,950,083
10.568	Emergency Food Assistance Program (Administrative Costs)	\$315,928
10.569	Emergency Food Assistance Program (Food Commodities)	\$1,349,476
	TOTAL	\$3,615,487
 Forest Service Schools and Roads Cluster		
10.665	Schools and Roads - Grants to States	\$15,119,644
	TOTAL	\$15,119,644
 SNAP Cluster		
10.551	Supplemental Nutrition Assistance Program	\$163,015,980
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$10,961,844
	TOTAL	\$173,977,824
 DEPARTMENT OF AGRICULTURE TOTAL		
		\$296,056,835
 DEPARTMENT OF COMMERCE		
11.549	State and Local Implementation Grant Program	\$44,744
11.550	Public Telecommunications Facilities Planning and Construction Corporation for Public Broadcasting 1492	\$103,257
11.611	Manufacturing Extension Partnership	\$561,629
11.620	Science, Technology, Business and/or Education Outreach	\$160,553
	TOTAL	\$870,183
 Economic Development Cluster		
11.307	Economic Adjustment Assistance	\$370,958
11.307	Economic Adjustment Assistance	\$2,677,370
	TOTAL	\$3,048,328
 DEPARTMENT OF DEFENSE		
12.002	Procurement Technical Assistance For Business Firms	
	Big Sky Economic Development Corporation SP4800-17-2-1722	\$67,062
	Big Sky Economic Development Corporation SP4800-16-2-1622	\$6,122
12.112	Payments to States in Lieu of Real Estate Taxes	\$5,700

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
12.357 ROTC Language and Culture Training Grants		
Institute of International Education 2606-UMT-G-5-GO-051-PO7		\$308,262
Institute of International Education 2603-UMT-5-GO-051-POS		\$97,030
12.400 Military Construction, National Guard		\$2,866,929
12.401 National Guard Military Operations and Maintenance (O&M) Projects		\$17,763,878
12.404 National Guard Challenge Program		\$4,162,902
12.579 Language Training Center		
Institute of International Education 2603-UMT-5-LTC-052-PO8		\$1,924,558
Institute of International Education 2603-UMT-5-LTC-LT5-PO4		\$115,270
Institute of International Education 2603-UMT-5-LTC-052-PO6		\$331,796
12.620 Troops to Teachers Grant Program		\$490,898
12.901 Mathematical Sciences Grants		
National Security Agency H98230-17-1-0299		\$32,581
12.UXX Miscellaneous Non-Major Grants	\$109,110	\$1,987,294
Pacific States Marine Fisheries Commission 18-128P		\$43,465
Pacific States Marine Fisheries Commission 18-93P		\$890,274
Pacific States Marine Fisheries Commission 17-114G		\$1,670,561
Pacific States Marine Fisheries Commission 18-09G	\$5,750	\$148,991
	TOTAL	\$32,913,573
DEPARTMENT OF DEFENSE TOTAL		\$32,913,573
DEPARTMENT OF EDUCATION		
84.002 Adult Education - Basic Grants to States	\$835,382	\$1,038,558
84.010 Title I Grants to Local Educational Agencies	\$47,651,088	\$48,809,739
84.011 Migrant Education State Grant Program	\$910,171	\$1,043,698
84.013 Title I State Agency Program for Neglected and Delinquent Children and Youth		\$191,663
84.031 Higher Education Institutional Aid		\$361,658
84.032 Federal Family Education Loans		\$59,466,255
84.048 Career and Technical Education -- Basic Grants to States	\$435,395	\$5,638,178
84.126 Rehabilitation Services Vocational Rehabilitation Grants to States		\$8,082,283
84.144 Migrant Education Coordination Program		\$20,178
84.177 Rehabilitation Services Independent Living Services for Older Individuals Who are Blind		\$254,022
84.181 Special Education-Grants for Infants and Families		\$1,869,574
84.184 School Safety National Activities	\$102,267	\$566,335

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	\$299,790
84.196	Education for Homeless Children and Youth	\$229,588
84.287	Twenty-First Century Community Learning Centers	\$5,291,795
84.299	Indian Education -- Special Programs for Indian Children	
	Blackfeet Community College S299B160026	\$95,122
	Fort Peck Community College S299B130018	(\$21)
84.323	Special Education - State Personnel Development	\$735,302
84.324	Research in Special Education	
	University of California, Davis 201500425-03	(\$4,211)
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	\$326,486
	University of Florida H325A120003	\$45,833
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	\$117,797
	California State University, Northridge F-11-2963-3-UMT	\$59,762
	Helen Keller National Center H326T130012-15A	\$70,804
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	\$4,563,170
84.335	Child Care Access Means Parents in School	\$1,965
84.358	Rural Education	\$346,923
84.365	English Language Acquisition State Grants	\$894,711
84.366	Mathematics and Science Partnerships	\$417,603
	Bozeman Public Schools 16 0350 1513 MSP	\$11,652
84.367	Supporting Effective Instruction State Grants	\$9,808,623
	National Writing Project 16-MT03-SEED2017-CRWPAI	\$24,631
	National Writing Project - University of California, Berkeley 93-MT01-SEED2017-III	\$9,811
84.369	Grants for State Assessments and Related Activities	\$3,694,241
84.371	Comprehensive Literacy Development	\$1,346,192
84.372	Statewide Longitudinal Data Systems	\$783,861
84.377	School Improvement Grants	\$1,177,148
84.418	Promoting Readiness of Minors in Supplemental Security Income	
	State of Utah Contract REF# 146214	\$543,775
	University of Utah 10033712	\$40,932
84.419	Preschool Development Grants	\$6,900,552
84.424	Student Support and Academic Enrichment Program	\$1,389,192
84.998	American Printing House for the Blind	\$7,108

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
84.UXX	Miscellaneous Non-Major Grants		\$135,082
		TOTAL	\$170,229,071
Special Education Cluster (IDEA)			
84.027	Special Education Grants to States	\$36,504,953	\$40,377,900
84.173	Special Education Preschool Grants	\$1,112,127	\$1,115,103
		TOTAL	\$41,493,003
Student Financial Assistance Cluster			
84.007	Federal Supplemental Educational Opportunity Grants		\$1,380,961
84.033	Federal Work-Study Program		\$2,076,927
84.038	Federal Perkins Loan Program - Federal Capital Contributions		\$38,230,216
84.063	Federal Pell Grant Program		\$47,694,653
84.268	Federal Direct Student Loans		\$173,720,750
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		\$12,413
		TOTAL	\$263,115,920
TRIO Cluster			
84.042	TRIO Student Support Services		\$1,876,771
84.044	TRIO Talent Search		\$1,086,037
84.047	TRIO Upward Bound		\$1,415,017
84.066	TRIO Educational Opportunity Centers		\$156,999
84.217	TRIO McNair Post-Baccalaureate Achievement		\$270,359
		TOTAL	\$4,805,183
		DEPARTMENT OF EDUCATION TOTAL	\$479,643,177
DEPARTMENT OF ENERGY			
81.041	State Energy Program		\$293,677
81.042	Weatherization Assistance for Low-Income Persons		\$2,736,818
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance		\$127,735
81.119	State Energy Program Special Projects		\$70,358
81.138	State Heating Oil and Propane Program		\$8,623
81.UXX	Miscellaneous Non-Major Grants		\$40,945
		TOTAL	\$3,278,156
		DEPARTMENT OF ENERGY TOTAL	\$3,278,156

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

DEPARTMENT OF HEALTH AND HUMAN SERVICES		Amount to Subrecipients	Expenditures
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$28,761	\$28,761
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$89,891	\$89,981
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	\$98,349	\$98,349
93.051	Alzheimer's Disease Demonstration Grants to States	\$23,730	\$23,730
93.052	National Family Caregiver Support, Title III, Part E	\$683,926	\$737,399
93.070	Environmental Public Health and Emergency Response	\$84,000	\$463,965
93.071	Medicare Enrollment Assistance Program	\$113,798	\$118,823
93.072	Lifespan Respite Care Program	\$107,694	\$161,219
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	\$2,477,577	\$5,339,962
93.090	Guardianship Assistance		\$1,715,979
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	\$148,576	\$235,308
93.103	Food and Drug Administration Research		\$216,657
93.110	Maternal and Child Health Federal Consolidated Programs		\$60,633
93.113	Environmental Health		\$26,786
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		\$170,801
93.127	Emergency Medical Services for Children		\$281,287
93.129	Technical and Non-Financial Assistance to Health Centers		(\$1,579)
93.130	Montana Primary Care Association Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	\$30,867	\$179,829
93.136	Injury Prevention and Control Research and State and Community Based Programs		\$444,222
93.150	Projects for Assistance in Transition from Homelessness (PATH)	\$179,846	\$186,574
93.155	Rural Health Research Centers		
93.165	National Rural Health Association 2017 SRHA TECHNICAL ASSISTANCE Grants to States for Loan Repayment Program	\$159,950	\$11,995
93.184	Disabilities Prevention	\$146,183	\$159,950
93.217	Family Planning Services	\$1,458,019	\$284,122
93.236	Grants to States to Support Oral Health Workforce Activities	\$177,377	\$1,999,978
93.240	State Capacity Building		\$229,560
93.241	State Rural Hospital Flexibility Program	\$568,569	\$178,734
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	\$4,134,955	\$545,713
			\$7,058,233

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
93.251		\$174,417
93.262		\$182,506
		\$11,380
		\$15,492
93.268	\$338,619	\$11,973,933
93.270		\$37,190
93.305		\$805,576
93.307		\$9,885,541
93.314		(\$2,460)
93.323		\$1,986,629
93.324	\$381,460	\$539,204
93.336		\$333,080
93.369		\$306,864
93.448		\$120,199
93.449		\$16,759
93.464		\$379,609
93.500		\$122,938
93.516	\$123,205	
93.518	\$65,703	\$40,113
93.521		\$70,279
93.556		\$616,623
93.563	\$545,326	\$656,476
93.566		\$10,928,206
93.568	\$185,135	\$310,884
93.569	\$1,026,902	\$19,564,076
93.586	\$9,260	\$3,058,076
93.590	\$135,394	\$171,340
93.597	\$97,653	\$202,671
93.599	\$226,954	\$99,513
93.600	\$4,000	\$228,408
93.603		\$116,954
		\$91,748

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
93.630	\$437,718	\$437,718
93.643		\$94,607
93.645		\$671,973
93.658	\$3,063,349	\$18,043,709
93.659		\$9,794,871
93.667		\$7,126,397
93.669		\$153,900
93.671	\$835,289	\$840,502
93.674	\$709,558	\$737,551
93.732		\$89,069
93.733		\$104,794
93.747		\$50,900
93.752	\$112,052	\$375,334
93.757		\$1,212,890
93.758	\$388,555	\$1,256,572
93.767		\$97,563,104
93.788	\$815,788	\$1,010,142
93.791		\$292,256
93.800	\$454,510	\$667,353
93.815		\$409,786
93.817		\$2,959
93.859		\$73,468
93.898	\$945,665	\$2,204,083
93.912	\$19,319	\$465,876
93.917	\$749,693	\$2,755,385
93.938		\$77,285
93.940		\$861,818
93.944	\$431,004	\$111,349

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
93.945	Assistance Programs for Chronic Disease Prevention and Control	\$1,190,798
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	\$162,608
93.958	Block Grants for Community Mental Health Services	\$2,501,906
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$8,862,752
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	\$222,219
93.994	Maternal and Child Health Services Block Grant to the States	\$2,017,347
93.UXX	Miscellaneous Non-Major Grants	\$143,182
	TOTAL	\$246,677,658
Aging Cluster		
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	\$1,411,743
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	\$2,929,530
93.053	Nutrition Services Incentive Program	\$817,706
	TOTAL	\$6,117,779
CCDF Cluster		
93.575	Child Care and Development Block Grant	\$16,962,928
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$7,591,376
	TOTAL	\$24,554,304
Maternal, Infant, and Early Childhood Home Visiting Cluster		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program TEAM for West Virginia Children	\$8,717
		\$2,014
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	\$3,268,413
	TOTAL	\$3,279,144
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	\$682,198
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	\$2,209,659
93.778	Medical Assistance Program	\$1,468,545,907
	TOTAL	\$1,471,437,764
Student Financial Assistance Cluster		
93.264	Nurse Faculty Loan Program (NFLP)	\$14,620
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$227,150
93.364	Nursing Student Loans	\$2,798,157
	TOTAL	\$3,039,927

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

TANF Cluster	Amount to Subrecipients	Expenditures
93.558 Temporary Assistance for Needy Families	\$1,945,553	\$39,854,621
	TOTAL	\$39,854,621
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		
		\$1,794,961,197
DEPARTMENT OF HOMELAND SECURITY		
97.007 Homeland Security Preparedness Technical Assistance Program		\$4
97.012 Boating Safety Financial Assistance		\$569,101
97.023 Community Assistance Program State Support Services Element (CAP-SSSE)		\$192,415
97.029 Flood Mitigation Assistance		\$200,505
97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$2,782,874	\$2,795,640
97.039 Hazard Mitigation Grant	\$1,310,518	\$1,737,012
97.041 National Dam Safety Program		\$242,204
97.042 Emergency Management Performance Grants	\$1,795,669	\$3,015,363
97.043 State Fire Training Systems Grants		\$7,976
97.044 Assistance to Firefighters Grant		\$1,535
97.045 Cooperating Technical Partners		\$2,183,756
97.046 Fire Management Assistance Grant	\$1,090,700	\$12,429,754
97.047 Pre-Disaster Mitigation	\$3,622,982	\$1,288,467
97.067 Homeland Security Grant Program		\$4,085,778
Kalispell Police Department 14-SPWSPW-09-003		\$15,397
	TOTAL	\$28,764,907
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.228 Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$1,675,931	\$1,936,852
14.231 Emergency Solutions Grant Program		\$818,661
14.235 Supportive Housing Program		\$77,175
14.238 Shelter Plus Care		\$146,725
14.239 Home Investment Partnerships Program	\$1,273,822	\$1,505,723
14.241 Housing Opportunities for Persons with AIDS		\$974,481
14.251 Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants		\$451,252
14.275 Housing Trust Fund		\$24,757

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
14.326		\$134,681
		TOTAL
		\$6,070,307
Housing Voucher Cluster		
14.871		\$22,885,198
		TOTAL
		\$22,885,198
Section 8 Project-Based Cluster		
14.195		\$22,375,164
14.856		\$1,863,191
		TOTAL
		\$24,238,355
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL		
		\$53,193,860
DEPARTMENT OF JUSTICE		
16.017	\$343,484	\$359,072
16.528		\$70,874
16.540	\$253,871	\$325,952
16.550		\$140,648
16.554		\$1,312,457
16.560		
16.575	\$4,912,228	\$168,485
16.576		\$5,382,555
16.582		\$62,184
16.585		\$588,564
16.588	\$795,629	\$549,067
16.589		\$886,893
16.590		\$17,344
16.593	\$42,708	\$158,457
16.726		\$46,785
16.735		(\$380)
		\$34,663
		\$18,048
		\$103,225

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
16.738 Edward Byrne Memorial Justice Assistance Grant Program	\$673,413	\$915,650
16.741 DNA Backlog Reduction Program		\$447,313
16.742 Paul Coverdell Forensic Sciences Improvement Grant Program		\$97,982
16.745 Criminal and Juvenile Justice and Mental Health Collaboration Program	\$8,715	\$10,013
16.751 Edward Byrne Memorial Competitive Grant Program		\$10,296
16.754 Harold Rogers Prescription Drug Monitoring Program		\$93,898
16.812 Second Chance Act Reentry Initiative		\$80,782
16.818 Children Exposed to Violence	\$255,395	\$493,936
16.833 National Sexual Assault Kit Initiative		\$876,210
	TOTAL	\$13,250,973
DEPARTMENT OF JUSTICE TOTAL		
		\$13,250,973
DEPARTMENT OF LABOR		
17.002 Labor Force Statistics		\$729,213
17.005 Compensation and Working Conditions		\$92,479
17.201 Registered Apprenticeship	\$88,126	\$117,459
17.225 Unemployment Insurance		\$124,337,518
17.235 Senior Community Service Employment Program		\$399,726
17.245 Trade Adjustment Assistance	\$379,873	\$197,734
17.268 H-1B Job Training Grants		
Northern Wyoming Community College 011717-1		\$185,538
17.271 Work Opportunity Tax Credit Program (WOTC)		\$66,000
17.273 Temporary Labor Certification for Foreign Workers		\$204,362
17.277 WIOA National Dislocated Worker Grants / WIA National Emergency Grants	\$2,778	\$478,283
17.282 Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	\$1,240,381	\$5,166,305
17.285 Apprenticeship USA Grants		\$556,899
17.504 Consultation Agreements		\$495,967
17.600 Mine Health and Safety Grants		\$200,446
	TOTAL	\$133,227,929
Employment Service Cluster		
17.207 Employment Service/Wagner-Peyser Funded Activities		\$4,765,213
17.801 Disabled Veterans' Outreach Program (DVOP)		\$573,462
17.804 Local Veterans' Employment Representative Program		(\$4,116)
	TOTAL	\$5,334,559

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

WIOA Cluster	Amount to Subrecipients	Expenditures
17.258 WIOA Adult Program	\$402,713	\$1,564,174
17.259 WIOA Youth Activities	\$1,397,903	\$2,168,088
17.278 WIOA Dislocated Worker Formula Grants	\$1,357	\$1,418,714
	TOTAL	\$5,150,976
DEPARTMENT OF LABOR TOTAL		\$143,713,464
DEPARTMENT OF STATE		
19.009 Academic Exchange Programs - Undergraduate Programs		\$460,441
19.010 Academic Exchange Programs - Hubert H. Humphrey Fellowship Program		
Institute of International Education IIE0138_2.22.18		\$65,350
Institute of International Education IIE0138-MONTANA-1.1.17		\$83,528
19.021 Investing in People in The Middle East and North Africa		
World Learning Institute S04-SIZ-100-16-CA-008		\$58,702
19.040 Public Diplomacy Programs		\$33,863
19.401 Academic Exchange Programs - Scholars		\$252,889
19.415 Professional and Cultural Exchange Programs - Citizen Exchanges	\$51,800	\$626,844
	TOTAL	\$1,581,617
DEPARTMENT OF STATE TOTAL		\$1,581,617
DEPARTMENT OF THE INTERIOR		
15.025 Services to Indian Children, Elderly and Families		\$80,771
15.034 Agriculture on Indian Lands		
Fort Belknap Community Council A10AV00583		\$59,186
15.224 Cultural and Paleontological Resources Management		\$82,910
15.225 Recreation and Visitor Services		\$26,936
15.230 Invasive and Noxious Plant Management		\$4,822
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$153,461
15.236 Environmental Quality and Protection		\$963,354
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$2,026,837
15.252 Abandoned Mine Land Reclamation (AMLR)		\$4,081,150
15.427 Federal Oil and Gas Royalty Management State and Tribal Coordination		\$437,554
15.514 Reclamation States Emergency Drought Relief		\$72,543
15.517 Fish and Wildlife Coordination Act		\$43,867
15.524 Recreation Resources Management		\$48,868

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
15.608	Fish and Wildlife Management Assistance	\$84,503
15.615	Cooperative Endangered Species Conservation Fund	\$2,082,345
15.626	Enhanced Hunter Education and Safety	\$79,920
15.634	State Wildlife Grants	\$613,954
15.637	Migratory Bird Joint Ventures	\$38,009
15.657	Endangered Species Conservation - Recovery Implementation Funds	\$186,096
15.660	Endangered Species - Candidate Conservation Action Funds	\$348
	State of Utah 186103	\$79,059
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	\$135,000
15.678	Cooperative Ecosystem Studies Units	\$28,416
15.904	Historic Preservation Fund Grants-In-Aid	\$773,726
15.916	Outdoor Recreation Acquisition, Development and Planning	\$441,786
15.944	Natural Resource Stewardship	\$10,079
15.945	Cooperative Research and Training Programs - Resources of the National Park System	\$10,632
15.981	Water Use and Data Research	\$55,604
15.UXX	Miscellaneous Non-Major Grants	\$282,990
	TOTAL	\$12,984,726
Fish and Wildlife Cluster		
15.605	Sport Fish Restoration	\$7,089,811
15.611	Wildlife Restoration and Basic Hunter Education	\$13,530,913
	TOTAL	\$20,620,724
DEPARTMENT OF THE INTERIOR TOTAL		
		\$33,605,450
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program	(\$25,507)
20.200	Highway Research and Development Program	\$173,003
20.218	Motor Carrier Safety Assistance	\$2,580,253
20.232	Commercial Driver's License Program Implementation Grant	\$95,890
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	\$15,264
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	\$15,140
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	\$449,363
20.509	Formula Grants for Rural Areas	\$8,607,089
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	\$214,324

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
20.614 National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		\$88,338
20.700 Pipeline Safety Program State Base Grant		\$174,214
20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants	\$119,990	\$124,091
	TOTAL	\$14,613,752
Federal Transit Cluster		
20.526 Bus and Bus Facilities Formula Program	\$868,899	\$868,899
	TOTAL	\$868,899
Highway Planning and Construction Cluster		
20.205 Highway Planning and Construction	\$2,294,585	\$419,157,310
20.219 Recreational Trails Program	\$2,071,498	\$2,181,949
	TOTAL	\$421,339,259
Highway Safety Cluster		
20.600 State and Community Highway Safety	\$235,294	\$1,796,772
20.616 National Priority Safety Programs	\$172,051	\$876,227
	TOTAL	\$2,672,999
Transit Services Programs Cluster		
20.513 Enhanced Mobility of Seniors and Individuals with Disabilities	\$974,808	\$1,054,352
	TOTAL	\$1,054,352
DEPARTMENT OF TRANSPORTATION		
	DEPARTMENT OF TRANSPORTATION TOTAL	\$440,549,261
21.UXX Miscellaneous Non-Major Grants		\$878
	TOTAL	\$878
	DEPARTMENT OF TREASURY TOTAL	\$878
DEPARTMENT OF VETERANS AFFAIRS		
64.014 Veterans State Domiciliary Care		\$169,302
64.015 Veterans State Nursing Home Care		\$6,367,162
64.124 All-Volunteer Force Educational Assistance		\$107,542
64.202 Procurement of Headstones and Markers and/or Presidential Memorial Certificates		\$12,649
64.203 Veterans Cemetery Grants Program		\$700
	TOTAL	\$6,657,355
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	\$6,657,355

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
ENVIRONMENTAL PROTECTION AGENCY		
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	\$280,269
66.040	State Clean Diesel Grant Program	\$128,018
66.204	Multipurpose Grants to States and Tribes	\$129,373
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	\$68,829
66.433	State Underground Water Source Protection	\$54,852
66.454	Water Quality Management Planning	\$135,392
66.460	Nonpoint Source Implementation Grants	\$1,521,731
	Soil and Water Conservation Districts of Montana C9-99833615	\$1,989
66.461	Regional Wetland Program Development Grants	\$95,940
66.514	Science To Achieve Results (STAR) Fellowship Program	\$8,851
66.516	P3 Award: National Student Design Competition for Sustainability	\$339
66.605	Performance Partnership Grants	\$5,417,578
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	\$98,375
66.708	Pollution Prevention Grants Program	\$135,705
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	\$1,718,399
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	\$331,846
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	\$492,721
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	\$173,572
66.817	State and Tribal Response Program Grants	\$753,873
66.951	Environmental Education Grants	\$44,986
	TOTAL	\$11,592,638
	\$9,451	
Clean Water State Revolving Fund Cluster		
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$279,375,856
	TOTAL	\$279,375,856
Drinking Water State Revolving Fund Cluster		
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$150,318,256
	TOTAL	\$150,318,256
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	\$441,286,750

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.001 Employment Discrimination Title VII of the Civil Rights Act of 1964		\$171,148
	TOTAL	\$171,148
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL		
		\$171,148
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001 High Intensity Drug Trafficking Areas Program		\$10,697
	TOTAL	\$10,697
EXECUTIVE OFFICE OF THE PRESIDENT TOTAL		
		\$10,697
GENERAL SERVICES ADMINISTRATION		
39.003 Donation of Federal Surplus Personal Property		\$101,937
39.011 Election Reform Payments		\$90,569
	TOTAL	\$192,506
GENERAL SERVICES ADMINISTRATION TOTAL		
		\$192,506
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.301 Museums for America		\$3,839
45.310 Grants to States		\$892,047
45.312 National Leadership Grants	\$47,055	\$261,223
45.313 Laura Bush 21st Century Librarian Program		\$90,999
	TOTAL	\$1,248,108
INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL		
		\$1,248,108
LIBRARY OF CONGRESS		
42.UXX Miscellaneous Non-Major Grants		\$15,725
	TOTAL	\$15,725
LIBRARY OF CONGRESS TOTAL		
		\$15,725
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001 Science		\$126,117
University of Washington	UWSC8987	\$77,554
43.008 Education		\$18,429
Sciencenter	2016-01-UMT/NNX16AM22G	\$222,100
	TOTAL	\$222,100
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		
		\$222,100

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003 National Historical Publications and Records Grants		\$17,681
	TOTAL	\$17,681
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL		
\$17,681		
NATIONAL ENDOWMENT FOR THE ARTS		
45.024 Promotion of the Arts Grants to Organizations and Individuals		\$56,008
Arts Midwest 00018001		\$289
Arts Midwest 00019995		\$24,454
45.025 Promotion of the Arts Partnership Agreements	\$369,889	\$779,338
	TOTAL	\$860,089
NATIONAL ENDOWMENT FOR THE ARTS TOTAL		
\$860,089		
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.129 Promotion of the Humanities Federal/State Partnership		\$1,650
Humanities Montana 17R064		\$500
Humanities Montana 17R057		\$6,393
Humanities Montana 17R025		\$1,000
Humanities Montana 18R021		\$59,878
45.149 Promotion of the Humanities Division of Preservation and Access		\$1,227
Humanities Montana 16R045		\$63,280
Idaho State Historical Society		\$133,928
	TOTAL	\$133,928
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		
\$133,928		
NATIONAL SCIENCE FOUNDATION		
47.076 Education and Human Resources		\$10,359
Salish Kootenai College 1102362		\$5,768
	TOTAL	\$16,127
NATIONAL SCIENCE FOUNDATION TOTAL		
\$16,127		
PEACE CORPS		
45.400 Peace Corps' Global Health and PEPFAR Initiative Program		\$6,725
	TOTAL	\$6,725
PEACE CORPS TOTAL		
\$6,725		

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

	Amount to Subrecipients	Expenditures
SMALL BUSINESS ADMINISTRATION		
59.037 Small Business Development Centers		\$668,130
59.058 Federal and State Technology Partnership Program		\$55,671
59.061 State Trade Expansion		\$353,302
	TOTAL	\$1,077,103
	SMALL BUSINESS ADMINISTRATION TOTAL	\$1,077,103
SOCIAL SECURITY ADMINISTRATION		
96.008 Social Security - Work Incentives Planning and Assistance Program	\$63,224	\$197,972
	TOTAL	\$197,972
Disability Insurance/SSI Cluster		
96.001 Social Security Disability Insurance		\$6,955,496
	TOTAL	\$6,955,496
	SOCIAL SECURITY ADMINISTRATION TOTAL	\$7,153,468

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001 USAID Foreign Assistance for Programs Overseas		
International Food Policy Research Institute 2016X179.MSU	\$29,044	\$42,473
University of Florida UFDSP00011520/P0023483		\$4,311
University of Georgia RC282-392/4942936		\$3,820
	Agency for International Development Total	\$50,604
DEPARTMENT OF AGRICULTURE		
Agricultural Research Service		
10.001 Agricultural Research Basic and Applied Research		
South Dakota State University 3TK612	\$5,000	\$65,686
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		
Pennsylvania State University 5608-MSU-USDA-0169		\$363,262
Pennsylvania State University 5363-MSU-USDA-0169		\$11,872
Utah State University 200592-390		\$2,884
		\$25,399
Economic Research Service		
10.250 Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		
Cornell Center for Behavioral Economics in Child Nutrition 77867-10660		\$31,288
		\$4,975
Farm Service Agency		
10.406 Farm Operating Loans		
		\$24,891
Foreign Agricultural Service		
10.610 Export Guarantee Program		
10.960 Technical Agricultural Assistance	\$18,313	\$124,942
Rutgers, The State University of New Jersey SA#5566; PO 566945		\$25,716
Forest Service		
10.652 Forestry Research		
HydroSolutions Inc MSA 2017-TO1	\$72,582	\$4,171,917
National Wilderness Stewardship Alliance WI2017		\$21,765
River Management Society 2017RMS-WSR50		\$15,965
Forest Stewardship Program		\$29,004
10.678 Forest Stewardship Program		
Pennsylvania State University 5518-UIM-USDA-004		\$1,330

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.680 Forest Health Protection		\$167,814
Salish Kootenia College 2015-38424-24031		\$9,358
10.683 National Fish and Wildlife Foundation		
Yellowstone to Yukon Conservation Initiative 15-01-UM		\$8,480
10.684 International Forestry Programs		\$134,994
10.699 Partnership Agreements		\$142,284
Miscellaneous		
10.RD Miscellaneous Research and Development		\$293,995
University of Wisconsin PO# 000000666		(\$2,379)
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		
North Dakota State University FAR0025837		\$5,166
University of California, Davis A18-1334-S001		\$7,255
University of Idaho BJKP36-SB-001		\$10,297
10.202 Cooperative Forestry Research		\$633,926
10.203 Payments to Agricultural Experiment Stations Under the Hatch Act		\$2,946,922
10.207 Animal Health and Disease Research		\$40,586
10.215 Sustainable Agriculture Research and Education		\$11,397
University of Idaho BJKP85-SB-001/PO005053		\$33,307
Utah State University 200592-395		\$17,488
Utah State University 130676003-66	\$101,855	\$115,402
Utah State University 150893-00001-174		\$100,243
Utah State University 140867026-233	\$5,033	\$55,235
Utah State University 150893-00001-207		\$43,486
Utah State University 200592-390		\$41,504
Utah State University 200592-384		\$24,525
Utah State University 120833011-238		(\$1,649)
Utah State University 200592-447		\$11,562
Utah State University 150893-00001-270		\$11,017
Utah State University 130676025-277		\$8,925
Utah State University 201207-504		\$7,776
Utah State University 201207-554		\$4,540

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
Utah State University 200592-385		\$2,724
Utah State University 140867038-346		(\$847)
Utah State University 200592-00001-311		\$15,168
Utah State University 140867034-367		\$34,440
10.217 Higher Education - Institution Challenge Grants Program		\$413
10.227 1994 Institutions Research Program		
Little Big Horn College		\$9,427
Salish Kootenai College SAA-16-MSU-001		\$14,500
Salish Kootenia College 2015-38424-22668		\$13,830
Salish Kootenia College 2016-38424-2558		\$33,498
10.303 Integrated Programs		\$286,773
10.304 Homeland Security Agricultural		
Kansas State University S17045		\$31,814
10.307 Organic Agriculture Research and Extension Initiative	\$429	\$53,411
National Center for Appropriate Technology		\$18,733
10.309 Specialty Crop Research Initiative		
Colorado State University G-1363-04		\$14,500
Cornell University 73999-10426		\$79,968
University of Tennessee 8500042739		\$16,309
10.310 Agriculture and Food Research Initiative (AFRI)	\$24,009	\$1,213,996
Colorado State University G-91600-3		\$112,182
Colorado State University G-91600-2		\$153,992
Kansas State University S15184		\$9,626
North Carolina State University 2015-0097-05		\$35,634
University of California, Davis 201603566-08		\$151,784
University of Nebraska-Lincoln 25-6268-0005-004		\$69,024
University of Vermont 29034SUB51751		\$57,919
10.312 Biomass Research and Development Initiative Competitive Grants Program (BRDI)	\$68,818	\$339,626
10.318 Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		\$19,545
10.329 Crop Protection and Pest Management Competitive Grants Program	\$61,729	\$317,988
University of California, Davis SA14-2309-34		\$27,945

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.330 Alfalfa and Forage Research Program University of California, Davis A18-0619-S003		\$2,692
10.500 Cooperative Extension Service Washington State University 108815_G003545	\$21,036	\$151,764
Natural Resources Conservation Service		\$896
10.902 Soil and Water Conservation Pheasants Forever LPCI 18-01	\$17,047	\$325,917
10.903 Pheasants Forever Soil Survey 68-3A75-16-736		\$69,510
10.912 Environmental Quality Incentives Program		\$257,823
Rural Business Cooperative Service		\$5,284
10.350 Technical Assistance to Cooperatives National Association of Development Organizations 800.01		\$62,258
USDA, Office of the Chief Economist		\$130,301
10.290 Agricultural Market and Economic Research		\$1,218
DEPARTMENT OF AGRICULTURE TOTAL		\$13,951,829
National Institute of Standards and Technology		
11.620 Science, Technology, Business and/or Education Outreach Stone & Associates NIST-MEP-SA-01		\$88,586
National Oceanic and Atmospheric Administration		
11.431 Climate and Atmospheric Research		\$85,930
11.438 Pacific Coast Salmon Recovery Pacific Salmon Treaty Program Bering Sea Fisherman's Association AC-1609		\$42,363
11.440 Environmental Sciences, Applications, Data, and Education		\$1,520
11.472 Unallied Science Program North Pacific Research Board 1718B		\$10,128
North Pacific Research Board 1718A		\$84,483
DEPARTMENT OF COMMERCE TOTAL		\$313,010

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development North Carolina State University 2016-2896-04		\$267,121 \$255,563
Defense Logistics Agency		
12.002 Procurement Technical Assistance For Business Firms Big Sky Economic Development Authority SP4800-16-2-1622 Big Sky Economic Development Authority SP4800-17-2-1722		\$154,784 \$10,765 \$66,557
Department of the Air Force		
12.800 Air Force Defense Research Sciences Program University of Minnesota A005720602	\$1,462,728	\$15,309,317 \$109,334
Department of the Army		
12.114 Collaborative Research and Development West Point Military Academy		\$104,417 \$10,301
12.420 Military Medical Research and Development	\$29,955	\$717,066
12.431 Basic Scientific Research	\$235,184	\$3,137,589
Department of the Navy		
12.300 Basic and Applied Scientific Research Glacigen Materials, Inc. S2 Corporation S2-5504-15-01UC TPS Associates, Inc. PO MSU-4631/4Y01-01		\$277,244 \$26,114 \$226,175 \$49,212
Miscellaneous		
12.RD Miscellaneous Research and Development Battelle Memorial Institute US001-000590859 Blackmore Sensor and Analytics USAF ARZ999 Bridger Photonics Duke University SUBCONTRACT NUMBER 313-0742 Leidos PO10169067 S2 Corporation S2-1954-16-01 S2 Corporation S2-5504-16-01C S2 Corporation S2-17-0003-01 Smartronix 18-018PO	\$407,883	\$3,436,645 \$29,041 \$1,687 \$37 \$114,923 \$27,773 \$18,969 \$39,796 \$231,201 \$1,251

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
Spectral Molecular Imaging		\$114,959
Tufts University ARM212-MSU		\$42,976
University of Maryland 31236-Z8409102		\$7,383
West Point Military Academy		(\$7)
Office of the Secretary of Defense		
12.630 Basic, Applied, and Advanced Research in Science and Engineering Academy of Applied Science		\$20,174
Technology Student Association 2018-2019 UNITE Summer Program		\$17,422
12.632 Legacy Resource Management Program		\$852
DEPARTMENT OF DEFENSE TOTAL		\$24,826,641
DEPARTMENT OF EDUCATION		
Institute of Education Sciences		
84.305 Education Research, Development and Dissemination SRI International 51-001312		\$135,646
Office of Elementary and Secondary Education		
84.299 Indian Education -- Special Programs for Indian Children Little Big Horn College		\$477,307
84.367 Supporting Effective Instruction State Grants National Writing Project 09-MT02-SEED2017 ILI		(\$10,534)
Office of Postsecondary Education		
84.116 Fund for the Improvement of Postsecondary Education Western Interstate Commission for Higher Education		\$10,524
		\$393
DEPARTMENT OF EDUCATION TOTAL		\$613,336
DEPARTMENT OF ENERGY		
81.049 Office of Science Financial Assistance Program Aerodyne Research Inc ARI 11129-2 Glacigen Materials, Inc. Montana Emergent Technologies, Inc. Sandia National Laboratories PO #1779428 University of Wyoming DE-SC0012671 Washington State University 132345-G003797	\$1,067,447	\$2,293,008
		\$29,847
		\$62,424
		\$61,678
		\$12,464
		\$121,562
		\$72,193

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
81.086 Conservation Research and Development	\$11,500	\$3,057,473
Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY18		\$73,778
Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY17		\$138,244
Pacific States Marine Fisheries Commission 17.54		\$53,643
Pacific States Marine Fisheries Commission 18-50G		\$108,800
81.087 Renewable Energy Research and Development		
Michigan State University RC107739		\$75,692
Ocean Renewable Power Company		\$8,752
University of Toledo F-2013-30		(\$10,498)
81.089 Fossil Energy Research and Development	\$440,834	\$2,436,163
Miscellaneous		
81.RD Miscellaneous Research and Development		
Battelle Energy Alliance DE-AC07-05ID14517		\$14,425
Lawrence Berkeley National Laboratory DE-AC02-05CH11231	\$21,087	\$73,209
Sandia National Laboratories PO 1877920		\$17,790
Sandia National Laboratories 1663302		\$34,627
DEPARTMENT OF HEALTH AND HUMAN SERVICES		\$8,735,274
Administration for Children and Families		
93.670 Child Abuse and Neglect Discretionary Activities		
Futures Without Violence 2438		\$8,300
Futures Without Violence 2190		\$14,579
Administration for Community Living		
93.325 Paralysis Resource Center		
Christopher and Dana Reeve Foundation 90PR3001-01-00		\$17
93.433 ACL National Institute on Disability, Independent Living, and Rehabilitation Research	\$252,494	\$1,626,799
Institute for Rehabilitation and Research 18-PDR-01		\$7,230
Institute for Rehabilitation and Research 90IF0099-02-00		\$6,073
Institute for Rehabilitation and Research 18-MS2-017		\$31,043
Institute for Rehabilitation and Research 76-017		\$14,468

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Kansas H133B110006		\$9,322
University of Kansas FY2017-048	\$16,863	\$114,151
University Centers for Excellence in Developmental Disabilities Education, Research, and Service		\$514,150
Centers for Disease Control and Prevention		
93.136 Injury Prevention and Control Research and State and Community Based Programs	\$154,678	\$208,846
93.262 Occupational Safety and Health Program		
University of Colorado FY18.347.004		\$4,915
93.424 NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations		
Association of Maternal & Child Health Programs 1U38OT000140-03		\$11,907
Association of Maternal & Child Health Programs 032718-36A		\$169
National Association of Chronic Disease Directors 1312018		\$9,122
93.524 Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations- financed in part by Prevention and Public Health Funds (PPHF)		
National Association of Chronic Disease Directors 0942016		\$6,232
93.944 Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		
Association of University Centers on Disabilities		\$1,286
Food and Drug Administration		
93.103 Food and Drug Administration Research		\$48,048
Health Resources and Services Administration		
93.107 Area Health Education Centers	\$409,377	\$560,405
93.110 Maternal and Child Health Federal Consolidated Programs		
Utah State University PO338876-E REV 2		\$40
Utah State University PO369026-E		\$4,927
93.157 Centers of Excellence		\$193,799
93.178 Nursing Workforce Diversity		\$78,473
93.301 Small Rural Hospital Improvement Grant Program	\$269,081	\$446,560
93.358 Advanced Education Nursing Traineeships		\$2,170
93.359 Nurse Education, Practice Quality and Retention Grants	\$73,651	\$185,107

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.732 Mental and Behavioral Health Education and Training Grants		\$329,913
93.884 Grants for Primary Care Training and Enhancement	\$58,252	\$418,906
93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		\$37
93.913 Grants to States for Operation of State Offices of Rural Health		\$182,188
93.969 PPHF Geriatric Education Centers	\$137,342	\$739,135
Indian Health Service		
93.933 Demonstration Projects for Indian Health		
Blackfeet Community College 2014-01-MSU		\$3,904
Fort Peck Community College		\$4,251
93.970 Health Professions Recruitment Program for Indians		\$482,641
Miscellaneous		
93.RD Miscellaneous Research and Development	\$416,890	\$1,551,656
Cell Signaling Technology K-002052		\$3,373
ICF International 17RWSK0007		\$133,366
National Institutes of Health		
93.113 Environmental Health		
Meadowlark Science and Education, LLC UM_ES01A1	\$1,079,472	\$2,864,496
Michigan State University RC107307MON		\$100,874
Scripps Research Institute 5-52774		\$43,368
Scripps Research Institute 5-53234		(\$626)
University of New Mexico 3RY74		\$71,342
93.143 NIEHS Superfund Hazardous Substances_Basic Research and Education		\$64,034
93.172 Human Genome Research		\$9,211
University of Alaska Fairbanks UAF-18-0068		\$15,012
93.213 Research and Training in Complementary and Integrative Health		\$193,535
93.242 Mental Health Research Grants		\$166,040
University of Washington UWSC10191 (BPO28076)		\$279
93.273 Alcohol Research Programs		\$58,440
93.279 Drug Abuse and Addiction Research Programs		\$9,290
Yale University M16A12253 (CON-80000426)		\$30,480
93.286 Discovery and Applied Research for Technological Innovations to Improve Human Health	\$163,553	\$378,998

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.307 Minority Health and Health Disparities Research	\$192,248	\$410,722
93.350 National Center for Advancing Translational Sciences University of Washington 9827 BPO24085 University of Washington UWSC 9979		\$20,000 \$34,379 \$950,511
93.351 Research Infrastructure Programs		
93.361 Nursing Research Medical College of Wisconsin PO 1759446		\$22,374
93.393 Cancer Cause and Prevention Research		\$409,736
93.837 Cardiovascular Diseases Research Mount Sinai School of Medicine 0255-7875-4609 Mount Sinai School of Medicine 0255-7885-4609		\$57,286 (\$72,502)
93.838 Lung Diseases Research		\$129,999
93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research		\$156,870
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders The John B Pierce Laboratory SUBAWARD NO. 243-A	\$538,162	\$439,398 \$2,365,856 (\$48)
93.855 Allergy and Infectious Diseases Research Yale University M17A12590-GR101226 (80001011) Harvard University 114487-5109468 Indiana University PO1464301 Ohio State University UT18209 Promilad Biopharma Inc R41A118104 Sorrento Therapeutics, Inc. 4R42AI098182-04 University of Connecticut 50074 University of Connecticut KFS #5619100, 49814 University of Florida UFDSP00011787 University of Kentucky 304811727-15-011 University of Louisville Research Foundation, Inc. ULRF 17-0750-01 University of Notre Dame 202953MSU	\$919,987	\$158,523 \$5,669,666 \$8,548 \$332,092 \$16,708 \$54,752 (\$554) \$61,539 \$137,974 \$26,201 (\$6) \$357 \$212,731
93.859 Biomedical Research and Research Training Meadowlark Science and Education, LLC UM-OD01 Northwest Indian College NWIC-SA24226-MSU Rutgers, The State University of New Jersey PO 663268/SUBAWARD NO 0222	\$3,122,057	\$16,774,691 \$19,340 \$1,538 \$95,106

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Nevada, Las Vegas 16-746Q-UMT-BS10-01		\$272
University of Nevada, Las Vegas 18-22QR-UMT-PG81		\$60,950
University of Nevada, Las Vegas 18-22QN-UMT-05-BS		\$45,115
University of Nevada, Las Vegas 18-22QN-MSU-05-BS		\$33,281
University of Nevada, Las Vegas 17-746Q-UM-PG55-00		\$10,581
University of Nevada, Las Vegas 16-746Q-MSU-BS13-01		\$300
University of Nevada, Las Vegas 14-747X-C-01		\$1,377
University of Southern California 74478900		\$23,045
University of Washington UWSC9319		\$162,902
University of Wisconsin 766K942		\$33,954
93.865 Child Health and Human Development Extramural Research	\$2,491	\$565,988
Stanford University 60595107-49686		\$39
University of Virginia GB10325 151802		\$54,532
93.866 Aging Research	\$26,500	\$94,024
Johns Hopkins University 2003050472		\$18,703
University of Washington UWSC10030/BPO26347		\$28,879
93.867 Vision Research		\$284,695
University of California, Berkeley BB00966134		\$56,703
93.879 Medical Library Assistance		
Institute for Rehabilitation and Research 18-NLM-01		\$4,142
Substance Abuse and Mental Health Services Administration		
93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance	\$20,833	\$1,048,623
Community Connections		\$33,078
Community Impact Coalition		\$29,923
Harrison County Family Resource Network		\$29,709
Potomac Highlands Guild		\$30,060
Pretera Center		\$29,495
Westbrook Health Services		\$29,764
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$43,166,202

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF JUSTICE		
Office of Justice Programs		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		\$31,823
	DEPARTMENT OF JUSTICE TOTAL	\$31,823
DEPARTMENT OF STATE		
Bureau of Near Eastern Affairs		
19.500 Middle East Partnership Initiative		(\$336)
Georgetown University MSU-GR205338/S/NEAAC-17-CA1016		\$165,089
19.600 Bureau of Near Eastern Affairs		\$21,876
Georgetown University MSU-GR205769		
Bureau of Educational and Cultural Affairs		
19.022 Educational and Cultural Exchange Programs Appropriation Overseas Grants		
International Research & Exchanges Board FY17-TEA-MSU-02		\$37,274
19.408 Academic Exchange Programs - Teachers		
International Research & Exchanges Board FY16-TEA-MSU-01		(\$3)
International Research & Exchanges Board FY17-TEA-MSU-01		\$161,887
	DEPARTMENT OF STATE TOTAL	\$385,787
DEPARTMENT OF THE INTERIOR		
Bureau of Indian Affairs and Bureau of Indian Education		
15.034 Agriculture on Indian Lands	\$10,000	\$73,194
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management		\$73,156
Kautz Environmental Consultants, Inc. KAUTZ 17-18		\$65,667
Society for California Archaeology		\$18,427
15.225 Recreation and Visitor Services		\$24,624
University of Alaska Fairbanks UAF 17-0045		\$15,876
15.228 BLM Wildland Urban Interface Community Fire Assistance		\$5,300
15.230 Invasive and Noxious Plant Management		\$26,083
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$335,097
Western Association of Fish & Wildlife Agencies		\$52,582
Wyoming Game and Fish Department 002670		\$13,054

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
15.232 Wildland Fire Research and Studies		\$265,631
University of California, Riverside S-000770		\$16,685
Utah State University 200588-00001-294		\$12,242
15.236 Environmental Quality and Protection		\$289,493
15.238 Challenge Cost Share		\$51,359
Bureau of Reclamation		
15.517 Fish and Wildlife Coordination Act		\$4,104
15.530 Water Conservation Field Services (WCFS)		
Farmers Canal Company of Gallatin County R17AP00325		\$34,478
Miscellaneous		
15.RD Miscellaneous Research and Development		\$109,433
National Park Service		
15.915 Technical Preservation Services		\$174,685
15.926 American Battlefield Protection		\$4,975
15.945 Cooperative Research and Training Programs - Resources of the National Park System	\$2,154	\$926,622
University of Wyoming 1003410D-MSU		\$89
University of Wyoming-National Park Service (UW-NPS) Research Station 1003410C-MSU		\$5,001
Office of Surface Mining, Reclamation and Enforcement		
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$238,398
15.255 Science and Technology Projects Related to Coal Mining and Reclamation		\$59,764
U.S. Fish and Wildlife Service		
15.605 Sport Fish Restoration		\$37,717
Wyoming Game and Fish Department 002243		\$32,422
15.608 Fish and Wildlife Management Assistance		\$121,565
15.611 Wildlife Restoration and Basic Hunter Education		\$1,398,707
Idaho Department of Fish and Game IDFG-MA-20151029-POP		\$181,572
Idaho Department of Fish and Game IDFG-MA-20151029		\$44,369
Idaho Department of Fish and Game IDFG-MA-20151029 SHEEP		\$3,822
Idaho Department of Fish and Game IDFG-MA-20151029 PREY		\$23,897
Kentucky Department of Fish & Wildlife Resources PON2 660 1700001465		\$73,029
Missouri Department of Conservation 377-B		\$6,491

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
Missouri Department of Conservation 369-B		\$91,226
North Dakota Game and Fish Department W-68-R-3		\$15,992
State of Colorado 17-IGA-94119		\$38,615
University of Missouri C00047758-1		\$59,777
University of Missouri C00052412-1		\$32,751
15.615 Cooperative Endangered Species Conservation Fund		\$7,636
15.634 State Wildlife Grants		\$67,466
15.637 Migratory Bird Joint Ventures		\$139,671
15.650 Research Grants (Generic)		\$225,218
University of California, Santa Cruz S0183989	\$4	
15.654 National Wildlife Refuge System Enhancements	\$284	
15.655 Migratory Bird Monitoring, Assessment and Conservation		\$68,422
15.657 Endangered Species Conservation - Recovery Implementation Funds		\$410,568
15.660 Endangered Species - Candidate Conservation Action Funds		\$73,652
15.663 National Fish and Wildlife Foundation		
National Fish and Wildlife Foundation 0103.13.038862	\$53,756	
The Nature Conservancy MTFO070117_NK		
15.670 Adaptive Science	\$7,676	
15.678 Cooperative Ecosystem Studies Units	\$88,976	
	\$240,391	
U.S. Geological Survey		
15.805 Assistance to State Water Resources Research Institutes		\$95,490
15.807 Earthquake Hazards Program Assistance		\$14,127
15.808 U.S. Geological Survey Research and Data Collection		\$397,465
15.810 National Cooperative Geologic Mapping		\$199,310
15.812 Cooperative Research Units		\$131,799
Virginia Tech 446007-19890		\$5,683
15.814 National Geological and Geophysical Data Preservation		\$39,915
15.815 National Land Remote Sensing Education Outreach and Research		
AmericaView Inc AV13-MT01		
15.819 Energy Cooperatives to Support the National Energy Resources Data System		\$25,503
		\$243

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
15.820 National and Regional Climate Adaptation Science Centers		
Colorado State University G-52123-01		\$74,980
Colorado State University G-06108-1/G14AP00181		\$76,927
Colorado State University G-50003-1		\$51,924
University of Washington UWSC10097/BP#27133		\$28,865
15.980 National Ground-Water Monitoring Network		\$13,110
DEPARTMENT OF TRANSPORTATION		\$7,615,368
Federal Aviation Administration		
20.109 Air Transportation Centers of Excellence		\$31,161
Federal Highway Administration		
20.200 Highway Research and Development Program	\$433,447	\$948,241
California Department of Transportation 65A0604		\$65,265
California Department of Transportation 65A0614		\$32,365
California Department of Transportation 65A0550		\$12,809
California Department of Transportation 65A0606		\$23,058
California State University, Long Beach SG199416100		\$101,821
Idaho Department of Transportation 2016-01		\$8,820
Maine Department of Transportation 017582.18		\$6,011
Minnesota Department of Transportation 1003322 WORK ORDER NO. 2		\$5,988
Minnesota Department of Transportation 1003322 WORK ORDER NO. 1		\$10,187
National Academies of Science HR 17-69 SUB0000545	\$178	\$75
Nebraska Department of Roads SPR-1(16) 00730G		\$1,529
South Dakota Department of Transportation 311280 SD2016-03		\$19,901
Washington State Department of Transportation T6737 TASK 07		\$10,231
Washington State Department of Transportation T6737 TASK 09		\$10,772
Washington State Department of Transportation T6737 TASK 10		\$15,690
Washington State Department of Transportation T6737 TASK 11		\$26,094
20.205 Highway Planning and Construction		\$1,456,119
Iowa Department of Transportation TPF-5(290) CONTRACT 17997	(\$2,104)	(\$3,029)

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State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
Maryland Department of Transportation P01814 X-1		\$22,071
Minnesota Department of Transportation 1002306	\$38,456	\$154,653
South Dakota Department of Transportation SD2014-13		(\$111)
Southern Illinois University 767105-002 PO 120118		(\$5,462)
Wyoming Department of Transportation RS10216		(\$3,021)
National Highway Traffic Safety Administration		
20.609 Safety Belt Performance Grants		\$18,269
Virginia Tech 451263-19060		
20.616 National Priority Safety Programs		
Washington Traffic Safety Commission		\$174,394
Office of the Secretary		
20.701 University Transportation Centers Program		
University of Alaska Fairbanks UAF 14-0098 FP42825	\$591,742	\$1,141,708
Pipeline and Hazardous Materials Safety Administration		
20.724 Pipeline Safety Research Competitive Academic Agreement Program (CAAP)		
Rutgers, The State University of New Jersey 00005805 PO 449646	\$5,500	\$117,487
DEPARTMENT OF TREASURY		
Community Development Financial Institutions		
21.020 Community Development Financial Institutions Program		\$41,687
DEPARTMENT OF TRANSPORTATION TOTAL		
		\$4,403,100
DEPARTMENT OF TREASURY TOTAL		
		\$41,687
ENVIRONMENTAL PROTECTION AGENCY		
66.202 Congressionally Mandated Projects		
Idaho Department of Environmental Quality K196		\$5,422
Idaho Department of Environmental Quality 5574		\$18,654
66.454 Water Quality Management Planning		
Clark Fork Coalition 215006		\$11,053
66.461 Regional Wetland Program Development Grants		
66.500 Environmental Protection: Consolidated Research		\$236,099
Pegasus Technical Services, Inc. MONTT-18-001		\$5,920

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
66.509 Science To Achieve Results (STAR) Research Program Little Big Horn College		\$53,056
University of New Mexico 3RAW5 / 83615701		\$30,469
University of New Mexico 3RAW5		\$7,455
66.510 Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development		
66.716 Pegasus Technical Services, Inc. #MONT-18-001 Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		\$3,042
		\$14,183
Miscellaneous		
66.RD Miscellaneous Research and Development		\$143
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	\$385,496
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.312 National Leadership Grants		\$2,606
45.313 Laura Bush 21st Century Librarian Program		\$18,018
	INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL	\$20,624
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.007 Space Operations		\$14,592
43.012 Space Technology		\$3,290
43.001 Science	\$553,596	\$3,452,432
Arizona State University 16-005		\$67,317
California Institute of Technology - Jet Propulsion Lab 1587131		\$13,108
Georgia Institute of Technology RH809-03		\$391,882
Glacigen Materials, Inc.		\$25,025
Lockheed Martin Corporation 8100002702		\$326,604
Lockheed Martin Corporation PO 4103399182		\$14,562
Nature Conservancy SCINASA201711		\$30,512
Princeton University SUB0000148		\$54,656
SETI Institute SC 3118		\$43,447

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State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
Smithsonian Astrophysical Observatory GO5-16091B		\$22,468
Smithsonian Astrophysical Observatory GO4-15098B		\$28,920
Smithsonian Astrophysical Observatory SV7-77003		\$170,756
South Dakota State University 3TB481		\$2,000
Southwest Research Institute K99081KJ		\$37,790
Southwest Research Institute H99053CO		\$113,274
Space Telescope Science Institute HST-GO-14047.005-A		\$4,564
Space Telescope Science Institute HST-GO-12584.006A		\$18,334
Stottler Henke Associates, Inc.		\$36,987
University Corporation for Atmospheric Research SUBAWD000125		\$25,739
University of Alaska UAF 18-0082		\$48,584
University of California, Berkeley SA1868-26308PG; BB00090555		\$25,467
University of California, Irvine 2016-3348		\$24,363
University of Colorado Denver 1552610 / NNA15BB02A		\$66,792
University of Maryland 3TB432		\$48
University of Southern California 55747174		\$128,751
University of Washington UWSC8879/BPO13182		\$12,980
University of Washington UWSC8879/BPA13182		\$133,061
University of Wisconsin 756K954		\$63,454
USDA Rocky Mountain Research Station 15-JV-11221637-051		\$40,405
Wildlife Conservation Society SERDP110515-217		\$195,869
43.008 Education	\$66,030	\$1,375,188
43.009 Cross Agency Support		\$182,871
Miscellaneous		
43.RD Miscellaneous Research and Development		
California Institute of Technology - Jet Propulsion Lab 1422120		\$44,696
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		\$7,240,788
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.161 Promotion of the Humanities Research		\$52,096
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		\$52,096

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
NATIONAL SCIENCE FOUNDATION		
47.041 Engineering Grants	\$6,869	\$1,726,924
Yale University GR102667 (CON-8000127)		\$6,358
47.049 Mathematical and Physical Sciences		\$2,196,992
Association of Universities for Research in Astronomy N87463C		\$143,758
S2 Corporation S2-1330880-13-03		\$24,309
University of West Georgia 111554AUM		\$8,208
University Wisconsin-Milwaukee 153405537		\$52,472
47.050 Geosciences	\$154,993	\$2,762,063
George Washington University 14-S17		\$62,517
South Dakota School of Mines MSU 17-22		\$10,330
University of Colorado Denver 155338-PO 1000856931		\$18,715
University of Colorado Denver 155337/PO#1000855308		\$162,196
University of Hawaii at Manoa MA130029/MA1131		\$60,618
University of Kansas FY2018-050		\$5,681
University of Tennessee A17-0124-S001		\$7,034
Woods Hole Oceanographic Institution A101357		\$58,425
47.070 Computer and Information Science and Engineering	\$4,261	\$479,322
University of North Texas GF30041-1		\$13,710
47.074 Biological Sciences	\$190,579	\$4,791,742
Arizona State University 18-450		\$3,173
Cary Institute of Ecosystem Studies 3340-200201873		\$3,445
University of Colorado 1554533		\$67,553
University of Florida UFOER00011511		(\$16)
USDA Rocky Mountain Research Station 16-JV-11221633-029		\$54,679
Washington State University 118996_G003357		\$200,867
47.075 Social, Behavioral, and Economic Sciences		\$296,283
Ohio State University 60059425, PO RF01500712		\$20,388
Tufts University A130001		\$894
47.076 Education and Human Resources	\$137,711	\$3,048,567
Aaniih Nakoda College MSU-3753/01		\$51,782
Chief Dull Knife College 1361522		\$2,355

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Research and Development Cluster	Amount to Subrecipients	Expenditures
Colorado State University 96702-5		\$98,106
George Mason University E2033191		\$43,922
Mathematical Association of America MAA 3-8-710-891		\$110,716
Michigan State University RC104101MONTANA		\$50,218
Salish Kootenia College SAG-18-UJOM-001		\$2,884
Salish Kootenia College HRD-1262779		\$13,760
47.078 Polar Programs		\$321,731
University of Colorado Denver SPO 1000046125/1548197		\$1,807
47.079 Office of International Science and Engineering		\$264,553
47.080 Office of Cyberinfrastructure	\$38,927	\$2,834,028
47.083 Office of Integrative Activities	\$1,073,363	\$2,300,141
South Dakota School of Mines SDSMT-MSU 18-04		\$247,094
Trustees of Dartmouth College R896/R897/1632738		\$164,349
University of Southern California 87383750/PO#10558532		\$46,887
NATIONAL SCIENCE FOUNDATION TOTAL		\$22,841,540
SMALL BUSINESS ADMINISTRATION		
59.058 Federal and State Technology Partnership Program		
Defense Alliance of Minnesota		\$10,121
SMALL BUSINESS ADMINISTRATION TOTAL		\$10,121
RESEARCH AND DEVELOPMENT CLUSTER TOTAL		\$134,685,326
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL		\$3,923,475,795

The accompanying notes are an integral part of this schedule.

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the state of Montana under programs of the federal government for the fiscal year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (referred to as the "Uniform Guidance"), and where applicable, Office of Management and Budget Circular A-133 requirements.

Because this schedule presents only a selected portion of the operations of the state of Montana, it is not intended to, and does not present, the financial positions, change in net assets, or, where applicable, its cash flows for the fiscal year ended June 30, 2018.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are generally recorded in the accounting period in which the liability is incurred. However, there are some payments, such as compensated absences, that are only recorded when the payment is due.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Montana University System uses full accrual accounting to report campus federal expenditure activity. The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantee Programs (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented using

the basis of accounting described in each note. The Books for the Blind and Physically Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of Federal Awards but is provided as additional information regarding the types of other federal assistance received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States. During fiscal year 2018, Montana distributed \$1,065,199 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$10,377,199 in commodities in fiscal year 2018. The value at June 30, 2018 of commodities stored at the state's warehouse is \$2,125,151, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities Research Program (CFDA #93.307) includes endowment funds of \$9,375,000, along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2018. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2018, Montana received 197,502 vaccine doses valued at \$10,632,121.

Note 2. Loan and Loan Guarantee Programs

The following loan and loan guarantee programs are reported on the Schedule of Expenditures of Federal Awards at their July 1, 2017 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2018:

CFDA#	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2018 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 276,904,783
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 160,334,652
	Total State Revolving Loan Programs	\$ 437,239,435

CFDA#	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2018 Ending Balance
	Guarantee Agency Loans	
84.032	Federal Family Education Loans	\$0
	University Loans	
84.038	Federal Perkins Loan Program	\$32,876,467
93.364	Nursing Student Loans	\$2,401,844
93.264	Nurse Faculty Loan Program	\$11,249
93.342	Health Professions Student Loans	\$214,801
	Total Student Financial Assistance Programs	\$35,504,361

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans Program (CFDA #84.032) during fiscal year 2018. At the beginning of fiscal year 2018, the loan balance was \$59,296,580. Effective October 1, 2017, the loan servicing portion of the MGSLP was transferred to a federally approved national education loan servicing provider. The amount transferred at September 30, 2017 was \$64,643,273, which included \$53,516,103 in principal and interest and \$11,127,170 in borrower collection costs.

Because of this transfer, the outstanding loan balance (including principal, accrued interest, and collection costs) of loans guaranteed in previous years, for which the federal government has imposed continuing compliance requirements, was \$0 at June 30, 2018.

Perkins Loan Programs

Under the Perkins Loan Extension Act of 2015, universities participating in this program are no longer permitted to make Perkins Loan disbursements after June 30, 2018. Institutions may choose to continue servicing their existing Perkins Loans until such

time the institution's outstanding loans have been paid or full or otherwise retired. Both Montana State University and the University of Montana have chosen to continue to service their current loans. See also Note 14.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) consists of two separate awards which are reported on the Schedule of Expenditures of Federal Awards at their June 30, 2018 ending loan balances. The amount of loans outstanding as of June 30, 2018 is \$370,958 for award number 05-19-02445 and \$2,677,370 for award number 05-79-73005.

The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Title IX SSED Revolving Loan Fund		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2018		\$ 360,714
Cash & Investments FYE 2018		\$ 64,911
FY 2018 Admin paid out of RLF Income		\$ 11,311
Unpaid Principal of loans written of during FY		\$ 85,540
		<u>\$ 522,476</u>
Federal Percentage		71%
Federal Share of Revolving Loan Fund		\$ 370,958

Award Number: 05-79-73005		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Economic Adjustment Assistance		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2018		\$ 3,388,931
Cash & Investments FYE 2018		\$ 1,631,811
FY 2018 Admin paid out of RLF Income		\$ 334,831
Unpaid Principal of loans written of during FY		\$ (833)
		<u>\$ 5,354,740</u>
Federal Percentage		50%
Federal Share of Revolving Loan Fund		\$ 2,677,370

Other Federal Loans

The following loans, originally funded through federal programs, do not have any continuing federal compliance requirements imposed on the state, other than the loan repayments. These loans are not reported on the Schedule of Expenditures of Federal Awards:

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2018. The amount of the loan outstanding as of June 30, 2018 is \$5,794,872.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is \$2,990,129, and reimbursable interest during construction is \$281,857. As of June 30, 2018, the loan outstanding is \$1,862,630, and reimbursable interest during construction is \$170,640.

Note 3. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2019 will be issued by March 31, 2020.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2019.

Note 4. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.UXX or **.RD. Also refer to Note 13.

Note 5. Program Clusters

As defined by 2 CFR section 200.17, a cluster of programs is a grouping of closely related programs that share common compliance requirements. Except for the Student Financial Assistance Cluster, clusters of programs are presented on the Schedule of Expenditures of Federal Awards either within their respective federal agency (for non-research and development programs) or by federal agency and major subdivision (for research and development programs).

Student Financial Assistance Cluster

Amounts reported for the Student Financial Assistance Cluster include programs administered by both the Department of Education and the Department of Health and Human Services. These clusters are shown separately, within their respective federal agencies, on the Schedule of Expenditures of Federal Awards.

The combined Student Financial Assistance Cluster includes the following programs:

CFDA #'	Student Financial Assistance Cluster	FY 18 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	\$1,380,961
84.033	Federal Work-Study Program	\$2,076,927
84.038	Federal Perkins Loan Program - Federal Capital Contributions	\$38,230,216
84.063	Federal Pell Grant Program	\$47,694,653
84.268	Federal Direct Student Loans	\$173,720,750
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	\$12,413
93.264	Nurse Faculty Loan Program (NFLP)	\$14,620
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$227,150
93.364	Nursing Student Loans	\$2,798,157
	Total Student Financial Assistance Cluster	\$266,155,847

Note 6. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function.

Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or

methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 7. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by the state, which is determined to be 22.47% of the original acquisition cost of the property.

Property received under CFDA #81.UXX, Miscellaneous Non-Major Grants, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2018. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 18 Amount	FY 18 Ending Inventory
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	\$0	\$125,057
10.500	Cooperative Extension Service	\$0	\$3,039
10.664	Cooperative Forestry Assistance	(\$132,947)	\$4,537,284
10.UXX	Miscellaneous – Non-major Grants	\$0	\$131,341
15.UXX	Miscellaneous - Non-major Grants	\$3,420	\$3,420
39.003	Donation of Federal Surplus Property	\$101,937	\$153,712
81.UXX	Miscellaneous Non-major Grants	\$0	\$5,150
43.UXX	Miscellaneous – Non-major Grants	\$0	\$640,395
47.UXX	Miscellaneous – Non-major Grants	(\$26,045)	\$151,923

Note 8. Department of Defense Firefighting Property

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 22.47% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2018:

CFDA #	Program	FY 18 Amount	FY 18 Ending Inventory
12.UXX	Miscellaneous – Non-major Grants	\$307,325	\$2,454,412

Note 9. Books for the Blind and Physically Handicapped

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Books for the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2018 was \$895,761.

Since this program is considered a federal “use of equipment” agreement, the accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 10. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	\$106,243,557
Federal UI Expenditures	<u>18,093,961</u>
Total	\$124,337,518

Note 11. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency or university to another Montana state agency or university is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 12. Subgrants to Non-State Agencies

Federal assistance transferred from a Montana state agency or university to a non-state agency, such as a city, county, tribal government, or nonprofit organization, is identified

in the Amount to Subrecipients column shown in the Schedule of Expenditures of Federal Awards. These amounts are included in the expenditure totals shown on the report.

The Amounts to Subrecipients does not include federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency or university. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency or university, is shown below:

CFDA #	Federal Program	Amount to Subrecipients
Non Research and Development		
43.008	Education	\$26,556
84.048	Career and Technical Education -- Basic Grants to States	\$2,850,488
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	\$30,144
84.367	Supporting Effective Instruction State Grants	\$39,123
84.419	Preschool Development Grants	\$615,641
93.262	Occupational Safety and Health Program	\$3,726
	Total - Non Research and Development	\$3,565,678
TANF Cluster		
93.558	Temporary Assistance for Needy Families	\$615,985
	Total TANF Cluster	\$615,985
Research and Development Cluster		
20.205	Highway Planning and Construction	\$8,323
47.079	Office of International Science and Engineering	\$16,363
84.419	Preschool Development Grants	\$2,824
	Total Research and Development Cluster	\$27,510

Note 13. Federal Awards not having a CFDA Number

The following schedules contain contract or grant numbers associated with awards that did not have a CFDA number and were assigned either a **.UXX or **.RD number in the Schedule of Expenditures of Federal Awards. Not all **.UXX or **.RD awards reported on the SEFA had a grant or contract number. Also refer to Note 4.

Schedule of Unknown Federal CFDA Numbers (**.UXX)

Federal Agency	State Agency	Contract or Grant Number	Amount
DEPARTMENT OF AGRICULTURE			
10.U01	Montana State University - Bozeman	Unknown	\$3,421
10.U02	University of Montana - Montana Tech	Unknown	\$2,528
10.U03	University of Montana - Western	16-CS-11010200-021	\$5,897
10.U04	Department of Fish, Wildlife and Parks	Unknown	\$600
10.U05	Department of Natural Resources and Conservation	12-FI-11011100-049	\$17,817
10.U06		12-FI-11011200-022	\$30,270
10.U07		13-CS-11011000-047	\$25,991
10.U08		13-FI-11011600-045	\$1,411
10.U09		13-SA-11015600-063	\$18,936
10.U10		14-FI-11011400-011	\$770
10.U11		15-FI-11010200-001	\$1,411
10.U12		16-FI-11010200-019	\$3,690
10.U13		16-FI-11011100-060	\$2,932
10.U14		16-FI-11011500-026	\$1,665
10.U15		17-FI-11011000-042	\$6,610
10.U16		17-FI-11011600-013	\$1,359
10.U17		17-FI-11015200-003	\$21,533
10.U18		18-FI-11011600-026	\$25,783
10.U19		18-FI-11015200-008	\$3,243
10.U20		DNRC-BLM-PFP-16-001	\$1,416
DEPARTMENT OF DEFENSE			
12.U01	University of Montana - Missoula	H92236-17-P-5122	\$498,543
12.U02		W9128F-17-2-0028	\$594,191
12.U03	Department of Fish, Wildlife and Parks	17-114G	\$1,670,561
12.U04		18-09G	\$148,991
12.U05		18-128P	\$43,465
12.U06		18-93P	\$890,274
12.U07		W9128F-15-D-0015-0006	\$56,594
12.U08		W9128F-15-D-0015-0007	\$99,106
12.U09		W912DW-15-0001-0003	\$178,749
12.U10		W912DW-15-0001-0004	\$252,786
12.U11	Department of Natural Resources and Conservation	Unknown	\$307,325
DEPARTMENT OF EDUCATION			
84.U01	Office of Public Instruction	Contract # ED-IES-14-C-0086	\$135,082
DEPARTMENT OF ENERGY			
81.U01	Department of Natural Resources and Conservation	Unknown	\$40,945
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.U01	Department of Public Health and Human Services	Unknown	\$143,182
DEPARTMENT OF THE INTERIOR			
15.U01	Department of Fish, Wildlife and Parks	15-MU-11015600-039	\$2,500
15.U02		00-UGPR-34	\$154,418
15.U03		G17PX00725	\$99,781
15.U04		140G021890250	\$22,870
15.U05		Unknown	\$3,421
DEPARTMENT OF TREASURY			
21.U01	Department of Administration	Unknown	\$878
LIBRARY OF CONGRESS			
42.U01	Montana Historical Society	Unknown	\$15,725

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (XX.RD)

Federal Agency	State Agency	Contract or Grant Number	Amount	
DEPARTMENT OF AGRICULTURE	10.RD	Montana State University - Bozeman	PO# 0000000666 (\$2,379)	
		University of Montana - Montana Tech	Unknown \$274,589	
			65-0325-09-034 \$8,684	
		07-CS-11015600-099 \$10,722		
DEPARTMENT OF DEFENSE	12.RD	University of Montana - Missoula	W9128F-14-2-0002 TO 0017 \$47,443	
			W9128F-14-2-0002 TO 0011 \$135,282	
			W9128F-14-2-0002 TO 0012 \$890,774	
			W9128F-14-2-0002 TO 0013 \$461,131	
			W9128F-14-2-0002 TO 0016 \$18,301	
			W9128F-14-2-0002 TO 0018 \$36,316	
			W9128F-14-2-0002 TO 0019 \$157,613	
			W9128F-14-2-0002 TO 0020 \$8,271	
			W9128F-14-2-0002 TO 0021 \$115,890	
			W9128F-14-2-0002 TO 0022 \$52,486	
			W9128F-14-2-0002 TO 0024 \$190,444	
			W9128F-14-2-0002 TO 0025 \$4,521	
			W9128F-14-2-0002 TO 0026 \$19,784	
			W9128F-14-2-0002, TO 0001 \$18,119	
			W9128F-14-2-0002, TO 0027 \$28,955	
			W9128F-14-2-0002, TO 0028 \$100,267	
			W9128F-14-2-0002, TO 0029 \$225,576	
			W9128F-14-2-0002, TO 0030 \$71,583	
			W912HZ-16-2-0023 \$17,226	
			Montana State University - Bozeman	18-018PO \$1,251
				31236-Z8409102 \$7,383
				ARM212-MSU \$42,976
				PO10169067 \$27,773
				S2-17-0003-01 \$231,201
				S2-1954-16-01 \$18,969
				S2-5504-16-01C \$39,796
				SUBCONTRACT NUMBER 313-0742 \$114,923
		USAF ARZ999 \$1,687		
		Unknown \$951,652		
	University of Montana - Montana Tech	US001-000590859 \$29,041		
DEPARTMENT OF ENERGY	81.RD	University of Montana - Missoula	PO 1877920 \$17,790	
		University of Montana - Montana Tech	1663302 \$34,627	
			DE-AC02-05CH11231 \$73,209	
			DE-AC07-05ID14517 \$14,425	
DEPARTMENT OF HEALTH AND HUMAN SERVICES	93.RD	University of Montana - Missoula	HHSN27220140050C \$1,275,784	
			K-002052 \$3,373	
		Montana State University - Bozeman	17RWSK0007 \$133,366	
		University of Montana - Montana Tech	211-2014-59580 \$119,391	
			214-2017-M-93216 \$31,200	
	Department of Public Health and Human Services	HHSS283201600001C \$125,281		
DEPARTMENT OF THE INTERIOR	15.RD	University of Montana - Missoula	P13AC00618 \$15,577	
			Unknown \$1,524	
		Montana State University - Bozeman	Unknown \$58,148	
		University of Montana - Montana Tech	H1580070001 \$34,184	
ENVIRONMENTAL PROTECTION AGENCY	66.RD	University of Montana - Missoula	EP-16-8-000017 \$143	
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	43.RD	University of Montana - Missoula	1422120 \$44,696	

Note 14. Subsequent Event

Effective July 1, 2018, universities participating in the federal Perkins Loan Program (CFDA #84.032) are no longer authorized to make new loan distributions under the Perkins Loan Program Extension Act of 2015. See also Note 2.

AUDITOR'S REPORT & FINDINGS

AUDITOR’S REPORT AND FINDINGS

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Appendix A—Research and Development

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Legislative Audit Committee
of the Montana State Legislature:

Report on Compliance for Each Major Federal Program

We have audited the state of Montana's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the state of Montana's major federal programs for the two fiscal years ended June 30, 2019. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the state of Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and the Uniform Guidance, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our adverse, qualified, and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the state of Montana's compliance.

Basis for Adverse Opinion on Medicaid Cluster

As described in Findings #2019-001, 2019-002, 2019-004, 2019-005, 2019-022, and 2019-025 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-001	93.775 93.777 93.778	Medicaid Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2019-002			Allowable Costs/Cost Principles
2019-005			Procurement, Suspension and Debarment
2019-022			Allowable Costs/Cost Principles
2019-004			Special Tests and Provisions
2019-025			

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Adverse Opinion on Medicaid Cluster

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on Medicaid Cluster” paragraph, the state of Montana did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster for the two fiscal years ended June 30, 2019.

Basis for Adverse Opinion on SNAP Cluster

As described in Findings #2019-008, 2019-009, 2019-010, and 2019-011 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-008	10.551 10.561	SNAP Cluster	Special Tests and Provisions
2019-009			Special Tests and Provisions
2019-010			Cash Management
2019-011			Reporting Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Adverse Opinion on SNAP Cluster

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on SNAP Cluster” paragraph, the state of Montana did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the SNAP Cluster for the two fiscal years ended June 30, 2019.

Basis for Adverse Opinion on TANF Cluster

As described in Findings #2019-012, 2019-013, 2019-014, and 2019-022 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-012	93.558	TANF Cluster	Special Tests and Provisions
2019-013			Matching, Level of Effort, Earmarking
2019-014			Reporting
2019-022			Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Adverse Opinion on TANF Cluster

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on TANF Cluster” paragraph, the state of Montana did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the TANF Cluster for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Foster Care-Title IV-E

As described in Findings #2019-016, 2019-017, and 2019-022 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-016	93.658	Foster Care-Title IV-E	Subrecipient Monitoring
2019-017			Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
2019-022			Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Foster Care-Title IV-E

In our opinion, except for the noncompliance described in the “Basis for Qualified on Foster Care-Title IV-E” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Foster Care-Title IV-E program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Children's Health Insurance Program

As described in Finding #2019-001 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-001	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Children's Health Insurance Program

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion on Children's Health Insurance Program" paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Children's Health Insurance Program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on National Guard Military Operations and Maintenance (O&M) Projects

As described in Finding #2019-029 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-029	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Matching, Level of Effort, Earmarking

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on National Guard Military Operations and Maintenance (O&M) Projects

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion on National Guard Military Operations and Maintenance (O&M) Projects" paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the National Guard Military Operations and Maintenance (O&M) Projects program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Highway Planning and Construction Cluster

As described in Finding #2019-026 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-026	20.205 20.219 20.224	Highway Planning and Construction Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Qualified Opinion on Highway Planning and Construction Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Highway Planning and Construction Cluster” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Cluster for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in Finding #2019-032 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-032	84.027 84.173	Special Education Cluster (IDEA)	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Special Education Cluster (IDEA)” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster (IDEA) for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on CCDF Cluster

As described in Findings #2019-019, 2019-020, and 2019-021, in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-019	93.575 93.596	CCDF Cluster	Period of Performance
2019-020 2019-021			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Qualified Opinion on CCDF Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on CCDF Cluster” paragraph, the state of Montana complied, in all material respects, with the compliance

requirements referred to above that could have a direct and material effect on the CCDF Cluster for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in Findings #2019-031 and 2019-032 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-031	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions
2019-032			Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Title I Grants to Local Educational Agencies” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Title I Grants to Local Educational Agencies program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Twenty-first Century Community Learning Centers

As described in Finding # 2019-032 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-032	84.287	Twenty-first Century Community Learning Centers	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Twenty-first Century Community Learning Centers

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Twenty-first Century Community Learning Centers” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Twenty-first Century Community Learning Centers program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on R&D Cluster

As described in Finding # 2019-007 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2019-007	Various	R&D Cluster	Procurement, Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that cluster.

Qualified Opinion on R&D Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on R&D Cluster” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the R&D Cluster for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Low-Income Home Energy Assistance

As described in Finding #2019-023 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-023	93.568	Low-Income Home Energy Assistance	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Low-Income Home Energy Assistance

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Low-Income Home Energy Assistance” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Low-Income Home Energy Assistance program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

As described in Finding #2019-024 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-024	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program for the two fiscal years ended June 30, 2019.

Basis for Qualified Opinion on Child Support Enforcement

As described in Findings #2019-022 and 2019-024 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-022	93.563	Child Support Enforcement	Allowable Costs/Cost Principles
2019-024			Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Child Support Enforcement

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Child Support Enforcement” paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Child Support Enforcement program for the two fiscal years ended June 30, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the state of Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs for the two fiscal years ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs, as items 2019-006, 2019-015, 2019-018, 2019-022, 2019-025, 2019-027, 2019-028, and 2019-032. Our opinion on each major federal program is not modified with respect to these matters.

The state of Montana’s response to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The state of Montana’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the state of Montana’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state of Montana’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, and listed in the following table, to be material weaknesses.

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2019-001	93.775, 93.777, 93.778 93.767	Medicaid Cluster Children’s Health Insurance Plan	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2019-003	93.775, 93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2019-004	93.775, 93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2019-005	93.775, 93.777, 93.778	Medicaid Cluster	Procurement, Suspension and Debarment
2019-007	Various	R&D Cluster	Procurement, Suspension and Debarment
2019-008	10.551, 10.561	SNAP Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Special Tests and Provisions
2019-008	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Reporting

2019-009	10.551, 10.561	SNAP Cluster	Special Tests and Provisions
2019-010	10.551, 10.561	SNAP Cluster	Cash Management
2019-011	10.551, 10.561	SNAP Cluster	Reporting Special Tests and Provisions
2019-012	93.558	TANF Cluster	Special Tests and Provisions
2019-014	93.558	TANF Cluster	Reporting
2019-016	93.658	Foster Care – Title IV-E	Subrecipient Monitoring
2019-017	93.658	Foster Care – Title IV-E	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
2019-019	93.575, 93.596	CCDF Cluster	Period of Performance
2019-020	93.575, 93.596	CCDF Cluster	Special Tests and Provisions
2019-021	93.575, 93.596	CCDF Cluster	Special Tests and Provisions
2019-022	93.558 93.563 93.658 93.775, 93.777, 93.778	TANF Cluster Child Support Enforcement Foster Care - Title IV - E Medicaid Cluster	Allowable Costs/Cost Principles
2019-023	93.568	Low-Income Home Energy Assistance	Cash Management
2019-024	10.557 93.563	Supplemental Nutrition Program for Women, Infants and Children (WIC) Child Support Enforcement	Cash Management
2019-025	93.775, 93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2019-026	20.205, 20.219, 20.224	Highway Planning and Construction Cluster	Special Tests and Provisions
2019-029	12.401	National Guard Military Operations and Maintenance (O&M)	Matching, Level of Effort, Earmarking
2019-031	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions
2019-032	84.010 84.027, 84.173 84.287, 10.553, 10.555, 10.556, 10.559	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Twenty-first Century Community Learning Centers Child Nutrition Cluster	Subrecipient Monitoring
2019-033	84.010 84.027, 84.173 84.287 10.553, 10.555, 10.556, 10.559	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Twenty-first Century Community Learning Centers Child Nutrition Cluster	Procurement, Suspension and Debarment

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that

is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, and listed in the following table, to be significant deficiencies.

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2019-006	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2019-008	93.558	TANF Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles
	10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	
2019-013	93.558	TANF Cluster	Matching, Level of Effort, Earmarking
2019-018	93.658	Foster Care - Title IV-E	Reporting
2019-025	93.563	Child Support Enforcement Foster Care – Title IV-E Adoption Assistance Children's Health Insurance Program	Other
	93.658		
	93.659		
	93.767		
2019-030	84.287	Twenty-first Century Community Learning Centers	Allowable Costs/Cost Principles
2019-034	15.605, 15.611	Fish and Wildlife Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2019-035	15.605, 15.611	Fish and Wildlife Cluster	Allowable Costs/Cost Principles
2019-036	15.605, 15.611	Fish and Wildlife Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles

The state of Montana's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The state of Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 26, 2020

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section I – Summary of Auditor’s Results

Basic Financial Statements

For Each of the Two Fiscal Years Ended June 30, 2019

	<u>2018</u>	<u>2019</u>
Type of report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	Qualified
Internal control over financial reporting:		
♦ Material Weakness identified?	Yes	Yes
♦ Significant deficiencies identified?	Yes	Yes
Noncompliance material to the financial statements noted?	Yes	Yes

Federal Awards

For the Two Fiscal Years Ended June 30, 2019

Internal control over major programs:	<u>2018 and 2019</u>
♦ Material Weakness identified?	Yes
♦ Significant deficiencies identified?	Yes

Type of auditor’s report issued on compliance for Major federal programs:

Unmodified for all major programs except for Medicaid Cluster; SNAP Cluster; and TANF Cluster, which are adverse; and Foster Care – Title IV-E; Children’s Health Insurance Program; National Guard Military Operations and Maintenance (O&M); Highway Planning and Construction Cluster; Special Education Cluster (IDEA); CCDF Cluster; Title I Grants to Local Educational Agencies; Twenty-first Century Community Learning Centers; R&D Cluster; Low-Income Home Energy Assistance; Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and Child Support Enforcement, which are qualified.

Any audit findings disclosed that are required to be reported in accordance with federal regulation, 2 CFR 200.516(a)?

Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551 & 10.561	SNAP Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children (WIC)
10.558	Child and Adult Care Food Program
10.665	Forest Service Schools and Roads Cluster
12.401	National Guard Military Operations and Maintenance Projects (O&M)
14.195 & 14.856	Section 8 Project-Based Cluster
14.871	Housing Voucher Cluster
15.605 & 611	Fish & Wildlife Cluster
17.225	Unemployment Insurance
20.205, 20.219, & 20.224	Highway Planning and Construction Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster (IDEA)
84.287**	Twenty-first Century Community Learning Centers
93.268	Immunization Cooperative Agreements
93.558	TANF Cluster
93.563**	Child Support Enforcement
93.575 & 93.596	CCDF Cluster
93.568	Low-Income Home Energy Assistance
93.658	Foster Care-Title IV-E
93.767	Children's Health Insurance Program (CHIP)
93.775, 93.777, & 93.778	Medicaid Cluster
Various	Research and Development Cluster

** High-risk Type B programs

Dollar threshold used to distinguish between Type A and Type B programs:

\$22,059,532

Auditee qualified as low-risk Auditee?

No

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section II – Financial Statement Findings

Finding 2019-1: Various Federal Agencies
 CFDA #Various
 Grant #Not Applicable

Criteria: Montana Operations Manual Policy, 302, in part, states, “To help facilitate statewide compliance with GAAP, State agencies are responsible for implementing internal control procedures.”

Montana Operations Manual Policy, 399, defines internal control as a process effected by an entity’s oversight body, management, or other personnel, that provides reasonable assurance the objectives of an entity will be achieved. Policy further requires management to establish and maintain internal controls, including internal controls over financial reporting, and indicates “agency management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as corrective action for any deficiencies.”

Condition: The Montana Board of Investments (board) administers the state’s Unified Investment Program (UIP), as well as the state’s Economic Development Bonds Act (EDB) and Municipal Finance Consolidation Act (MFC) programs. The EDB and MFC programs are collectively referred to by the board, and throughout this report section, as the Enterprise Fund (EF) program. The board is required to prepare separate financial statements and related note disclosures for the UIP and Enterprise Fund Program, in accordance with generally accepted accounting principles (GAAP). Portions of that information is incorporated into the state’s basic financial statements. Additionally, as the administrator of the UIP, the board records transactions in the state’s investment trust fund, related to local government participation in the state’s investment pools.

The board’s internal controls over financial reporting for the fiscal year ending June 30, 2018 were not sufficient to ensure complete and accurate financial reporting in accordance with GAAP.

Questioned Costs: No questioned costs identified.

Context: The prior audit of the board for fiscal year ended June 30, 2017, identified material weaknesses in internal controls over financial reporting for both UIP and EF programs. The audit for the fiscal year ended June 30, 2018 noted very specific types of control deficiencies compared to the more broad-scale deficiency from the prior audit.

For fiscal year 2018, controls did not ensure accurate reporting of investment related cashflows; we found cash inflows and outflows to be overstated by approximately \$696 million. Also for fiscal year 2018, controls did not ensure adequate disclosure of either credit risks or the change in valuation technique, from fair value to cost, for cash equivalents, or for both EF and UIP.

The audit for the fiscal year ended June 30, 2019, noted that the board fully implemented recommendations to correct the weaknesses in the internal controls and that audit did not contain any additional recommendations to the board. In the financial statements for the fiscal year ended June 30, 2019, the EF program is referred to as the Municipal Finance programs.

Effect: The draft fiscal year 2018 financial statements contained errors, including a material misstatement for the Statement of Cash Flows.

Cause: Staff did not completely consider or apply all GAAP requirements when changes in program operations or in financial reporting were implemented.

Repeat Finding: This is a repeat finding, initially reported as 2017-2 in the Single Audit report for the two fiscal years ended June 30, 2017.

Recommendation: We recommend the Montana Board of Investments enhance internal controls over financial reporting to ensure staff consider and apply all relevant Generally Accepted Accounting Principles when implementing changes with a financial reporting impact.

Views of Responsible Officials: The board concurred with this recommendation. For additional information regarding the board's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section II– Financial Statement Findings

Finding 2019-2: Various Federal Agencies
 CFDA #Various
 Grant #Not Applicable

Criteria: Article VIII, Section 15, of the Constitution of the state of Montana requires public retirement systems to be funded on an actuarially sound basis. Actuarially sound basis means contributions to each retirement plan must be sufficient to pay full actuarial cost of the plan. For a defined benefit plan, the full actuarial cost includes both the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities over a scheduled period. The period is defined as no more than 30 years by state law (Section 19-2-409, MCA) for each system administered by the Montana Public Retirement Employee’s Administration (MPERA) and by Teachers’ Retirement Board (TRB) policy.

Condition: As of June 30, 2018, actuarial valuations indicated that three defined benefit pension plans are actuarially unsound because they do not amortize within the 30-year time period. The Public Employees’ Defined Benefit Retirement System (PERS-DB), Highway Patrol Officers’ Retirement System (HPORS), and Game Wardens’ and Peace Officers’ Retirement System (GWPORS) do not amortize. As of June 30, 2019, actuarial valuations indicated that the same three defined benefit pension plans remained actuarially unsound because they do not amortize within 30 years.

The June 30, 2018 actuarial valuation indicated that the Teachers’ Retirement System (TRS) was not actuarially sound, because it amortized in 31 years, which is outside the 30-year amortization period required by the Montana Constitution. As of June 30, 2019, the actuarial valuation indicated the TRS is actuarially sound, as the system amortizes within 29 years.

Questioned Costs: No questioned costs were identified.

Context: The MPERA administers eight defined benefit retirement systems, two defined contribution plans, and an Other Post-Employment Benefits (OPEB) plan. The TRB administers one defined benefit retirement system, the TRS.

The amortization periods are summarized in the table below.

Retirement System	Amortization Period as of June 30, 2019	Amortization Period as of June 30, 2018
PERS-DB	36	38
HPORS	42	40
GWPORS	53	72
TRS	29	31

The Public Employee's Retirement Board (Board) continues to work with plan stakeholders and the Legislature to improve the funding status and decrease the amortization period for all three systems that are not actuarially sound. Board officials have put forth an effort to ensure all defined benefit plans are actuarially sound.

The decrease in the amortization period from 2018 to 2019 for the TRS is primarily due to the continued smoothing of gains and losses over four years and having more Tier II members in the system, whose projected cost is lower.

Effect: The retirement systems are not actuarially sound, which is not in compliance with Montana Constitution and state law.

Cause: During the 2019 Legislative Session, the Board sought legislation increasing the contribution amounts for the Game Wardens' and Peace Officers' Retirement System. However, this legislation did not pass. The Board expected the improvements in the amortization period of the PERS.

The increase in the HPORS amortization period between fiscal year 2018 and 2019 is attributed mainly to a decrease in payroll, and related contributions in the system.

For the TRS, the increase in amortization period in fiscal year 2018 compared to fiscal year 2017 was primarily due to changes in the actuarial assumptions and methods adopted by the board as a result of the experience study completed for the five-year period ended June 30, 2018. The remaining increase was because the actuarial return on assets was less than the actuarial assumption due to the smoothing of gains and losses over four years.

Repeat Finding: Over the last six audits, including this one, various systems have been reported as actuarially unsound. It was reported as finding 2017-1 in the Single Audit report for the two fiscal years ended June 30, 2017, finding 2015-2 for the two fiscal years ended June 30, 2015, finding 2013-2 for the two fiscal years ended June 30, 2013, finding 1-1 for the two fiscal years ended June 30, 2011, and finding 1-2 for the two fiscal years ended June 30, 2009.

Recommendation: We recommend:

- A. The Public Employees' Retirement Board continue to take necessary actions to ensure actuarial soundness of the Game Wardens' and Peace Officers' Retirement System, Highway Patrol Officers' System, and Public Employees' Defined Benefit System.
- B. The Teachers' Retirement Board continue to take necessary actions to ensure actuarial soundness of the Teachers' Retirement System.

Views of Responsible Officials: MPERA concurs with this recommendation. For additional information regarding MPERA's planned corrective action see Corrective Action Plan starting on page D-1.

The TRB concurs with this recommendation. For additional information regarding the Teachers' Retirement Board's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section II-Financial Statement Findings

Finding 2019-3: Various Federal Agencies
CFDA #Various
Grant #Not Applicable

Criteria: Montana Operations Manual Policy, 302, in part, states, “To help facilitate statewide compliance with GAAP, State agencies are responsible for implementing internal control procedures.”

Montana Operations Manual Policy, 399, defines internal control as a process effected by an entity’s oversight body, management, or other personnel, that provides reasonable assurance that the objectives of an entity will be achieved. Policy further requires management to establish and maintain internal controls, including internal controls over financial reporting, and indicates “agency management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as corrective action for any deficiencies.”

Federal regulations, 42 CFR 435.10 and 42 CFR 457.305, require the Department of Public Health and Human Services (department) to determine client eligibility in accordance with eligibility requirements in the approved State Plan for the Medicaid Cluster and Children’s Health Insurance Program (CHIP) program.

Federal regulation, 42 CFR 435.914, requires the department to include facts in each applicant’s case record to support the eligibility decision.

Condition: The Department of Public Health and Human Services (department) did not design and maintain adequate internal control over eligibility determinations in the Medicaid and CHIP programs during fiscal year 2019. The department’s internal controls were not sufficiently designed to identify and remove participants from the Medicaid or CHIP programs when participants misrepresented their household composition, sources of income, and residency in order to circumvent the programs’ eligibility requirements.

In addition, our audit tests identified a significant number of clients who may not meet eligibility criteria for the Medicaid and CHIP programs. Results of our testing demonstrate that indications of ineligibility in the CHIP and Medicaid populations is isolated to Modified Adjusted Gross Income (MAGI) based eligibility groups.

Questioned Costs: For fiscal year 2019, the projected questioned costs were \$40.5 and \$1.1 million for the Medicaid and CHIP program, respectively. For additional information on questioned costs, refer to the underlying audit findings, Federal Award Finding and Questioned Costs 2019-001.

Context: Total expenditures under the Medicaid and CHIP programs in fiscal year 2019 were \$1.5 billion and \$104 million, respectively. For additional context for this audit finding, refer to the underlying audit findings, Federal Award Finding and Questioned Costs 2019-001.

Effect: Without adequate controls to determine eligibility for Medicaid and CHIP recipients, the department cannot assure compliance with federal regulations and amounts recorded on the financial statements for benefits payments are accurate and do not include payments made to recipients who are not eligible based on federal regulations.

As of June 30, 2019, we believe an \$84.1 million contingency exists for the state's General Fund.

Cause: The department has chosen to apply different processes at application for individuals who preliminarily qualify for certain coverage groups under Medicaid as opposed to individuals who preliminarily qualify for the MAGI-based eligibility groups.

Recommendation: We recommend the Department of Public Health and Human Services, as it relates to Medicaid and CHIP federal programs:

- A. Establish and maintain internal controls to timely verify client eligibility factors for all applicants and clients at application and redetermination.
- B. Comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.

Views of Responsible Officials: The department does not concur with this finding, and contends the audit work is flawed. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: See Finding #2019-001 for rebuttal.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section II-Financial Statement Findings

Finding 2019-4: Various Federal Agencies
 CFDA #Various
 Grant #Not Applicable

Criteria: Montana Operations Manual Policy, 302, in part, states, “To help facilitate statewide compliance with GAAP, State agencies are responsible for implementing internal control procedures.”

Montana Operations Manual Policy, 399, defines internal control as a process effected by an entity’s oversight body, management, or other personnel, that provides reasonable assurance that the objectives of an entity will be achieved. Policy further requires management to establish and maintain internal controls, including internal controls over financial reporting, and indicates “agency management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as corrective action for any deficiencies.”

Condition: The Department of Public Health and Human Services (department) does not have adequate internal controls to ensure system processing for SNAP benefits reported on the state’s financial statements are complete, accurate, timely, and authorized which are necessary for adequate internal controls. The department did not receive a System and Organization Controls (SOC)-1 Type 2 report of its Electronic Benefit Transaction (EBT) service provider that is responsible for settlement, or payment to retailers that have agreed to accept EBT cards for the purchase of food.

Questioned Costs: None identified.

Context: The EBT service provider is responsible for settlement, or payment, to retailers that have agreed to accept EBT cards to purchase food. Because the SNAP program provides cash assistance, EBT transactions are similar to those processed for any purchase made with a debit card. In fiscal year 2019, the amount of benefits processed by the EBT service provider was \$149 million. During the period under audit, the department received a SOC-2 Type 2 report for its EBT service provider. The SOC-2 report received did not address the processing integrity trust principle, which considers whether system processing is complete, accurate, timely, and authorized.

For additional context, refer to the underlying audit Federal Award Findings and Questioned Costs 2019-008.

Effect: Without updated EBT service provider assurances provided by a SOC-1 report, the department is unable to fully demonstrate it has established and maintained adequate internal controls to ensure amounts reported on the financial statements for SNAP payments are accurate and complete.

Cause: The department was unaware of the federal requirement to obtain an annual SOC-1 Type 2 examination by an independent auditor of the transaction processing of the EBT service provider. The department chose to obtain a SOC-2 Type 2 report for the EBT service provider, but overlooked the need to include the Processing Integrity Trust Principle relevant to system processing controls.

Recommendation: We recommend the Department of Public Health and Human Services establish and maintain adequate internal controls to ensure SNAP payments are reported accurately on the financial statements.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-001: U. S. Department of Health & Human Service
CFDA # 93.775, 93.777, and 93.778, Medicaid Cluster
Grant # 1705MT5MAP, 1805MT5MAP, 1905MT5MAP

CFDA # 93.767 Children’s Health Insurance Program (CHIP)
Grant # 1705MT5021, 1705MT0301, 1805MT5R21, 1805MT5021,
1905MT5021

Criteria: Federal regulations, 42 CFR 435.10 and 42 CFR 457.305, require the Department of Public Health and Human Services (department) to determine client eligibility in accordance with eligibility requirements in the approved State Plan for the Medicaid Cluster and CHIP program.

Federal regulation, 42 CFR 435.914, requires the department to include facts in each applicant’s case record to support the eligibility decision.

Federal regulation, 42 CFR 435.945(a), specifies, in part, “...except where the law requires other procedures..., the agency may accept attestation of information needed to determine the eligibility of an individual for Medicaid... without requiring further information from the individual.”

Federal regulation, 42 CFR 435.952 (a), requires the department to promptly evaluate information received or obtained by it in accordance with regulations to determine whether such information may affect an individual’s eligibility.

Federal regulation, 42 CFR 435.952 (b) and (c)(1), specifies if information provided by an individual is reasonably compatible with information obtained through required data matches, the department must determine or renew eligibility based on such information. Income information obtained through an electronic data match shall be considered reasonably compatible with information provided by the applicant/client if both are either above, at, or below the applicable income standard or income threshold for eligibility. Only in circumstances when information is not reasonably compatible can the department request additional information.

The department’s State Plans for both the Medicaid and CHIP programs contain income, age, residency, and other eligibility criteria.

For our audit period, as permitted by the verification plan, the department accepted self-attested information at enrollment for Modified Adjusted Gross Income (MAGI) based eligibility determinations. The information is verified against various electronic data sources after enrollment in a process referred to as post-enrollment verification (PEV). The PEV process is automated in the department's Combined Healthcare Information and Montana Eligibility System (CHIMES) to occur within 3 months. For all eligibility groups, redeterminations of eligibility are required to occur annually.

In addition, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department's internal control is not sufficiently designed to identify and remove participants from the Medicaid or CHIP programs when participants misrepresent their household composition, sources of income, or residency in order to circumvent the programs' eligibility requirements. In addition, our audit tests identified a significant number of clients who may not meet eligibility criteria for the Medicaid and CHIP programs. Results of our testing demonstrate that indications of ineligibility in the CHIP and Medicaid populations are isolated to MAGI-based eligibility groups

Internal Controls

We observed evidence of the following internal control deficiencies over eligibility determinations:

- ◆ Instances in which the interfaces between information in the department's records with external data sources did not run.
- ◆ Instances when required redeterminations of eligibility did not occur.
- ◆ Instances where the department received evidence of discrepancies in eligibility criteria which were not followed up on.
- ◆ Instances where department staff overrode information system controls to allow ineligible individuals to remain in the Medicaid or CHIP programs.

We also observed situations where the department had evidence that a program participant was ineligible, but the department allowed them to remain in the program.

Questioned Costs:

Known Questioned Costs

For the 17 case files with indications of ineligibility for all Medicaid and CHIP eligibility groups, and the 9 individuals placed into an incorrect eligibility group, the associated \$216,630 in benefit payments do not meet the allowable cost criteria and are considered questioned costs. For the 16 cases where no tax data was available,

the department's records do not demonstrate that the information used to make the eligibility determination is factual. As such, the associated \$362,303 in benefits made on behalf of these individuals are considered questioned costs.

Projected Questioned Costs

Assuming the same rate of ineligibility in the entire population of Medicaid and CHIP participants where state tax data is available, we projected questioned costs using the average annual claims for each eligibility group. Due to error isolation in the MAGI-based eligibility groups, we factored in a three-month time period to account for the time prior to department verification procedures. Using this methodology, we project likely federal questioned costs for the CHIP program are \$1.1 million annually, and \$41.3 million and \$40.5 million for Medicaid in fiscal years 2018 and 2019, respectively.

Using the 5.8 percent error rate associated with the department's reconsideration of eligibility determinations (see "Results of Department Conducted Review" in the Context section below), errors in eligibility could equate to as much as \$99.2 million and \$98.9 million in inappropriate benefit payments for the CHIP and Medicaid programs, in total, for fiscal years 2018 and 2019, respectively, when projected to the population as a whole.

Context:

In state fiscal year 2018, expenditures totaled approximately \$1.5 billion for Medicaid and \$97 million for the CHIP program. At fiscal year-end of 2018, there were approximately 246,000 individuals enrolled in Medicaid and 23,000 individuals enrolled in the CHIP program. In state fiscal year 2019, expenditures totaled approximately \$1.5 billion for Medicaid and \$104 million for the CHIP program. At fiscal year-end of 2019, there were approximately 236,000 individuals enrolled in Medicaid and 24,000 individuals enrolled in the CHIP program.

The department uses the CHIMES system to determine eligibility. All applications are uploaded into CHIMES which then determines eligibility based on established business rules and eligibility requirements. CHIMES interfaces with external data sources and utilizes case workers to follow up on discrepancies between the interfaces and reported information in the system.

Internal Control Observations

As discussed in the Condition section above, we concluded internal controls, as designed, are likely to be ineffective in preventing ineligible individuals from being determined eligible under the department's processes. We concluded that limiting our review to information in the department's records would not provide sufficient and appropriate audit evidence on which to base our conclusion over the department's compliance with federal eligibility requirements for the Medicaid and CHIP programs.

The inadequacies in the department's Medicaid and CHIP client records is considered a restriction on the scope of the audit. By using only that data source, we were unable to obtain sufficient appropriate audit evidence to support a conclusion over compliance. Based on our observations of internal control deficiencies over Medicaid and CHIP eligibility determinations, at this point in the audit we had enough evidence to disclaim an opinion, and we considered whether this approach was most beneficial for our audit.

To avoid questioning over \$4.02 billion in federal costs for the Medicaid and CHIP programs that would result from a disclaimer of opinion, we considered whether a third-party data source was available. State law allows us access to state tax records, a data source we consider relevant to both affirm the reliability of information in the department's eligibility records and as the basis for redetermining eligibility in accordance with requirements in the State Plans using MAGI information. We chose to conduct a statistical sample as a means of testing eligibility, using state tax data.

Compliance Testing

We performed a statistical sample of 188 Medicaid and CHIP case files from a population of 571,862 unduplicated eligibility determinations from fiscal years 2018 and 2019. This population includes the number of applicants determined eligible for Medicaid or CHIP as well as the number of new applications and closed or denied cases that occurred within the audit period. If an individual's Medicaid or CHIP eligibility was stopped, or if an individual changed eligibility groups during the audit period, the individual may have been included in the population more than one time.

Our sample was designed to achieve two objectives: 1) to affirm the reliability of information in the department's eligibility records; and 2) to redetermine eligibility in accordance with requirements in the State Plans using additional sources of information, including state tax data. We stopped testing after 63 case files due to the significant number of errors identified in our sample.

Affirm the Reliability of Information in the Department's Eligibility Records

For each sample item, we performed a comparison of key eligibility factors between the department's case file information and state tax data. We considered the following eligibility factors:

- ◆ Household Size: For the MAGI-based groups, the use of tax filer status is critical because it drives whether the department should use CMS "tax file rules" or "non-tax filer rules" to determine household size. Household size is critical because it sets the allowable income level for both MAGI-based and non-MAGI-based applicants.
- ◆ Income: For MAGI-based groups, MAGI information available on tax records is the basis for income eligibility determinations. As mentioned above, while certain individuals may qualify for Medicaid regardless of income, for some non-MAGI-based eligibility categories, income remains a key eligibility factor.
- ◆ Residency: In order to qualify for Montana's Medicaid or CHIP programs, an individual must reside within the state's boundaries. State tax data includes evidence which supports state residency status.

The following table summarizes the results of our testing by key eligibility factor as well as whether or not we found the department's case file information to be supported, or whether there was no state tax data available.

Outcome	Key Eligibility Factors		
	Household Factor:	Income Factor:	Residency Factor:
Case File Information Supported	44	26	53
Case File Information Not Supported	6	25	5
No State Tax Data Available	13	12	5

Redetermine Eligibility in Accordance with Requirements in the State Plans Using Additional Sources of Information

Using all data gathered in our sample, we considered whether the eligibility determination made by the department was appropriate. In some cases, all individual eligibility factors were affirmed using state tax data (as discussed in the previous section); however, the eligibility determination made by the department was not consistent with eligibility criteria in the CMS-approved State Plan when state tax data was also considered.

Even when we found evidence in state tax data indicating a circumstance that could be an error under federal regulations, this does not necessarily mean the client should have been identified as categorically ineligible for coverage under any Medicaid enrollment category. A significant proportion of the sample errors we identified resulted in a client being placed in the wrong enrollment category. As shown in the table below, we also found additional errors that were not identified as a result of comparisons with state tax data, but were the results of internal control deficiencies or other errors on the part of the department.

Examples of Errors Identified in the Auditor's Redetermination of Medicaid and CHIP Eligibility

	CHIMES Information	State Tax Data	Indication of Ineligibility Identified by Audit	Additional Context
Indication Based on Household Size				
Client A	One adult	One adult; one dependent	Potentially Not Eligible	Department case notes lack clarity for household composition making it impossible for the auditor to redetermine eligibility.
Indication Based on Income				
Client B	\$3,991 monthly	\$6,091 monthly	Wrong Group	Department redetermination not timely; dependent placed in Medicaid funded CHIP group, but qualifies for eligibility group funded by CHIP.
Client C	\$3,456 monthly	\$4,270 monthly	Wrong Group	Dependent placed in Medicaid funded CHIP group, but qualified for eligibility group funded by CHIP.
Client D	\$1,090 monthly	\$5,375 monthly	Not Eligible	Department redetermination not timely; dependent is not eligible based on income but is receiving MAGI-based Medicaid benefits.
Client E	\$2,240 monthly	\$2,641 monthly	Not Eligible	Income exceeds all eligibility limits for a household size of 3 for adult Medicaid coverage.
Client F	\$0 monthly	\$709 monthly	Wrong Group	CHIMES system has evidence of client income, but \$0 income was copied forward at the eligibility redetermination date. Client received MAGI-based Medicaid benefits without paying the associated premium for the eligibility group for which he qualified.
Client G	\$0 monthly	\$2,863 monthly	Not Eligible	Client aged out of CHIP group and was placed in MAGI-based Medicaid group for continuous eligibility without considering client's income.
Indication Based on Residency				
Client H	\$0 monthly	No Tax Data	Not Eligible	Department received returned mail three times in calendar year 2017, and an additional three times in calendar year 2019. Department records indicate a Florida address was identified in February 2019. Dependent remained eligible for CHIP benefits for first 20 months of the audit period.
Other Indications of Ineligibility				
Client I	Client turns 19 years old	N/A	Not Eligible	Department controls did not stop benefit payments when child aged out of Medicaid funded CHIP program.
Client J	Client placed in Foster Care	N/A	Wrong Group	Child is receiving benefits in incorrect eligibility group for MAGI-based Medicaid.

The table below summarizes the results of our testing by a greater level of detail regarding key eligibility factors and overall eligibility redetermination results.

Auditor Eligibility Redetermination Results for Medicaid and CHIP Fiscal Years 2018 and 2019	
Department's Eligibility Determination Supported	21
Department's Eligibility Determination Not Supported:	
Incorrect Eligibility Category	9
Not Eligible Due to Income Limit	16
Not Eligible Due to Residency Requirement	1
No State Tax Data Available	16
Total	63

Of the 26 cases shown in the Department's Eligibility Determination Not Supported lines above, 17 of them had indications of ineligibility for all eligibility groups. For the remaining 9 cases, the department placed the individual into an incorrect eligibility group.

For the 16 cases shown in the No State Tax Data Available line above, the auditor's determination on the appropriateness of eligibility could not be made due to a lack information available to verify key eligibility factors. The payments made on behalf of these recipients are considered questioned costs because the case records did not include sufficient appropriate audit evidence to fully support the eligibility decision.

Results of Department Conducted Review

The department conducted its own review of eligibility determinations included in our sample. The department reviewed the 1,512 'member months' associated with our 63 sample items. Based on results of its review, the department acknowledges a 5.8 percent error rate at the 'member month' eligibility level in the population tested in our sample. The department also determined a total of \$13,546 in medical claims associated with the months when eligibility determinations were not supported.

Revisions to State Law

The department is taking steps to change the eligibility process, as the 2019 Montana Legislature passed revisions to state law which require the department to verify eligibility using allowed data sources at application. Changes to state law also provide the department access to state taxpayer return information for purposes of verifying the income reported by applicants for medical assistance. These changes will affect our next federal compliance testing cycle (fiscal years 2020 and 2021).

Effect: The results of our compliance testing indicate individuals who did not meet eligibility criteria outlined in the State Plan received Medicaid or CHIP benefits during the audit period, resulting in significant questioned costs for both federal programs.

Cause: The department has chosen to apply different processes at application for individuals who preliminarily qualify for certain coverage groups under Medicaid as opposed to individuals who preliminarily qualify for the MAGI-based eligibility groups. For example, for non-MAGI-based Medicaid determinations the verification process takes place at application, while the verification process is delayed for applicants under MAGI-based Medicaid and CHIP determinations. The Verification Plan also includes a 10 percent threshold for reasonable compatibility for income, which means the department only follows up with the client when the information provided by external sources is higher than self-attested income by 10 percent or more. We considered whether the 10 percent threshold applied by the department could extend eligibility when a client does not meet the income criteria, and concluded the department's Verification Plan could lead to instances where external data indicates the client income exceeds the threshold for an eligibility group but the client is permitted to remain on the program without further department review. For example, an adult with a household size of three who self-reports monthly income of \$2,200 would qualify for Medicaid Expansion in the 133 percent Federal Poverty Level group. If the external data source indicates the client's income is \$2,400, the department would not conduct follow-up because the difference in self-reported income and the external data source information is within the 10 percent threshold. However, a monthly income of \$2,400 would disqualify the adult from eligibility for all Medicaid Expansion groups. Additionally, the data matches are not designed to identify differences in reported versus actual household make-up or to confirm residency.

Recommendation: We recommend the Department of Public Health and Human Services, as it relates to the Children's Health Insurance Program and Medicaid federal programs:

- A. Revise its Verification Plan to require additional information from the client when income information received from external data sources exceeds the limitation for the client's preliminarily authorized eligibility group, as required by federal regulations.
- B. Revise its policies and procedures, including any necessary revisions in the State Plan, to ensure only eligible individuals receive benefits, as required by federal regulations.
- C. Establish and maintain internal controls to timely verify client eligibility factors for all applicants and clients at application and redetermination.
- D. Comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.

Views of Responsible Officials: The department does not concur with this finding, and contends the audit work is flawed. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We considered the department's noncurrence to this finding. Throughout the audit and in its written response to this finding, the department has continued to focus on its disagreement with our audit approach, and in doing so, has not been receptive to our communications and has failed respond to the audit evidence which supports:

1. Internal controls over eligibility determinations were not consistently and correctly applied to Medicaid and CHIP populations during the audit period.
2. The department's internal controls were not sufficiently designed to identify and remove participants from the Medicaid or CHIP programs when participants misrepresent their household composition, sources of income, and residency in order to circumvent the programs' eligibility requirements.

Additionally, the department's own review of client records included in our sample supports a 5.8 percent error rate in 'member month' eligibility decisions. This means, for our sample population, eligibility verification or redetermination was not conducted timely and resulted in clients being determined (or remaining) eligible for Medicaid or CHIP benefits when in fact they were either not eligible or were placed into an incorrect eligibility category. As outlined in the finding, using the department determined error rate, errors in eligibility could equate to as much as \$99.2 million and \$98.2 million in inappropriate benefit payments for the CHIP and Medicaid programs, in total, for fiscal years 2018 and 2019, respectively, when projected to the population as a whole. As such, our recommendation stands.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-002: U.S. Department of Health and Human Services
 CFDA # 93.775, 93.777, and 93.778, Medicaid Cluster
 Grant # 1705MT5MAP, 1805MT5MAP, 1905MT5MAP

Criteria: Federal regulation, 42 CFR 433.138(d)(1), requires the Department of Public Health and Human Services (department) to use the information from the state wage information collection agency (SWICA) and from the Social Security Administration (SSA) wage and earnings files data to identify Medicaid beneficiaries that are employed and their employers for purposes of identifying the legal liability of third parties.

Federal regulation, 42 CFR 433.138(g), requires follow-up on SWICA and SSA information within 45 days.

Federal regulation, 42 CFR 433.139, also requires the obligation of the third party be exhausted before Medicaid program costs are used, or if program costs are used, then reimbursement from the third party must be pursued so long as costs to seek reimbursement do not outweigh the total third party liability.

Attachment 4.22-A of the State of Montana Medicaid Plan states that the department conducts SWICA wage and earnings matches upon application and on a quarterly basis. The SSA match is conducted upon application and once a year thereafter.

Condition: During the audit period, the department did not conduct SWICA or SSA wage and earnings file data matches upon application for the Modified Adjusted Gross Income (MAGI)-based determination process. There is no amendment or waiver to Montana's Medicaid Plan allowing these data matches or follow-up to be delayed for MAGI-based applicants.

Questioned Costs: None identified. However, questioned costs could exist for the MAGI-based applicants where third party obligor should have made payment prior to using Medicaid program funds.

Context: The practice of not conducting SWICA or SSA matches upon application is applicable to both state fiscal years 2018 and 2019.

Effect: By delaying the data matches for the MAGI-based applicants, the department has not complied with requirements of the State of Montana Medicaid Plan to identify potential third parties at application.

Cause: For its MAGI-based applicants, the department follows its verification plan which indicates these same data matches are conducted within 90 days of application.

Recommendation: We recommend the Department of Public Health and Human Services conduct State Wage Information Collection Agency and Social Security Administration data matches to identify potential liable third parties at application for all Medicaid applicants, as stated in the State of Montana Medicaid Plan.

Views of Responsible Officials: The department does not concur with this finding, stating, in part, it uses many methods to identify the legal liability of third parties and the auditors appear to take issue with the timing of one of the methods used. The department further indicates it follows its approved state plans with regards to SWICA interfaces. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We considered the department's nonconurrence to this finding. The department is correct that this finding takes issue with the timing of the SWICA and SSA interfaces. As outlined in the Condition, there is no amendment or waiver to Montana's Medicaid Plan allowing these data matches or follow-up to be delayed for MAGI-based applicants. As such, the department has not followed its approved state plan in regard to TPL-related interfaces. Therefore, our recommendation stands.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-003: U.S. Department of Health and Human Services
 CFDA # 93.775, 93.777, and 93.778, Medicaid Cluster
 Grant # 1705MT5MAP, 1805MT5MAP, 1905MT5MAP

Criteria: Per 42 CFR 455.14, if the Department of Public Health and Human Services (department) receives a complaint of Medicaid fraud or abuse from any sources or identifies any questionable practices, it must conduct a preliminary investigation. In accordance with 42 CFR 455.15, if a provider is suspected of fraud or abuse, the department must refer the case to the state Medicaid Fraud Control Unit (MFCU).

In addition, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department did not maintain adequate documentation of investigations of Medicaid providers, as required by federal regulation.

During the period under audit, new provider reviews made up over half of all provider investigations conducted by the department. Additionally, Chapter 82, Laws of 2017 Regular Session, established restrictions on overpayment audits including limiting records requests to a six-month period within three previous years, restricting follow-up audits to the same billing codes associated with the initial audit, requiring audits be completed in 90 days, and prohibiting projection of overpayments identified in the sample to a larger set of claims.

Questioned Costs: None identified.

Context: The department's Surveillance Utilization Review Section (SURS) performs retrospective reviews of paid claims, recovers identified overpayments, and educates medical providers. The SURS unit closed 692 investigations during the audit period. From this list, we selected a sample of 40 closed case files. This was not a statistically valid sample. We reviewed the case file documentation for the 37 files provided and considered whether the department followed its guidelines which specify the basis for making a referral to MFCU. The department was unable to locate case files for the remaining three cases selected in our sample. For one of the 37 cases reviewed, the documentation in the case file was incomplete.

Effect: Absent complete documentation, the SURS unit decision on whether or not to make a referral to MFCU is not supported. Additionally, focusing on new provider reviews limits the department's ability to identify potentially fraudulent or abusive billing practices by more established providers which make up a larger percentage of overall Medicaid claims and payments. Without changes in department policy and state law, the department's ability to identify and fully investigate for provider fraud are hindered. During the 2019 Legislative session, Senate Bill 235 proposed such changes, but failed.

Cause: The department does not have adequate internal controls to ensure that documentation of provider investigations exists.

The department recognized its focus on new provider reviews required modification. Department management indicates quality improvement controls for record keeping were implemented by the SURS unit in May 2019. Additionally, the department claims it has improved new employee training to focus on record keeping, and has implemented internal reviews of new employee case files for completeness for a period of at least the first six months of employment.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and maintain internal controls to ensure Surveillance Utilization Review Section investigations for provider fraud are completely documented and retained, as required by federal regulations.
- B. Implement changes in department policy and seek changes in legislation to remove restrictions on provider overpayment audits.

Views of Responsible Officials: The department partially concurs with this finding, and indicates, in part, "The ultimate responsibility for changes in legislation lies with the Legislative Branch, not the department." The department's response further states, "The department cannot implement policy that conflicts with state law." The department's complete response is included in the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We considered the department's partial concurrence to the finding. While the department agrees its documentation and retention of investigations can be strengthened, the department contends that seeking legislative change to remove restrictions on overpayment audits is outside the department's control. While we agree the ultimate outcome of any change in statute is subject to the legislative process, the recommendation is that the department take action to begin the legislative process. Seeking legislation to change existing statute is routine agency-level activity. As such, our recommendation stands.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-004: U.S. Department of Health and Human Services
 CFDA # 93.775, 93.777, and 93.778, Medicaid Cluster
 Grant # 1705MT5MAP, 1805MT5MAP, 1905MT5MAP

Criteria: Per 42 CFR 455.14, if the Department of Public Health and Human Services (department) receives a complaint of Medicaid fraud or abuse from any sources or identifies any questionable practices, it must conduct a preliminary investigation. In accordance with 42 CFR 455.15, if there is reason to believe that a beneficiary has defrauded the Medicaid program, the department must refer it to law enforcement. If there is reason to believe that a beneficiary has abused the Medicaid program, the department must conduct a full investigation of the abuse.

In addition, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Internal controls to investigate referrals for Medicaid beneficiary fraud and abuse are not designed to ensure full investigations are conducted and referrals to law enforcement occur, as required by federal regulations.

Questioned Costs: None

Context: The Program Integrity Unit is responsible for investigating any case of alleged fraud and abuse by Medicaid beneficiaries. During the audit, we reviewed the department's policies and procedures for investigations of Medicaid beneficiary fraud. Per department policy, Program Integrity Unit staff are directed to stop their investigation if fraud is not identified within the first 20 minutes of initial investigation. Additionally, department policy limits referrals of beneficiary fraud to law enforcement only if the established overpayment amount exceeds \$10,000.

Department management indicated the policy was put into place in October 2018 as a time management tool to assist in addressing a backlog of referrals. Department management reported the policy limitations were removed in September 2019.

Effect: Absent the ability to conduct full investigations or to make complete referrals to law enforcement, the department is unable to demonstrate compliance with federal regulations.

Cause: Department policy does not allow for full investigation of fraud allegations or for referral to law enforcement of all instances where beneficiary fraud is reasonably possible, as required by federal regulation.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Update policies and procedures for Medicaid beneficiary fraud investigations to require full investigations by department staff, and
- B. Make referrals to law enforcement when there is reason to believe a beneficiary has defrauded the program, as required by federal regulations.

Views of Responsible Officials: The department does not concur with this finding, stating in part, “The auditors appear to take exception to time management guidelines included in desk level procedures. Those guidelines were removed in September 2019.” For additional information regarding the department’s planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We considered the department’s nonconurrence to the finding. While the department represents the time restriction in its “desk level procedures” were a guideline for time management, as written, these procedures do not allow for a full investigation of fraud to be conducted. While the guidelines were removed in September 2019, the guidelines for initial review were in place during the audit period. As described in the finding, without adequate procedures, the department is unable to demonstrate compliance with federal regulations. As such, our recommendation stands.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-005: U.S. Department of Health and Human Services
 CFDA # 93.775, 93.777, and 93.778, Medicaid Cluster
 Grants #1705MT5MAP, 1805MT5MAP, 1905MT5MAP, 1705MT5ADM,
 1805MT5ADM, 1905MT5ADM, 1705MTIMPL, 1705MTINCT,
 1805MTIMPL, 1805MTINCT, 1905MTIMPL, 1905MTINCT

Criteria: Per 2 CFR 200.326, contracts must contain applicable provisions for non-Federal entity contracts under federal awards. Appendix II to 2 CFR 200 lists those provisions including a provision that a contract award must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM).

Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition: The department did not include the required language related to debarment and suspension in a contract for premium billing and collection services for the Medicaid program, and department internal controls did not identify or prevent the omission.

Questioned Costs: None identified.

Context: In an effort to modernize its Medicaid systems, the department is replacing its Medicaid Management Information System (MMIS). The replacement project is referred to as Montana's Program for Automating and Transforming Healthcare (MPATH), with total estimated costs of \$146 million for state fiscal years 2019 through 2021. As part of the audit, we obtained and reviewed 4 contracts related to this effort. We identified one contract in which the required language related to debarment and suspension was not included.

Department management provided the purchase order for the entity that bills and receives payments for these services. While the purchase order contains suspension and debarment language, we do not consider this to be a certification by the entity because the purchase order is not signed by the entity.

Effect: The department is not in compliance with federal regulations related to required contract language.

Cause: Department staff indicate that while the contractor was informed of the federal debarment requirements during the contracting process, the contract attachment relevant to suspension and debarment was inadvertently excluded from the final contract submitted to and signed by the contractor.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls to ensure all relevant contract disclosures and attachments are included in the contract agreement prior to signature.
- B. Comply with federal regulations by including all applicable and required language in Medicaid contracts with non-federal entities.

Views of Responsible Officials: The department does not concur with this finding, stating in part, “The auditor’s interpretation of what constitutes acceptance of contract terms and conditions is unnecessarily narrow.” The department indicates the Purchase Order contains a clause for debarment, and upon fulfilling the Purchase Order, the vendor has, in effect, made the representation. For additional information regarding the department’s planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have considered the department’s nonconurrence to the finding. The department’s response fails to address that its contract and Purchase Order are made with two different entities. At the time the contract was signed, the attachment relevant to debarment and suspension was omitted by the department. Subsequently providing a Purchase Order to a different entity does not eliminate the internal control weakness or noncompliance identified by the audit. As such, our recommendation stands.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-006: U.S. Department of Health and Human Services

CFDA # 93.767, Children’s Health Insurance Program (CHIP)

Grant # 1705MT5021, 1705MT0301, 1805MT5R21, 1805MT5021,
1905MT5021

Criteria: Federal regulation, 42 CFR 457.310(b)(2), limits participation in the Children’s Health Insurance Program (CHIP) for targeted low-income children. Specifically, a targeted low-income child must be neither found eligible or potentially eligible for Medicaid under policies of the state plan, nor covered under a group health plan or health insurance coverage program, with certain exceptions.

Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition: Federal regulations permit one Medicaid eligibility group to receive CHIP funded health insurance premium payments. Department controls did not prevent other eligibility groups from receiving CHIP funded health insurance premium payments during the period under audit.

Questioned Costs: Payments totaling \$30,310 are not an allowable use of CHIP funds, and are considered questioned costs. Using the error rate based on the transactions reviewed, total projected questioned costs are \$3.5 million for the period under audit.

Context: Through its state plan, the department offers CHIP-funded Medicaid benefits for children six to eighteen years of age whose family income is between 101% and 143% of the federal poverty level. Because this group is covered by Medicaid, recipients may be members of the department’s Health Insurance Premium Payment (HIPP) program if the department determines it to be cost effective. Under the HIPP program, the department uses federal program dollars to pay the premiums for health insurance coverage for other insurance policies. Appropriate federal funds used for HIPP depend on the individual’s eligibility for either the Medicaid or CHIP programs.

When conducting a sample of CHIP benefit payments, we identified a portion of the transactions were health insurance premium payments. Because we did not expect this activity in our sample population, we isolated the HIPP transactions totaling \$5.5 million to conduct a separate audit test. We selected and reviewed eleven of the 7,762 transactions for health insurance premiums. This was not

a statistically valid sample. Our review identified seven instances where the department should have used Medicaid funds instead of CHIP funds to pay the third-party health insurance premiums.

Effect: The department is not in compliance with federal regulations, and has expended CHIP monies for individuals who did not meet program requirements.

Cause: Department officials indicate the unallowable payments resulted from a lack of internal controls to ensure charging mechanisms used in the administration of HIPP payments were accurate and current. Additionally, department officials indicated the costs are allocated to a different department division whose staff is not aware of the specific details of the HIPP program, and is therefore unable to review the financial activity for accuracy.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Develop internal control procedures to ensure the appropriate funding source is used for its Health Insurance Premium Payment program.
- B. Use federal Children's Health Insurance Program funds to pay third-party health insurance premiums only for those individuals who qualify, as required by federal regulations.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-007: Various* Federal Agencies
 CFDA # Various*, Research and Development Cluster
 Grant # Not applicable

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 180.305, prohibits the University of Montana (university) from contracting with or making subawards under covered transactions to parties that are suspended and debarred.

Federal regulations, 2 CFR 180.210 and .220, state all nonprocurement transactions, irrespective of award amount, are considered covered transactions. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction, a grant agreement for example, that are expected to equal or exceed \$25,000 or meet certain other criteria.

Federal regulation, 2 CFR 180.300, requires the university to verify that entities with which it enters into a covered transaction with are not suspended and debarred or otherwise excluded from participating in the transaction.

Condition: The university enters into procurement transactions using research and development federal assistance funds. As part of the procurement process, vendors are selected from the university's procurement system. The university did not have internal controls in place to verify if vendors were suspended and debarred as required by federal regulations.

Questioned Costs: No questioned costs identified.

Context: Per discussion with university staff, there was no process in place during the audit period. As part of our testing of federal compliance, we reviewed vendors who had entered into research and development transactions with the university. From a population of 342 transactions, we reviewed a sample of 39 vendors who had entered into research and development transactions during the audit period. We looked up the vendors on the System for Award Management, and none of the vendors were excluded. This was a statistically valid sample. In addition to this sample, we judgmentally tested an additional 46 items. None of the additional tested vendors were excluded.

Effect: The university was not in compliance with federal regulations and did not have sufficient internal controls in place to ensure transactions were not conducted with suspended and debarred vendors. Without internal control, there is risk the university will unknowingly enter into a transaction with an excluded party.

Cause: Per discussion with university staff in vendor maintenance, accounts payable, and procurement, they were not aware if or when the verification took place and they assumed a different office was completing the check.

Recommendation: We recommend the University of Montana comply with federal regulations by establishing internal controls to verify vendors are not suspended or debarred from federal procurement transactions.

Views of Responsible Officials: The university concurs with the recommendation and has contracted with a new supplier information management system which captures suspension and debarment alerts. These alerts are reviewed by the university's vendor maintenance administrator. With the new system, suspended and debarred vendors will be excluded from the university's procurement process. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

*-See Appendix A

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-008: U.S. Department of Agriculture
 CFDA # 10.551 and 10.561, SNAP Cluster
 Grant #: 201717S251443, 201818S251443, 201919S251443

CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants
 and Children (WIC)

Grant #: 201818W100643, 201818W500343, 201818W100343,
 201817W541243, 201818Y860743, 201818Y860443, 201919W100643,
 201918W100643, 201919W500343, 201919W100343, 201918W100343,
 201919Y860743, 201919Y860443

U.S. Department of Health and Human Services
 CFDA #93.558, TANF Cluster
 Grant #: 1701MTTANF, 1801MTTANF, 1901MTTANF

Criteria: Federal regulation, 7 CFR 274.1 (i), requires a yearly examination of the State Electronic Benefit Transfer (EBT) service provider for the SNAP Cluster. This is called a SOC-1 Type 2 examination, which is further defined and discussed below.

Federal regulations, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility determinations are performed in accordance with program requirements.

Condition: The Department of Public Health and Human Services (department) does not have adequate internal controls to ensure transactions were processed in compliance with federal SNAP, WIC and TANF program requirements. The department has not complied with federal requirements to obtain an examination of its EBT service provider for the SNAP program.

Questioned Costs: None identified.

Context: The department uses the same electronic benefit processing service provider (EBT service provider) for its SNAP, WIC and TANF federal programs. The EBT service provider is responsible for settlement, or payment, to retailers that have agreed to accept EBT cards for food (SNAP and WIC) or other (TANF) purchases. Because the TANF program provides cash assistance, EBT transactions are similar to those processed for any purchase made with a debit card.

The following table represents the total amount of benefits processed by the EBT service provider for fiscal years 2018 and 2019:

	SNAP Cluster	TANF Cluster	WIC
FY 2018	\$163 million	\$32 million	\$7.5 million
FY2019	\$149 million	\$22 million	\$6.5 million

A System and Organization Controls (SOC) examination can be structured in various ways to meet the needs of intended users of information included in the SOC report. The following table outlines two types of SOC examinations:

	SOC-1 Report	SOC-2 Report
Relevant to	Financial statements and compliance Used to evaluate internal control over financial reporting and achieving compliance requirements. Focus is on controls at the service organization that would be useful to user entities or their auditors	Addresses risk and opportunity associated with information technology over the trust services framework which includes: security, availability, processing integrity confidentiality, or privacy

During the period under audit, the department received a SOC-2 Type 2 report for its EBT service provider. However, the SOC-2 report covered only the Security, Availability, and Confidentiality Trust Principles. The SOC-2 report did not address the Processing Integrity trust principle, which considers whether system processing is complete, accurate, timely and authorized.

While not required for the TANF and WIC programs, a SOC-1 Type 2 report provides the department and its auditors with assurances regarding proper design and operation of controls at the EBT service provider. The department did obtain a SOC-2 Type 2 report, but the report does not cover the Program Integrity trust principle which evaluates whether system processing is complete, accurate, timely, and authorized.

Prior to transitioning to the current EBT service provider in June 2017, the department conducted extensive testing and certification of system controls and processes for the SNAP program. Results of similar testing during the period prior to transition for the TANF and WIC programs, which were implemented in June 2017 and September 2017, respectively, were provided by the department. As a result, the department is able to demonstrate that the system was properly designed at the time of implementation for both the TANF and WIC programs.

Effect: Without the annual SOC-1 examination, the department is not in compliance with related SNAP program federal regulations. Additionally, without updated EBT service provider assurances

provided by a SOC-1 report, the department is unable to fully demonstrate it has established and maintained adequate internal controls to ensure federal program requirements are met for its SNAP, TANF, and WIC programs for the entire audit period. Further, the department is at risk for reporting incomplete or inaccurate information to the federal government, providing incorrect benefit amounts to clients, and over- or under-drawing benefit reimbursements for its federal programs.

Cause: For the SNAP program, the department was unaware of the federal requirement to obtain an annual SOC-1 Type 2 examination by an independent auditor of the transaction processing of the EBT service provider. The department chose to obtain a SOC-2 Type 2 report for the EBT service provider, but overlooked the need to include the Processing Integrity Trust Principle relevant to system processing controls.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Obtain an annual SOC-1 Type 2 report over the Electronic Benefit Transfer service provider for Supplemental Nutrition Assistance Program, as required by federal regulations.
- B. Establish and maintain adequate internal controls to ensure Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, and Special Supplemental Nutrition Program–Women, Infants and Children benefit transactions achieve applicable compliance requirements.

Views of Responsible Officials: The department partially concurs with this finding, citing that, in spite of the absence of SOC 1 Type 2 examination, it maintains there are significant controls in place to ensure benefit transactions achieve applicable compliance requirements. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's partial concurrence with this finding. The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-009: U.S. Department of Agriculture
CFDA #10.551 and 10.561, SNAP Cluster
Grant #: 201717S251443, 201818S251443, 201919S251443

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulation, 7 CFR 274.4, requires a reconciliation comparing retailer credit activity as reported into the banking system to client transactions maintained by the processor to the funds drawn down by the state or contractor.

Condition: The department did not complete all required reconciliations over SNAP benefits information. Specifically, the department is required to compare the following three data sources to each other:

- ◆ Retailer transactions reported to the Electronic Benefit Transfer (EBT) banking system—these are transactions processed by the retailer (grocery store/vendor) on behalf of the SNAP client.
- ◆ Client transactions maintained by the EBT service provider—this is SNAP benefits redeemed.
- ◆ Funds drawn for reimbursement from the federal treasury—as permitted by federal regulations, the EBT service provider draws state benefit reimbursements directly from the federal government.

The two-way reconciliation completed by the department did not incorporate retailer transaction activity or the drawdown activity from the federal treasury. Consequently, department procedures do not cover the requirements set forth in federal regulations.

Questioned Costs: We believe questioned costs related to the SNAP program could exceed \$25,000 for the audit period.

Context: A daily two-way reconciliation conducted by the department compares benefits issued per the department's system to the benefits applied to client EBT cards according to EBT service provider reports. In our sample of 44 of these reconciliations, the department did not document the reason for the difference for 7 reconciliations. This was a statistically valid sample.

While two-way reconciliations were conducted, the required three-way reconciliation was not completed. Additionally, when partial reconciliations were completed, the department did not consistently document its follow-up and resolution of differences identified.

Effect: Without all necessary reconciliations, the department is unable to confirm the accuracy of the SNAP benefits drawn by the EBT service provider on behalf of the State of Montana. Further, the department has no assurance that SNAP benefit draws were based on benefits redeemed by program participants at retailers.

Cause: For the required three-way reconciliations not completed, department staff believed there were adequate controls in place at the EBT service provider and relied on the EBT service provider to complete the reconciliations. However, the department was not able to provide evidence that required reconciliations were completed by the EBT service provider. Additionally, the department does not have evidence about the reliability of data or procedures, including reconciliations, involving procedures at the EBT service organization, as discussed in finding #2019-008.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and maintain adequate internal controls to ensure reconciliations of SNAP benefits issued, redeemed, and unredeemed are conducted, as required by federal regulations.
- B. Conduct and document follow-up on differences identified in required reconciliations.

Views of Responsible Officials: The department partially concurs with this finding, citing that necessary reconciliations required by FNS were conducted but not consistently documented to completion through follow-up of discrepancies identified. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's partial concurrence with this finding. The department's views do not contain any information not already considered during the audit. Absent documentation, the department is unable to fully demonstrate compliance with applicable federal compliance requirements. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-010: U.S Department of Agriculture
CFDA # 10.551 and #10.561, SNAP Cluster
Grant #: 201717S251443, 201818S251443, 201919S251443

Criteria: Federal regulation, 31 CFR 205.6(b), specifies the Treasury State Agreement (TSA) is effective until terminated. Montana's 2018 and 2019 TSAs described Modified Actual Clearance as the state requesting the amount of Electronic Benefit Transfer (EBT) benefits and fee payments processed the previous day. Per the TSA, the Department of Public Health and Human Services (department) should be completing the benefits draw process for the Supplemental Nutrition Assistance Program (SNAP).

The compliance supplement indicates states may authorize their Electronic Benefits Transfer (EBT) contractors to make benefit draws.

In addition, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility determinations are performed in accordance with program requirements.

Condition: The department has permitted the EBT service provider to execute over \$300 million in federal cash draws for the SNAP program, which is contrary to the state's TSA agreement. Additionally, the department did not provide an update to the TSA for changes in its processes.

Questioned Costs: To avoid duplication, questioned costs are reported in Finding 2019-009.

Context: Approximately \$163 million and \$149 million in reimbursement draws from the federal government for fiscal years 2018 and 2019, respectively, were executed directly by the EBT processor for the SNAP program.

Effect: Because the TSA specifies the department conducts the draws for SNAP benefits, permitting the EBT contractor to perform the draws results in noncompliance with the state's TSA.

Cause: Annually, the Department of Administration solicits input from state agencies regarding necessary changes to the TSA. The department overlooked the need to update the TSA when entering into the agreement with the EBT service provider.

Recommendation: We Recommend the Department of Public Health and Human Services:

- A. Work with the Department of Administration to properly update the Treasury State Agreement for benefit draws related to the SNAP Cluster.
- B. Comply with the Treasury State Agreement by completing the SNAP Cluster benefit draws from the federal government until such time as the Treasury State Agreement is revised.

Views of Responsible Officials: The department partially concurs with this finding, citing the administrative burden to conduct SNAP Cluster benefit draws is too significant to fully comply for the remainder of state fiscal year 2020. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's partial concurrence with this finding. The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-011: U.S. Department of Agriculture
CFDA #10.551 and 10.561, SNAP Cluster
Grant #: 201717S251443, 201818S251443, 201919S251443

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulation, 7 CFR 272.10, requires the department to sufficiently automate its SNAP operations and computerize their systems for obtaining, maintaining, utilizing and transmitting information concerning SNAP. This includes:

- ♦ Determining eligibility, calculating benefits, or validating the eligibility worker's calculations by processing and storing all information necessary for eligibility determination and benefit calculations, as well as identifying and alerting department staff and clients when eligibility or benefit changes occur.
- ♦ Providing an automatic cutoff of participation when annual renewal information and procedures are not provided.
- ♦ Generating data necessary to meet federal issuance and reconciliation reporting requirements. Specifically, the SNAP information system must produce data for the federal FNS-46 SNAP Issuance Reconciliation Report and the FNS-209 Status of Claims Against Households report.

Condition: The department's internal controls related to use of the Automated Data Processing (ADP) systems for SNAP could be strengthened in the following areas: follow-up on results of the department's eligibility audits, training for staff completing eligibility determinations, and adequate support for federal reports. Additionally, all portions of SNAP reporting are not automated by the ADP system, as required by federal regulation.

Questioned Costs: No questioned costs identified.

Context:

Eligibility Audits and Staff Training

We reviewed the top ten reasons for audit eligibility errors for each fiscal year 2018 and 2019 as reported by the department's internal audits of SNAP eligibility determinations and

benefits calculations because the department indicated these audits were a key control for the SNAP ADPA systems compliance requirement. Each of the ten reasons had underlying issues reported. We were testing to see if there were patterns to indicate the information in the department's eligibility system (CHIMES) was inaccurate or that the system was not working effectively. In total, the department identified 9 instances where errors were the result of computer programming issues. Additionally, the department's internal audits identified 48 errors due to incorrect case file information, and an additional 58 errors resulting from information being disregarded or not applied in eligibility determinations and benefit calculations. While the department shares results of the monthly eligibility audits with SNAP program staff, eligibility errors continued to remain high for the audit period. Our audit work did not include a sample.

Reporting

The department uses the Accounts Receivable Management System (ARMS) to track SNAP accounts receivable. While most of the information for the FNS-209 report is generated from ARMS, the beginning balance for the report must be manually adjusted. The department is able to retrieve accurate beginning balances from the federal system, but the beginning and ending balances are defined as key line items by federal regulations. As such, these balances should be automated in the department's systems. While the department completes a daily reconciliation between the department's eligibility system and the service organization's system for newly issued SNAP benefits, the department does not complete and document a monthly reconciliation which supports the information included in the FNS-46 report.

Effect: The department is not in compliance with federal regulations. Additionally, the accuracy of information included in required federal reports is at risk due to identified deficiencies in internal controls.

Cause: The department cites staffing shortages and inadequate staff training as reasons for the increased eligibility errors.

The ARMS system does not is not designed to report beginning balances for the FNS-209 report.

The department contends the daily reconciliation is sufficient for purposes of the FNS- reports. The lack of System Organization Controls (SOC) assurances over its EBT service organization, as reported in #2019-008, also contributes to the internal control weakness.

Recommendation: We recommend the Department of Public Health and Human Services enhance internal control and compliance with federal regulations for the Supplemental Nutrition Assistance Program by:

- A. Maintaining documentation to demonstrate consideration of the results of monthly Quality Assurance Division eligibility audits.
- B. Conducting and documenting training for staff completing eligibility determinations to address common errors, when identified by monthly Quality Assurance Division eligibility audits.
- C. Updating the Accounts Receivable Management System to automatically generate the beginning balances for the FNS-209 quarterly report, as required by federal regulations.

- D. Ensure the FNS-46 report is supported by accurate information via an audit of the service organization or a monthly reconciliation.

Views of Responsible Officials: The department does not concur with this finding. The department suggests that the auditor has not addressed the “underlying issues associated with the error rate” in the recommendations. Finally, the department contends a daily reconciliation meets the federal requirements for the monthly FNS-46 report. For additional information regarding the department’s planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department’s nonconurrence with this finding. As discussed with the department throughout the audit, we reviewed the department-conducted audit results because the department noted these audits were an important control over the ADP system. In our review, trends identified indicate further training can assist department staff gather information and apply necessary corrections. Additionally, because the department’s monthly FNS-46 report is supported by the EBT contractor’s system over which the department has not obtained an independent SOC 1 Type 2 (as further discussed in Finding 2019-008), absent a documented monthly reconciliation, a daily undocumented visual check is insufficient to support the FNS-46 reports. We maintain our position as reported.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-012: U.S. Department of Health and Human Services
 CFDA #93.558, TANF Cluster
 Grant # 1701MTTANF, 1801MTTANF, 1901MTTANF

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulations, 45 CFR 205.55 and 42 USC 1320b-7, require the department to twice annually coordinate data exchanges with other federally assisted benefit programs, to request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and proceedings in exchanging information. One required data exchange is for unearned income information from the Internal Revenue Service (IRS).

Federal regulation, 45 CFR 205.56, directs the department to use the unearned information downloaded from the IRS, in conjunction with other information, for determining individuals' eligibility for assistance under the State plan and determining the amount of assistance.

Condition: The department did not use information from the IRS in making eligibility determinations. Additionally, in some instances department procedures were insufficient to allow for IRS information obtained to be used.

Questioned Costs: None identified.

Context: Our prior audit reported the department obtained the required information but was not subsequently using the information in evaluating eligibility and assistance determinations. During the current audit, we determined the department was able to complete the IRS data comparison one of the four times it was required.

Repeat Finding: Montana's prior Single Audit report for the two fiscal years ended June 30, 2017, included a recommendation (#2017-023) that the department comply with federal regulations by comparing income information obtained from the IRS to information contained in individual case records in order to determine the effect, if any, in individuals' eligibility or amount of assistance.

Effect: The department did not comply with the required IRS data comparison for the audit period. Without fully using the IRS data to evaluate eligibility and assistance determinations, the department risks errors in benefit costs incurred for the TANF program.

Cause: In two instances where the data comparison was not completed, the department was unable to convert the IRS data into a usable format. In another instance, the department did not receive the file required from the IRS and did not follow-up to ensure data was received. Although the department requested information from the IRS, the department's procedures did not instruct staff when or how to follow-up when a file was not returned from the IRS. Additionally, procedures documents did not instruct staff regarding the conversion of the IRS data. Department staff also suspect IRS files were not provided or were provided late due to the federal government shut downs.

Department management cites one section of United States Code which specifies no state shall be required to use the IRS information to verify the eligibility of all recipients. We agree the IRS information is not required to verify the eligibility of all recipients. However, other federal regulations require the IRS data be used in conjunction with other information for determining an individual's eligibility and amount of assistance, as well as changes to eligibility.

Recommendation: We recommend, with respect to the Temporary Assistance for Needy Families program Income Eligibility and Verification System requirements, the Department of Public Health and Human Services:

- A. Develop and maintain internal controls to ensure staff follow-up when the file from the IRS is not received timely, and properly convert the file to a usable format upon receipt.
- B. Comply with federal regulations by comparing income information obtained from the Internal Revenue Service to information contained in the individual case records in order to determine the effect, if any, on individuals' eligibility or amount of assistance.

Views of Responsible Officials: The department does not concur with this finding, and indicates the recommendations are not necessary, as the department is compliance with federal regulations with regard to use of the DIFSLA file. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's nonconurrence with this finding. As outlined in the finding, the department completed the required IRS data comparison one of the four times it was required. As such, the department has not complied with federal regulations with regard to the use of IRS information. Additionally, the department fails to fully recognize that IRS information is required by federal regulations in making eligibility determinations for individuals. We maintain our position as reported.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-013: U.S. Department of Health and Human Services
 CFDA #93.558, TANF Cluster
 Grant # 1701MTTANF, 1801MTTANF, 1901MTTANF

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulations, 45 CFR 264.1 (c) and (e), specify the average number of families that include a head of household who has received assistance under any state program funded by federal Temporary Assistance for Needy Families (TANF) funds for more than 60 countable months may not exceed 20 percent of the average monthly number of all families to which the state has provided assistance during the current or immediately preceding fiscal year.

Condition: To ensure the limitation in federal regulation is achieved, the department uses a spreadsheet as its internal control to track clients receiving extended benefits. The department's spreadsheet to track cases with extended benefits for the TANF program was incomplete.

Questioned Costs: None identified.

Context: The department maintains a spreadsheet to track the number of cases receiving TANF benefits beyond 60 months. During the audit, we compared the department's tracking spreadsheet to a listing from the Combined Healthcare Information and Montana Eligibility System (CHIMES) system, and noted the department's tracking spreadsheet was not complete. The spreadsheet listed 17 cases while the CHIMES report listed 35 cases.

Based on an average monthly TANF caseload of 3,614, the department may allow up to 723 TANF participants to exceed 60 countable months of assistance under the program. The prior year average monthly caseload was 4,355.

Effect: Although our audit did not identify an excess number of participants exceeding the 60-month limitation for TANF assistance, without maintaining an accurate tracking mechanism, the department is at risk of exceeding the limitation outlined in federal regulation.

Cause: The department cites human error as the reason the manual tracking spreadsheet was incomplete.

Recommendation: We recommend the Department of Public Health and Human Services develop and maintain internal controls, in accordance with federal regulations, to ensure its tracking spreadsheet for recipients of extended TANF Cluster benefits is complete.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-014: U.S. Department of Health and Human Services
 CFDA #93.558, TANF Cluster
 Grant # 1701MTTANF, 1801MTTANF, 1901MTTANF

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulation, 45 CFR 265.3, require submission of quarterly Temporary Assistance for Needy Families (TANF) Financial Reports (ACF-196R).

Instructions for the ACF-196R reports specify:

- ◆ A state should not revise unobligated funds in prior years once it liquidates the funds and reports on them in future fiscal periods.
- ◆ If a state revises an expenditure reported in a prior year which affects the amount of federal unliquidated obligations, then it should revise the report.

Condition: Contrary to instructions for federal reporting, federal reports included expenditures which were incurred by the state after the reporting period ended.

Questioned Costs: None identified.

Context: We reviewed two of the eight ACF-196R reports required for the TANF program during the audit period. This was not a statistically valid sample. In the revised report submitted for the period ended September 30, 2018, which was revised in December 2018, we noted the department included expenditures which were not incurred by the state until after the reporting period had ended. Specifically, we noted total federal expenditures for the 2017 grant were over-stated by \$2.2 million on the September 2018 report because the department had included costs incurred through December 2018.

Regarding the additional amounts reported by the department, because the costs were not incurred by the state until after September 30th, there is no impact on unliquidated obligations. Therefore, costs

incurred after September 30th should not be included on the report for the period ended September 30, 2018. Instead, these costs should be included on the appropriate federal award report for the federal fiscal year ending September 30, 2019.

Effect: The department has misrepresented federal expenditure activity in its reports to the federal government.

Cause: The department intentionally included adjustments in its September 30, 2018, federal report for costs incurred by the state after September 30, 2018.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Include only current cumulative expenditures in its federal Temporary Assistance for Needy Families reports.
- B. Develop and implement internal controls to ensure only expenditures incurred during the reporting period are included on federal Temporary Assistance for Needy Families reports.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-015: U.S. Department of Health and Human Services
 CFDA #93.558, TANF Cluster
 Grant #: 1701MTTANF, 1801MTTANF, 1901MTTANF

CFDA #93.658, Foster Care–Title IV-E
 Grants #1701MTFOST, 1801MTFOST, 1901MTFOST

Criteria: Federal regulation, 2 CFR 200.317, requires the state to follow the same policies and procedures used for non-federal funds when procuring property and services under a federal award.

Federal regulation, 45 CFR 75.329, further specifies the type of procurement methods the Department of Public Health and Human Services (department) must follow for its public welfare programs.

Federal regulation, 2 CFR 200.88, requires a competitive process for all procurements in excess of \$150,000.

The department is delegated certain purchasing authority from the Department of Administration's Procurement Bureau. Under the delegation agreement, the department may use the following purchasing methods:

- ◆ Small Purchases – for total contract value of \$5,000 or less, the department may choose a purchasing technique that best meets its needs.
- ◆ Limited Solicitations – for total contract value between \$5,001 and \$25,000, the department must obtain and document prices from a minimum of three viable sources.
- ◆ Formal Competition – for total contract value between \$25,001 and \$200,000, the department must use either an invitation for bid or request for proposal process.
- ◆ Sole Source – for total contract value up to \$200,000, the department determines whether a purchase qualifies as sole source.

Condition: Contrary to state procurement policies and federal regulations, the department continues to make payments to vendors for services without having a contract in place.

Questioned Costs: We question \$805,539 in costs for the Temporary Assistance for Needy Families (TANF) program for the audit period.

Context: The department can use a portion of its federal TANF funds to pay costs associated with children in Foster Care. During the audit period, the department did not follow federal regulations and state procurement policies when incurring over \$6 million in total costs from all funding sources for nonmedical services for the Foster Care program. Our review was limited to service costs for one-on-one supervision of youth, chemical dependency evaluations, urine analyses, and support services for a child placed in the Foster Care program. This was not a statistically valid sample. Our prior audit determined these services did not meet the statutory exemption in state law for services from health care providers because these services are not provided by health care providers. We identified four vendors whose total annual payments exceeded the department's delegation agreement level of \$200,000, which requires approval from the Department of Administration. For these four vendors, the total annual payments exceeded the \$150,000 federal threshold which requires a competitive procurement process.

Repeat Finding: Montana's prior Single Audit report for the two fiscal years ended June 30, 2017, included a recommendation (#2017-024) that the department comply with state laws and federal regulations by following state procurement policies to obtain services for the TANF and Foster Care programs. The department disagreed with our recommendation as they believe the services in question are exempt from procurement requirements based on state statute. The federal Administration for Children and Families sustained the finding and recommendation, but did not pursue a monetary penalty against the department.

Effect: By not following applicable procurement procedures, payments to these vendors are not an allowable use of TANF funds.

Cause: The department believes the exclusions in law for medical services (section 18-4-132, Montana Code Annotated) apply to these services.

Recommendation: We recommend the Department of Public Health and Human Services comply with state law and federal regulations by following state procurement policies to obtain services for one-on-one supervision of youth, chemical dependency evaluations, urine analyses, and support serviced for a child placed in the Foster Care program using Temporary Assistance for Needy Families funds.

Views of Responsible Officials: The department does not concur with this finding, citing it complies with state procurement policies and federal regulations. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's nonconurrence with this finding. The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-016: U.S. Department of Health and Human Services
 CFDA #93.658, Foster Care – Title IV-E
 Grants #1701MTFOST, 1801MTFOST, 1901MTFOST

Criteria: Federal regulation, 2 CFR 200.331 (a), requires the subrecipient be informed of the federal award information. Required disclosures include, but are not limited to:

- ◆ The federal award identification number,
- ◆ Amount of federal fund obligated to the subrecipient,
- ◆ Applicable indirect cost rates for the federal award,
- ◆ CFDA title and number,
- ◆ Federal awarding agency,
- ◆ Award name and number,
- ◆ Award year,
- ◆ Permission for department officials and auditors to have access to the subrecipient's records, and
- ◆ Terms and conditions concerning the closeout of the subaward.

Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition: Department procedures did not detect omissions from subrecipient agreements, and the department did not include the required subrecipient disclosures in newly signed subrecipient agreements with the state's tribal organizations for the Foster Care program.

Questioned Costs: No questioned costs identified.

Context: In November 2017, the department signed new agreements with seven tribal organizations. None of these new agreements include the required subrecipient disclosures. In addition, the department's agreements with two colleges/universities which provide services under the Foster Care program are also missing the required subrecipient disclosures.

Repeat Finding: In Montana's Single Audit for the two fiscal years ended June 30, 2015, we recommended (#2015-014) the department properly classify its agreements with the state's tribal organizations as subrecipients, and comply with all federal regulations regarding subrecipients. Because the department had incorrectly classified the tribal organizations as vendors rather than subrecipients, the related agreements with the tribal organizations were missing required subrecipient disclosures. In Montana's Single Audit for the two fiscal years ended June 30, 2017, we concluded the recommendation was partially implemented and made no further recommendation because the department represented it intended to include the subrecipient language in the next tribal agreements which were due in fiscal year 2018.

Effect: The department has not complied with federal regulations regarding required subrecipient disclosures. Additionally, failure to provide subrecipients with the required federal award information increases the risk of subrecipient noncompliance with federal requirements.

Cause: Department staff overlooked the need to include the subrecipient disclosures for the newly signed Foster Care contracts.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls to ensure required subrecipient disclosures are included in Foster Care contract agreements prior to signature.
- B. Ensure the required subrecipient disclosures are included in Foster Care contract agreements, as required by federal regulations.

Views of Responsible Officials:

The department concurs with this recommendation. However, the department indicates recommendations part A and B are redundant. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's concurrence with this finding, and provide the following clarification. Recommendation part A addresses a material weakness in internal control over subrecipient monitoring. Recommendation part B addresses the absence of required subrecipient disclosures in subrecipient agreements, which is noncompliance with federal regulations. We maintain our position as reported.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-017: U.S. Department of Health and Human Services
 CFDA #93.658, Foster Care – Title IV-E
 Grants #1701MTFOST, 1801MTFOST, 1901MTFOST

Criteria: Federal regulation, 2 CFR 200.403 (g), specifies costs must be adequately documented to be allowable under the award.

Federal regulation, 45 CFR 1356.60(b)(2), requires all training activities and costs funded under Title IV-E be included in the Department of Public Health and Human Service’s (department) training plan for Title IV-B.

Regarding training plans for the Foster Care program, federal regulation, 45 CFR 235.63, in part, specifies federal financial participation in costs are available when certain conditions are met. These conditions include, but are not limited to:

- ◆ Grants to educational institutions must be made for the purpose of developing, expanding, or improving training for personnel employed by the state or individuals preparing for employment by the state. Grants are made for an educational program (curriculum development, classroom instruction, field instruction, or any combination of these) that is directly related to the department’s training program.
- ◆ For stipends, persons preparing for employment are selected by the state agency and accepted by the school.

Federal regulation, 45 CFR 235.65, specifically disallows salaries of supervisors from participation in federal match.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department incurred training related costs without obtaining detailed documentation to support the costs were allowable under the federal Foster Care requirements. Additionally, department controls for certain Foster Care payments require strengthening.

Questioned Costs: We estimate questioned costs totaling \$969,176 for the period under audit. Likely questioned costs could exceed \$4 million, the value of college training contracts, if other services

billed by the college do not align with federal program requirements or do not directly benefit the department's Foster Care training program.

Context: The department maintains Foster Care contracts with seven tribes and two colleges/universities (colleges). Foster Care IV-E funds are provided to these entities to either help administer the Foster Care program, provide stipends to college students studying social work, or to provide training to department staff.

We conducted a sample of 17 invoices from a total of 176 transactions totaling \$4.1 million which were submitted by the tribes or the colleges. Our sample was not statistically valid. We identified 15 instances where supporting documentation did not exist or supporting documentation was not detailed enough to determine whether the costs were allowable. Examples for each a college and tribal payment are described below.

- ◆ Support for one college invoice consisted of a printout of monthly expenditures incurred by a college, but there were no supporting receipts or details to indicate what was purchased. The listing also showed payroll costs incurred, but supporting documentation was neither specific as to which employees were paid nor for what purpose. As such, we were unable to determine whether the costs incurred by the college were authorized under the contract and allowable for reimbursement via the Foster Care program.
- ◆ Support for one tribal payment consisted of a standardized billing invoice, which is utilized by all of the tribes, that outlined personnel positions under the contract, the individual salaries including fringe benefits of the personnel, and operating expenditures. Because no other support was provided by the tribe, we could not verify if the expenditures outlined on the invoice actually were incurred.

Of the 17 invoices tested, 8 were transactions related to training costs. Because the invoices did not specify which training task for which the department was being billed, we reviewed the entire contract in comparison to the associated training plan. Our review identified several costs outlined in the contract which were not included in the training plan as well as contract budget items which are specifically disallowed or only permitted under specific circumstances under federal regulations, as summarized in the following table:

Foster Care Contract Items Not Allowed Under Federal Regulations	
Contract Budget Item	Contract Budget Amount
Salaries for Directors/Supervisors	\$408,176
Stipends (basic living allowance paid to a student)	\$561,000
Total	\$969,176

Salaries for directors and supervisors are allowed at 50% of the associated costs if certain conditions are met. We noted in our review of both the contract budgets and associated payments that federal monies were the only source of funding planned and spent on these activities. For stipends, the department inappropriately delegated selection of stipend recipients to the college. Additionally, department

management claims department staff actively participated in the selection process for stipend recipients. However, the department did not provide evidence to support this claim. As such, the costs associated with salaries and stipends are not allowable under federal regulations.

Effect: Without adequate supporting documentation, the department is unable to demonstrate compliance with internal control requirements in federal regulation. Additionally, for payments which lack adequate support, the department incurred costs for unallowable activities under the federal award.

Cause: For tribal subrecipient payments, the department believes the documentation it maintains is sufficient. Billing forms submitted to the department contain summarized information for wages, benefits, travel costs, and other administrative cost categories. We did not observe evidence where additional supporting documentation other than the billing form was obtained. Department staff indicate they do not review supporting documentation when performing site visits for the tribes. Additionally, the department contends its contract with colleges include directives on appropriate accounting and billing practices, as well as language which would allow for the acquisition of additional information if there is a billing question. However, during the audit period the department did not request such clarifying information to ensure the underlying activity was for allowed activities related to its training program.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Reimburse colleges and tribes only for activities allowed by federal regulation for the Foster Care program.
- B. Design and implement internal control to ensure detailed support for college and tribal invoices is obtained, reviewed, and approved prior to payment.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-018: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care – Title IV-E
Grants #1701MTFOST, 1801MTFOST, 1901MTFOST

Criteria: Instructions for completion of the CB-496 report indicate the Federal Share of Child Support Collections includes child support collections on behalf of Title IV-E eligible children on whose behalf maintenance assistance payments have been reported in either Part 1 or Part 3 of the CB-496 report.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department lacks internal control to ensure all required information is included in Foster Care CB-496 reports, which resulted in incomplete and inaccurate reports submitted during the audit period.

Questioned Costs: None identified.

Context: Child support recoveries are required to be included in Line 1 of the CB-496 Foster Care reports. This information was not included in 4 out of 8 reports submitted for the period under audit.

Effect: The department is unable to demonstrate compliance with internal control requirements in federal regulation. Additionally, without adequate internal control, the department submitted and continues to risk submitting incorrect and incomplete information in its Foster Care reports.

Cause: Due to a change in the procedures document, internal control procedures did not direct department staff to include child support collections in Line 1 of the CB-496 report. Additionally, department staff indicate child support recoveries are less than \$20,000 per quarter, and as such the variance between quarters was not significant enough to trigger additional follow-up prior to report submission.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Design and implement internal control to ensure child support recoveries are properly reported on its Foster Care CB-496 reports.
- B. Submit complete and accurate information in its Foster Care CB-496 reports.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-019: U.S. Department of Health and Human Services
CFDA # 93.575 and 93.596, CCDF Cluster
Grant #: 2017G996005, 2018G996005, 2019G996005, 2017G999004,
2018G999004, 2019G999004, 2017G999005, 2018G999005, 2019G999005

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulation, 45 CFR 98.60, requires Discretionary Funds to be obligated by the end of the 2nd fiscal year after the award, Mandatory Funds to be obligated by the end of the fiscal year in which the funds are granted (when Matching Funds are received), and both the Federal and non-Federal share of Matching Funds to be obligated in the fiscal year in which the funds are granted.

Federal regulation, 45 CFR 98.55(3), requires all Mandatory Funds for states to be obligated by the end of the fiscal year in which they are awarded prior to receiving Federal Matching Funds. This section also indicates federal matching funds are available for expenditures based on a formula, for allowable activities as described in the approved state plan.

Obligation is defined by federal regulation, 45 CFR 75.2, as orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period. Federal regulation, 45 CFR 98.6, does allow for obligations of funds occurring upon entering into agreement through a subgrant with the third party issuing certificates to a family.

Condition: The department does not have internal controls in place to ensure CCDF funds are obligated as required by federal regulations, and complete evidence of such obligation has not been provided by the department. As such, we can only conclude the department has not obligated its Mandatory or Discretionary Funds. Additionally, because the department has not obligated its Mandatory Funds, it is not eligible to receive federal Matching Funds.

Questioned Costs: We question Matching Funds received by the department totaling \$9,158,195. We also question unobligated Mandatory Funds of \$3,166,460.

Context: In both fiscal years under audit, the department received a Matching Fund grant for CCDF. The department must obligate its Mandatory Funds prior to being eligible to receive Matching Funds.

Under the CCDF program, the department contracts with entities around the state who evaluate needs and authorize certificates to families for reduced cost child care. In relation to these contracts, we requested support to confirm the Mandatory and Matching funds were obligated by the end of the fiscal year they were granted, as required by federal regulations. The department responded they obligate the Mandatory Funds through their certificate plans using historical data and projections based on caseload. Federal regulations allow for an obligation to occur when there is a contract with a third-party for determining eligibility and issuing child care certificates. While the department provided a chart to demonstrate expenditures tracking, the tracking mechanism lacked detail by individual federal grant award or by types of expenditure such as certificates or grant payments. As such, we have no evidence to confirm full obligation of each federal grant award occurred within the required time frame.

Effect: The department is not in compliance with federal regulations.

Cause: When we communicated a control issue related to period of performance, the department provided other controls related to the federal program but did not explain controls related to the period of performance by each funding type. The department noted they estimate obligations based on historical data and project based on caseload to determine and report obligation. Documentation provided by the department lacked sufficient detail to demonstrate compliance.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Develop internal controls to document the obligation of all funding types for the Child Care Development Fund federal award.
- B. Ensure obligation for Mandatory, Discretionary, and Matching funds for federal Child Care Development Fund awards occurs within the timelines required in federal regulation.

Views of Responsible Officials: The department does not concur with this finding. The department contends the obligation of child care funds are supported by documented historical data which, “informs completion of the ACF 696 obligations.” The department further indicates if the ACF 696 report had not been done correctly, the federal matching funds could not have been released. For additional information regarding the department’s planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department’s nonconurrence with this finding. The department’s views do not contain any information not already considered during the audit. As described in the finding, the historical data provided by the department lacked sufficient detail to demonstrate compliance with the federal compliance requirements. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-020: U.S. Department of Health and Human Services
CFDA # 93.575 and 93.596, CCDF Cluster
Grant # 2017G996005, 2018G996005, 2019G996005, 2017G999004,
2018G999004, 2019G999004, 2017G999005, 2018G999005, 2019G999005

Criteria: Federal regulation, 45 CFR 98.41, requires the Department of Public Health and Human Services (department) to ensure child care providers serving children who receive subsidies meet ten specific health and safety requirements, such as prevention and control of infectious diseases, prevention of sudden infant death syndrome and use of safe sleeping practices, and building and physical premises safety.

Federal regulation, 2 CFR 200.303, states that the department must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition: The department's internal control did not ensure federally required elements were included in its health and safety inspections of day-care facilities which resulted in noncompliance with federal regulations.

Questioned Costs: No questioned costs identified.

Context: Beginning February 28, 2018, the date of the department's extension provided by the federal government, ten health and safety requirements required for child care providers receiving subsidies became effective.

The department completes inspections of day-care facilities using a "Key Indicator Summary" or KIS for lower risk facilities. During the audit, we tested health and safety elements items against the KIS inspection template, because the KIS inspections include the least amount of testing by the department, they are therefore the riskiest in terms of not having all the required elements. Most of the health and safety elements were not being tested by the department via the KIS inspections during fiscal year 2018. Some, but not all, missing elements were incorporated to the KIS in fiscal year 2019. See the summary in the table below.

Required Health and Safety Standard	Required Elements Included on Monitoring Form or Desk Review	Audit Observations for Items Omitted
Prevention and control of infectious diseases (including immunization)	Partially included on Monitoring Form	State rules do not allow a grace period for homelessness or for children in Foster Care, as required by federal regulation
Prevention of sudden infant death syndrome and use of safe sleeping practices	Included in Desk Review	For four months of the audit period, the department did not test all required safe sleeping elements
Administration of medication consistent with standards for parental consent	Yes	
Prevention of and response to emergencies due to food and allergic reactions	Partially included on Monitoring Form	The requirement for facilities to have a plan for preventing and responding to food and allergic reaction emergencies is missing from the monitoring form
Building and physical premises safety	Yes	Electrical hazards are omitted from the monitoring tool for four months of the audit period
Prevention of shaken baby syndrome and abusive head trauma	Included in Desk Review	Trainings have not been added to the monitoring tool for fiscal year 2019
Emergency preparedness and response planning for emergencies	No	State policy was added during the audit period, but emergency plans are missing from the monitoring tool
Handling and storage of hazardous materials and appropriate disposal of bio contaminants	Partially included on Monitoring Form	State policy was added during the audit period, but handling and storage of hazardous materials and disposal of bio contaminants are missing from the monitoring tool
Precautions in transporting children	Yes	
First aid and cardiopulmonary resuscitation	Included in Desk Review	Documentation of training is not included on the monitoring form.

Effect: The department is not in compliance with federal regulations.

Cause: Department staff indicate they do not update the monitoring form each year. Additionally, department staff said they overlooked certain elements of the health and safety requirements because the department previously required the emergency plan and fire drill record be submitted and therefore not included in the checklist.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Ensure all health and safety standards are considered in its reviews of day-care facilities, as required by federal regulation.
- B. Enhance internal control by updating its day-care monitoring form to ensure all health and safety elements are included.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-021: U.S. Department of Health and Human Services
CFDA #93.575, 93.596, CCDF Cluster
Grant #: 2017G996005, 2018G996005, 2019G996005, 2017G999004,
2018G999004, 2019G999004, 2017G999005, 2018G999005, 2019G999005

Criteria: Federal regulation, 45 CFR 98.60, (i), requires the Department of Public Health and Human Services (department) to recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department did not attempt to recover overpayments from recipients in 8 out of 11 cases identified as fraud by the department during the audit period.

Questioned Costs: We identified questioned costs totaling \$20,014.

Context: In response to the prior audit, the department developed an internal control procedure to use a communication form to convey fraudulent overpayment information to Business and Financial Division (BFSD). The communication form was completed for 10 of 11 fraudulent overpayments identified during the audit. However, repayment was only sought for 3 of the 11 fraud cases.

Repeat Findings: Montana's Single Audit for the two fiscal years ended June 30, 2017, included a recommendation (#2017-022) to the department to develop internal control procedures to ensure coordination between Child Care Development Fund (CCDF) program staff and BFSD staff for recovering overpayments resulting from fraud, and to seek timely recovery for all identified fraudulent child care overpayments.

Effect: The department did not comply with the requirements to recover fraudulent overpayments.

Cause: While overpayments were communicated to BFSD, the employee entering cases into the system which tracks overpayments was using an outdated procedure that indicated the cases should be

marked with an indicator which prevents a recovery invoice from being generated.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Develop internal control procedures for the Child Care Development Fund program to confirm letters have been sent and collections initiated when required for fraud cases.
- B. Comply with federal regulations by seeking timely recovery of all identified fraudulent child care overpayments for the Child Care Development Fund program.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-022: U.S. Department of Agriculture

CFDA #10.551 and 10.561, SNAP Cluster

Grant #: 201717S251443, 201818S251443, 201919S251443

U.S. Department of Health and Human Services

CFDA #93.558, TANF Cluster

Grant # 1701MTTANF, 1801MTTANF, 1901MTTANF

CFDA #93.563, Child Support Enforcement

Grants #17504MTCSES, 18504MTCSES, 1901MTCSES, 1704MTCSET,
1804MTCSET, 1904MTCSET

CFDA #93.575 and 93.596, CCDF Cluster

Grants # 2017G996005, 2018G996005, 2019G996005, 2017G999004,
2018G999004, 2019G999004, 2017G999005, 2018G999005, 2019G999005

CFDA #93.658, Foster Care – Title IV-E

Grants #1701MTFOST, 1801MTFOST, 1901MTFOST

CFDA # 93.767, Children's Health Insurance Program (CHIP)

Grant # 1705MT5021, 1705MT0301, 1805MT5R21, 1805MT5021,
1905MT5021

CFDA #93.775, 93.777, and 93.778, Medicaid Cluster

Grants #1705MT5MAP, 1805MT5MAP, 1905MT5MAP, 1705MT5ADM,
1805MT5000, 1805MT5ADM, 1905MT5000, 1905MT5ADM,
1705MTIMPL, 1705MTINCT, 1805MTIMPL, 1805MTINCT,
1905MTIMPL, 1905MTINCT

Criteria: Federal regulation, 2 CFR Appendix VI, in part, requires the state public assistance agency to develop, document, and implement a public assistance cost allocation plan in accordance with federal regulations.

Federal regulation, 2 CFR 200.416, in part, requires there to be a process whereby central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis.

Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Federal regulation, 45 CFR 95.517, specifies the department may claim federal financial participation costs associated with a program only in accordance with its approved cost allocation plan, or, at its option, the department may claim federal financial participation based on a proposed plan or plan amendment if the plan or plan amendment has been submitted to the federal government.

Condition: The department did not follow its federally approved plan to allocate costs among state and federal funding sources. Additionally, department internal controls did not identify these inconsistencies.

In our sample of costs allocated by the department, we noted the following exceptions to compliance with the applicable cost allocation plan:

- ◆ For the *Operations Branch Manager Indirect Cost Pool*, costs should be allocated by full-time equivalent (FTE) staff who are directly supervised by the Operations Services Branch Manager. We tested the November 2018 and December 2018 allocations, and noted in each month the department did not include all FTE which are directly supervised by the branch manager.
- ◆ For the *Financial Technical Analyst Indirect Cost Pool*, the department began using a new allocation method in June 2018, prior to its September 2018 submission to request an amendment to its Cost Allocation Plan.
- ◆ The *Technology Services Division (TSD) Administrator Indirect Cost Pool* is allocated by FTE directly supervised by the TSD Administrator. We reviewed the June 2019 allocation, and noted FTE not supervised by the TSD Administrator were included in the pool. For the September 2017 and July 2018 allocations, costs associated with one FTE were inappropriately excluded from the calculation.
- ◆ Costs associated with the *County Use Allowance Indirect Cost Pool* were allocated beginning in July 2017, but the pool was not included in the department's Cost Allocation Plan until May 2018.
- ◆ The *Reimbursement Travel Indirect Cost Pool* was utilized by the department for at least nine months prior to its inclusion in the department's Cost Allocation Plan in May 2018.
- ◆ The April 2018 allocation for the *Office of the Medicaid and Health Services Branch Manager Indirect Cost Pool* is considered an error because the department used time and effort reporting as its allocation method, rather than FTE directly supervised by the Medicaid and Health Services Branch Manager, as specified in the department's Cost Allocation Plan.

Questioned Costs: We limited our questioned costs to federal programs with indirect cost activity exceeding or approaching \$25,000 in the *Operations Branch Manager Indirect Cost Pool*, the *Financial Technical Analyst Indirect Cost Pool*, and the *Technology Services Division Administrator Cost Pool*. For the *County Use Allowance Indirect Cost Pool* and the *Reimbursement Travel Indirect Cost Pool*, allocation

changes were made prior to submitting a revised cost allocation plan to the federal government. Department management indicates these new cost pools did not result in changes to how costs were allocated among federal programs. As such, we have excluded these cost pools from our projection of questioned costs.

We question \$48,960 for the TANF Cluster, \$67,509 for the Child Support Enforcement program, \$24,413 for Foster Care – Title IV-E, \$373,551 for the Medicaid Cluster, \$109,909 for the CCDF Cluster, \$70,571 for the SNAP Cluster, and \$29,745 for CHIP. Questioned costs total \$724,658 for fiscal years 2018 and 2019 combined.

Based on the number of discrepancies between the approved cost allocation plan and the department's allocation of indirect costs, additional discrepancies not identified in our sample likely exist. These likely additional discrepancies could include additional unallowable costs and could potentially impact all programs administered by the department.

Context: Our prior audit report contained a recommendation to the department regarding the internal controls over and administration of its cost allocation plan.

Through the cost allocation process, the department allocated \$66.5 million and \$80.6 million in costs to various federal programs in fiscal years 2018 and 2019, respectively.

During the period under audit, the department allocated costs under three different cost allocation plans. Monthly, there are approximately 140 cost pools for which the department allocates costs. We conducted a sample of 56 cost pool allocations. This was not a statistically valid sample.

Repeat Finding: Montana's Single Audit report for the two fiscal years ended June 30, 2017, included a recommendation (#2017-014) to the department regarding the internal controls over and administration of its cost allocation plan.

Effect: The department is not in compliance with its federally approved cost allocation plan.

Cause: Department staff indicate human error or oversight, controls insufficient to detect variances in cost pools with an FTE based statistic, and costs associated with multiple staff being charged to a single task profile code as reasons for the allocation errors. One error identified by our audit was also identified by the department and corrected going forward when a new internal control process was implemented in May 2018. Department staff also indicate costs were claimed anticipating a back-dated approval, as requested, for the *Financial Technical Analyst Indirect Cost Pool*.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Conduct and document a review of all cost pools to ensure department procedures align with the approved cost allocation plan.

- B. Implement changes to the cost allocation process only after receiving approval from, or submitting a plan revision to, the federal government.
- C. Develop and implement internal control to detect variances in cost pools based on a full-time equivalent staff statistic.
- D. Allocate costs as specified in the cost allocation pool, as required by federal regulations.

Views of Responsible Officials: The department partially concurs with this finding because it does not agree with the underlying findings related to two cost pools. The department's Corrective Action Plan, beginning on page D-1, further indicates the department only implements changes to the cost allocation process after submitting plan revisions to the federal government, yet further cites it is not always feasible to submit or receive approval for cost allocation plans prior to claiming costs related to modified or amended cost pools.

Rebuttal of Views of Responsible Officials: We have reviewed the department's partial concurrence with this finding. As outlined in the finding, the department did in fact implement changes to its cost allocation process prior to submitting plan revisions to the federal government. The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-023: U.S. Department of Health and Human Services
CFDA #93.568, Low-Income Home Energy Assistance Program
Grant # 17B1MTLIEA, 18B1MTLIEA, 19B1MTLIEA, 1701MTLIEA4,
1801MTLIEA4, 1901MTLIEA4

Criteria: Federal regulation, 31 CFR 205.33, requires the Department of Public Health and Human Services (department) minimize the time between the drawdown of federal funds and their disbursement for federal program purposes. The timing and amount of funds transferred must be as close as administratively feasible to the department's cash outlay for direct and indirect program costs.

Federal regulation, 31 CFR Part 205, which implements the Cash Management Improvement Act of 1990, requires the State to enter into agreements Treasury State Agreements (TSA). The state's TSA specifies warrants related to the Low-Income Home Energy Assistance program are on a 5 day clearance pattern.

Federal regulation, 2 CFR 200.303, states that the department must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition: The department has not conducted cash draws for the Low-Income Home Energy Assistance Program (LIHEAP) in accordance with the federal agreement. Additionally, department procedures were not sufficient to achieve compliance with the TSA.

Questioned Costs: None identified.

Context: For at least 18 months of the current audit period, we noted the department systemically recorded LIHEAP expenditures on a tracking spreadsheet the day after the costs were incurred, which caused the department to draw cash following a six-day clearance pattern for warrants. Total federal draws related to warrants were approximately \$3 million for each year of the audit period.

Repeat Findings: Montana's Single Audit for the two fiscal years ended June 30, 2017, noted the department used a four-day clearance pattern for LIHEAP warrants rather than the five-day clearance pattern specified in the TSA (#2017-015).

Effect: The department is unable to demonstrate compliance with cash management requirements in federal regulation. Although the department has not drawn funds in advance of the timing permitted by the TSA for the current audit period, the five-day clearance pattern is considered revenue neutral and remains the requirements under the TSA.

Cause: Staff responsible for LIHEAP cash draws misunderstood department procedures and recorded expenditures in a way that delayed the federal draw by one day.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Develop internal review processes to ensure staff apply the clearance pattern approved in the Treasury State Agreement for Low-Income Home Energy Assistance program cash draws.
- B. Comply with the requirements of the Treasury State Agreement by drawing federal funds for Low-Income Home Energy Assistance program warrants on a five-day clearance pattern.

Views of Responsible Officials: The department does not concur with this finding, and indicates the clearance pattern error was identified by the department's control process as designed, the internal draw spreadsheet was corrected, and the draw rectified. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have considered the department's nonconurrence to the finding. As reported in the finding, for at least 18 months of the audit period the department systemically recorded program expenditures to the tracking spreadsheet incorrectly. This resulted in following a clearance pattern contrary to the clearance pattern specified in the TSA. Such long-term noncompliance cannot be corrected by retroactively modifying the tracking spreadsheet. Additionally, if the department's control process detected the clearance pattern error after 18 months, we do not consider it to be timely. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-024: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants
and Children (WIC)
Grant #: 201818W100643, 201818W500343, 201818W100343,
201817W541243, 201818Y860743, 201818Y860443, 10919W100643,
201918W100643, 201919W500343, 201919W100343, 201918W100343,
201919Y860743, 201919Y860443

U.S. Department of Health and Human Services
CFDA #93.563, Child Support Enforcement (CSE)
Grant #: 17504MTCSES, 18504MTCSES, 19504MTCSES, 1704MTCSET,
1804MTCSET, 1904MTCSET

Criteria: Federal regulation, 31 CFR 205.33, requires the Department of Public Health and Human Services (department) minimize the time between the drawdown of federal funds and their disbursement for federal program purposes. The timing and amount of funds transferred must be as close as administratively feasible to the department's cash outlay for direct and indirect program costs.

Federal regulation, 2 CFR 200.303, states that the department must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition: Contrary to federal regulations, the department carried excess cash during the audit period for multiple federal programs. Additionally, department controls were not sufficient to prevent such instances of excess cash.

Questioned Costs: No questioned costs identified.

Context: We analyzed cash balances for the department's WIC and CSE programs for the period under audit and noted significant time periods when the department carried excess federal cash.

For the WIC program, we noted 10 instances of excess federal cash for time periods spanning between 2 and 19 days. The balance of excess WIC cash ranged from \$1,000 to \$360,000. These instances of excess cash are not related to monthly rebates received for the WIC program, as the department appropriately ceases federal cash draws until the program rebates have been used.

For the CSE program, the department draws federal funds for the program, and also receives non-federal cash collections. The non-federal cash collections are mainly comprised of child support payments from the absent parent, which are supposed to be sent to the custodial parent within two days. During the audit, we noted nearly 50 instances of excess federal cash. Excess cash ranged from \$1,000 to \$525,000, and the overage often lasted for more than a week.

Effect: The department is unable to demonstrate compliance with cash management requirements in federal regulation.

Cause: Department staff claim most of the instances of WIC excess cash in question were times when extra cash was drawn in anticipation of a federal government shutdown. However, absent express permission from the federal government, the department is not permitted to draw in advance for the WIC program.

Department staff indicated the non-federal cash collections from the previous day are considered in its calculation of the CSE federal draw. However, by the time the federal funds are received, the department generally collects additional non-federal funds, which results in a positive cash balance in the CSE account.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Modify procedures for federal cash draws for the Supplemental Nutrition Program for Women, Infants and Children, to eliminate instances of excess federal cash, as required by federal regulations.
- B. Modify the calculation for federal cash draws for the Child Support Enforcement program to take into consideration anticipated cash collections from non-federal sources, and to eliminate instances of excess federal cash, as required by federal regulations.
- C. Comply with federal regulations to minimize the time between the drawdown of cash for the federal Supplemental Nutrition Program for Women, Infants, and Children and Child Support Enforcement programs and disbursement for federal program purposes.

Views of Responsible Officials: The department partially concurs with this finding, and claims it may not be able to fully estimate cost collections from non-federal sources to completely eliminate excess federal cash. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We have reviewed the department's partial concurrence with this finding. The department notes it, "may not be able to fully estimate collections from non-federal sources to completely eliminate excess cash." As the independent auditor, we are prohibited from directing the department's corrective action. However, we believe the department can explore options to establish a clearance pattern than accommodates the internal control and compliance issues identified in this finding. We maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-025: U.S. Department of Health and Human Services
CFDA # 93.563, Child Support Enforcement
Grant #17504MTCSES, 18504MTCSES, 1901MTCSES, 1704MTCSET,
1804MTCSET, 1904MTCSET

CFDA # 93.658, Foster Care – Title IV-E
Grant #1701MTFOST, 1801MTFOST, 1901MTFOST

CFDA # 93.659, Adoption Assistance
Grant #1701MTADPT, 1801MTADPT, 1901MTADPT

CFDA # 93.767 Children’s Health Insurance Program (CHIP)
Grant # 1705MT5021, 1705MT0301, 1805MT5R21, 1805MT5021,
1905MT5021

CFDA # 93.775, 93.777, 93.778, Medicaid Cluster
Grant # 1705MT5MAP, 1805MT5MAP, 1905MT5MAP

Criteria: Federal regulation, 45 CFR 95.621, requires the Department of Public Health and Human Services (department) to review the Automated Data Processing (ADP) system security of installations involved in the administration of its federal Health and Human Services (HHS) programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personal practices. This requirement is applicable to titles IV-B, IV-D, IV-E, XIX, or XXI of the Social Security Act.

In addition, federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department did not complete the biennial review of ADP systems, as required by federal regulations. Additionally, department internal controls did not ensure APD system reviews were fully documented.

Questioned Costs: None identified.

Context: HHS programs administered by the department include Medicaid, Child Support Enforcement, Foster Care, Adoption Assistance, and the Children's Health Insurance program, which account for over 81 percent of federal program expenditures incurred by the department.

We performed a sample of 14 ADP systems of a population of 27 systems used in administering HHS programs. Of the 14 systems, we identified 2 for which a biennial review was not completed. We identified an additional 2 systems for which the review occurred, but the review was not fully documented. This was not a statistically valid sample.

Repeat Finding: Montana's Single Audit reports for the two fiscal years ended June 30, 2017, and June 30, 2015, have included recommendations (#2017-019 and #2015-012, respectively) to the department regarding the internal controls over, and compliance with, required ADP system reviews.

Effect: The requirements related to ADP system risk analyses and security reviews are to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. Without the required biennial reviews, ADP systems could operate with undetected system inefficiencies and security weaknesses.

Cause: The department cites turnover as a contributing factor to incomplete and untimely reviews, and acknowledges the two system reviews which were not fully documented. However, the department contends the two reviews not conducted were completed after our audit test was conducted and within the biennium, as required by federal regulation. The prior ADP security reviews were completed in March and April 2017, while the subsequent reviews were completed in November 2019. Because more than two years passed since the completion of each of the prior reviews, the department has not complied with the biennial time frame required.

Recommendation: We recommend the Department of Public Health and Human Services establish and maintain internal controls to ensure Automated Data Processing system reviews are completed and fully documented on a biennial basis, as required by federal regulations.

Views of Responsible Officials:

The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-026: U.S. Department of Transportation
CFDA #20.205, 20.219, and 20.224, Highway Planning and Construction
Cluster
Grant #Not Applicable

Criteria: Federal law, 40 USC 3142, requires contractors and subcontractors to pay prevailing wages to laborers and mechanics for work completed under federally funded contracts in excess of \$2,000.

Federal regulation, 29 CFR 5.5, establishes contract language requiring contractors to submit payrolls to the department, along with a statement of compliance that all laborers and mechanics employed on the contract during the payroll period have been paid not less than the applicable wage rates for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

Federal regulation, 29 CFR 5.6, prohibits payment to contractors after construction begins unless there is certification by the contractor that the contractor and its subcontractors have complied with the provisions of 29 CFR 5.5.

In addition, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Montana Department of Transportation's (department) internal controls were not effective in ensuring certified payrolls were received and reviewed for highway construction projects.

Questioned Costs: No questioned costs were identified.

Context: In the prior audit, we determined the department's internal controls did not ensure all payrolls were received prior to issuing payments to contractors. We also identified multiple projects for which the department did not receive all payrolls. In the current audit, we noted the department took steps to address this recommendation, including implementing a new electronic payroll submission module. Per department personnel, the electronic submission module will work with the department's

new project management information system and is designed to flag instances of missing payrolls as exception when contractor pay estimates are generated in the system.

This payroll submission module is intended to be used only on projects let from October 2019 forward, along with a small group of test projects let prior to October 2019. The module was only used on a limited basis during the audit period, and the department does not intend to convert pre-existing projects to the new system.

Based on review of department records, there were approximately 250 projects with construction occurring in fiscal year 2018 or 2019. Only two used the electronic payroll submission module. We also estimate there are a minimum of 45 projects that will have active construction into the next audit period, that will not use the electronic submission module.

Due to the continued control deficiency, and the resulting noncompliance identified in the prior audit, we anticipated noncompliance occurred in the current audit period and designed the nature, timing, and extent of our testing accordingly. Our testing to confirm noncompliance included reviewing payroll submissions for one project from each of the department's five districts, and confirming known or likely noncompliance identified by the department's internal audit function. This was not a statistically valid sample.

Through this testing, we considered a total of 10 projects, and identified 4 with untimely or incomplete payroll submissions.

- ◆ On one project, a subcontractor submitted one payroll late. The payroll was for a week in September 2018 and was not submitted until January 2019.
- ◆ On one project, a subcontractor did not submit certified payrolls until the project was in winter shut-down. The subcontractor performed work from April 2018 through October 2018. Department staff indicated a majority of the payrolls were not submitted until sometime after October 2018.
- ◆ On one project, one subcontractor did not submit any payrolls. The subcontractor performed work intermittently from May 2018 to August 2018 but had not submitted any payrolls as of October 2019.
- ◆ On one project, two subcontractors did not submit payrolls for one week each. Department staff were unaware of the missing payrolls.

Effect: The department is not in compliance with federal regulations requiring the receipt of certified payrolls prior to issuing payments to contractors. There is also a risk the department will not identify instances where contractors or subcontractors do not pay their employees prevailing wages.

Cause: Department staff indicated the timing of the implementation of the electronic submission model was tied to its implementation of a new project management system. The deficiency in internal

controls for which the submission module is designed to address contributed to the department not identifying the missing payrolls identified during the audit period.

Repeat Finding: This is a repeat finding, initially reported as 2017-028 in the Single Audit report for the two fiscal years ended June 30, 2017.

Recommendation: We recommend the Montana Department of Transportation:

- A. Enhance internal controls to ensure all required certified payrolls are received for projects not being managed through the electronic payroll submission module.
- B. Obtain and review certified weekly payrolls from contractors and subcontractors for all active construction projects of the Highway Planning and Construction Program.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-027: U.S. Department of Transportation
 CFDA #20.205, 20.219, and 20.224, Highway Planning and Construction
 Cluster
 Grant #Not Applicable

Criteria: Federal law, 23 USC 112(1), requires construction for each project under CFDA #20.205 be performed by contract awarded by competitive bidding.

Federal regulation, 23 CFR 635.109, requires standard contract language be incorporated into each construction contract related to significant changes to the character of the work, and contains standard contract language defining a significant change as occurring when one or more of the following circumstances occurs:

- ◆ The character of the work differs materially in kind or nature from that involved or included in the original proposed construction.
- ◆ A major item of work, as defined in the contract, is increased or decreased in excess of 25 percent of the original quantity in the contract.

This regulation also requires an adjustment be made to the contract when a significant change has occurred.

Federal regulation, 2 CFR 200.403(a) and (g), requires that except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal Awards:

- ◆ Be necessary and reasonable for the performance of the Federal award
- ◆ Be adequately documented

Condition: For projects with quantity overruns in excess of 25 percent on major items of work, the Montana Department of Transportation's (department) documentation included in project files did not contain information to justify the reasonableness and necessity of quantity overruns and their associated costs.

Questioned Costs: We question approximately \$36,000 of direct, and approximately \$4,000 of associated indirect, costs inappropriately charged to CFDA #20.205 in state fiscal years 2018 and 2019. Additional questioned costs likely exist.

Context: In our prior audit, we determined the department did not always formally document adjustments to contracts when major items of work had quantity overruns in excess of 25 percent (or 125 percent of the initial quantity estimates). We also noted the department's contract language associated with significant changes in the character of work was more restrictive than the language required by federal regulations. The contract language, as contained in the Standard Specifications for Road and Bridgework (spec book), also included quantity overruns and underruns in excess of 50 percent on nonmajor items of work within the definition of a significant change. We made a recommendation to the department to issue contract amendments for changes in contract quantities that were considered significant under the spec book and federal regulation, and to consider updating the definition of a significant change in the spec book to more closely align with federal regulation and actual business practices.

As part of their work to resolve the prior audit finding, Federal Highway Administration (FHWA) personnel and the department came to an agreement that quantity overruns in excess of 25 percent on major items of work would be in the form of change orders. In April 2019, the department updated established guidance for change orders to reflect agreement with FHWA. The department also worked with FHWA personnel and other interested parties to modify the spec book language regarding significant changes to more closely align with federal regulations. This new language was applicable for projects let after April 2019.

While the department began to take steps to address the recommendation in the current audit period, we also noted instances where the department did not issue change orders when major items of work had quantity overruns in excess of 25 percent. The documentation department personnel included in the project files to support not issuing a change order for the overruns did not contain information to justify the reasonableness and necessity of quantity overruns and their associated costs. This documentation was similar in form and general content to what was on file in the prior audit, which FHWA personnel indicated they did not consider to be sufficient to document the adjustment to the contract required by federal regulations to support federal participation in the costs.

From department data, we performed an analysis on projects with change order overrides in the department's project management system. We selected three projects each having one major item of work with actual quantity overruns in excess of 25 percent. This was not a statistically valid sample. Based on our review, we estimate the amounts paid for actual quantities in excess of 125 percent of the contracted quantities to be approximately \$200, \$12,000, and \$28,000 for these three instances of quantity overruns. We estimate the federal share of these costs to be approximately \$36,000.

Effect: The department has not adequately documented the necessity and reasonableness of the additional costs incurred for projects, resulting in questioned costs.

Cause: As noted in the prior Single Audit finding, department management indicated they did not believe all quantity changes in excess of 25 percent resulted in actual significant changes in the kind or

nature of work being performed. It took several months for the department and FHWA to determine the corrective action for the prior audit finding, and for the department to work with the contracting community to implement the resulting changes.

Repeat Finding: This is a repeat finding, initially reported as 2017-027 in the Single Audit report for the two fiscal years ended June 30, 2017.

Recommendation: We recommend the Montana Department of Transportation continue to implement the directive of the Montana Division of the Federal Highway Administration to formally document adjustments to contracts through change orders when major items of work have quantity overruns in excess of 25 percent.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-028: U.S. Department of Homeland Security

CFDA #97.042, Emergency Management Performance Grants

Grant # EMW-2015-EP-00004, EMD-2016-EP-00002, EMD-2017-EP-00003,
EMD-2018-EP-00005

#97.067, Homeland Security Grant Program

Grant # EMW-2014-SS-00019, EMW-2015-SS-00005, EMW-2016-SS-00006,
EMW-2017-SS-00009, EMW-2018-SS-00021

#97.039, Hazard Mitigation Grant

Grant # 1996DRMTP00000005, 4127DRMTP00000005,
4172DRMTP00000005, 4198DRMTP00000001, 4275DRMTP00000005,
4271DRMTP00000005

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Military Affairs (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with statutes, regulations, and the terms and conditions of the federal award.

Federal regulations, 2 CFR 200.53 and 2 CFR 200.403, further state that improper payments include any payments where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper and in order for costs to be allowable they must be adequately documented, respectively.

Condition: The department's internal control procedures do not address the amount and detail of supporting documentation required for each grant reimbursement. As a result, the department's supporting documentation did not contain enough detail to determine whether the expenditure reimbursements provided to the subrecipients were allowable under the grant. Additionally, department procedures did not prompt department personnel to request additional support.

Questioned Costs: We question \$27,580 and \$54,027 in grant reimbursement costs charged to CFDA #97.042, with potential questioned costs up to \$1,416,431 and \$994,388 in fiscal years 2017 and 2018, respectively. We question \$48 and \$627 in grant reimbursement costs charged to CFDA #97.067, with potential questioned costs up to \$1,724,741 and \$1,748,706 in fiscal years 2017 and 2018, respectively.

We question \$33,000 in grant reimbursement costs charged to CFDA #97.039 in fiscal year 2017, with potential questioned costs up to \$556,072 and \$717,593 in fiscal years 2017 and 2018, respectively. We did not perform testing for fiscal year 2019. However, questioned costs are likely to exceed \$25,000 for each of the three programs for fiscal year 2019 because, as indicated in the department's response from September 2019 included below, the department is unable to change its process to address the issue.

Context: The department issued payments totaling approximately \$7.5 million and \$7.0 million in fiscal years 2017 and 2018, respectively. In a total population of 714 items, we selected a sample of 78 payments. This was a statistically valid sample. However, we only sampled 46 payments because we stopped testing after finding 16 errors. Our sample identified five instances where the amount of the reimbursement was unsupported by subrecipient documents and 16 instances where the expenditures were unallowable under the grant award due to inadequate documentation. We did not perform testing for fiscal year 2019.

Repeat Finding: This is a repeat finding, initially reported as 2017-011 in Montana's Single Audit report for the two fiscal years ended June 30, 2017.

Effect: Because the department does not have adequate internal controls in place over the DES grant reimbursement process, they are reimbursing subrecipients for unsupported and unallowable costs.

Cause: Department staff responsible for reviewing and approving reimbursement requests stated they believe their internal control processes are adequate because they have multiple levels of oversight for the reimbursements. Additionally, department staff noted two on-site monitoring visits are conducted for each subrecipient each year, for each grant.

Recommendation: We recommend the Department of Military Affairs implement internal controls in the Disaster & Emergency Services Division to ensure subrecipient reimbursements are supported and allowable under the grant awards at the time the reimbursement is made.

Views of Responsible Officials: The department conditionally concurred with the finding. They stated, "MT DES and the Department of Military Affairs strongly support internal controls and grant management oversight. The department is willing to improve internal controls for preparedness grants but is unable to develop additional measures without knowing what specific concern to address and what adequate control measures will pass future state audits. The audit does not provide specific examples of instances where unallowable expenditures were reimbursed."

Rebuttal of Views of Responsible Officials: We considered the department's conditionally concurring response to the finding. The response notes the department "...is unable to develop additional measures without knowing what specific concern to address..." and "...the audit does not provide specific examples of instances where unallowable expenditures were reimbursed." As outlined

in the finding, the documents the department received and reviewed did not demonstrate that the expenditures the department ultimately paid were allowable under the program. The department's response further states the department "...is unable to develop additional measures without knowing... what adequate control measures will pass future state audits." As the independent auditor, we are prohibited from directing the department's corrective action. We believe we provided sufficient information in this report and through conversations throughout the audit process to enable the department to independently complete a corrective action to address the underlying issue.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-029: U.S. Department of Defense

CFDA #12.401 National Guard Military Operations and Maintenance (O&M)
 Grant # W9124V-16-2-1001, W9124V-18-2-1001

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Military Affairs (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 2 CFR 200.403(g), requires costs to be adequately documented in order to be allowable.

The Office of Management and Budget 2018 and 2019 Compliance Supplement, 4-12.401-6, also states that the recipient's required matching percentage varies by Appendix and is listed in the Funding Limitation section of each Master Cooperative Agreement (MCA) Appendix. The National Guard Bureau (NGB) share of all authorized charges, unless expressly stated elsewhere in the Appendix, is based on the Facilities Inventory and Support Plan (FISP) support code for the facility generating the expenditure.

Appendix 1001 to the MCA provides support to the department for the operation and maintenance of authorized facilities coded on the FISP, and guidance prescribed in National Guard Regulation (NGR) 420-10. This appendix provides 3 different funding supports.

1. 100% federal funding for certain expenses for operating and maintaining facilities,
2. 75% federal funding of certain expenses for operating and maintaining licensed readiness centers.
3. 50% federal funding of certain expenses for operating and maintaining state-owned readiness centers.

Condition: The expenses for buildings that share state and federal use were split based on square footage of the use of the building and then split according to the FISP. However, there is no support for how these funding splits for square footage use was created. Department management stated they could recreate the documentation of the split calculation from underlying information contained on their computer system. We performed additional audit procedures over the recreated support and found it did not match the split used during the audit period for six of the buildings. Based on current usage, the funding splits are incorrect, which resulted in an understatement of the federal share.

Questioned Costs: The state share is overstated and the federal share is understated, therefore there are no questioned costs.

Context: We tested two samples of operations and maintenance transactions which covered July 1, 2017, through December 31, 2018. One of the samples was statistically valid and the other was not. In total, we tested 42 transactions and found 12 instances where the match rate was incorrect.

Additional testing over program expenditures was completed for the remainder of the audit period, January 1, 2019, through June 30, 2019. However, we did not include matching in our additional testing, given our previous testing indicated this was a systemic problem and because we knew the department had not made any changes to the splits through June 30, 2019.

Effect: Results of testing indicate there is non-compliance with the matching requirement for the entire audit period. For fiscal year 2018, we estimate the federal government was under charged \$48,629. For fiscal year 2019, our testing estimate the federal government was under charged \$48,382.

Cause: The match percentages based on square footage were determined prior to 2006 and documentation for the calculations could not be located by department officials. Additionally, since 2006, construction had been completed on a number of facilities that resulted in changes in allocations.

Recommendation: We recommend the Department of Military Affairs:

- A. Comply with federal requirements to match the percentages as required by the Funding Limitation section of each Master Cooperative Agreement Appendix and the Facilities Inventory and Support Plan.
- B. Establish internal controls to ensure the basis of the splits is supported.

Views of Responsible Officials: The department concurs with the recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-030: U.S. Department of Education
 CFDA #84.287, Twenty-First Century Community Learning Centers
 Grant # S287C180026, S287C190026

Criteria: Federal regulation, 2 CFR 200.303, requires the Office of Public Instruction (office) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with statutes, regulations, and the terms and conditions of the federal award.

Condition: The office administers the 21st Century Community Learning Centers (21st CCLC) federal program. The 21st CCLC program provides 5-year subawards to subrecipients around the state to operate centers to provide students with academic enrichment opportunities during non-school hours or periods when school is not in session to complement the students' regular academic program, including tutoring and mentoring, homework help, hands-on science and technology education programs, music, arts, sports and cultural activities.

When a subrecipient wants payment for this program, they submit a cash request via the office's E-Grants system. This can happen as often as monthly; although many subrecipients only do it a few times a year depending on cash needs. The cash request contains the budget categories, budgeted amounts, amounts previously requested, and current amounts requested. The subrecipient enters the amounts requested and provides details of what the requests are for in a description for each budget category. These descriptions varied in detail between the different cash requests. There is also a place on the screen for the subrecipient to upload supporting documents. The office does not require any documentation from subrecipients beyond a cash request. This request is reviewed and approved by office fiscal staff. If there are any unusual items included in the request or the fiscal staff has questions, they work with 21st CCLC program staff to resolve them prior to approving the payment. Office staff also perform monitoring visits in the first year of each subrecipient's grant award and at least once in the remaining years (years 2-5).

The office's internal controls are not designed to ensure only allowable costs are charged to the grant. Office staff would only identify potentially unallowable costs during the payment approval process if the subrecipient included descriptions in the expenditure description that was inconsistent with the budget category.

Questioned Costs: No questioned costs identified.

Context: We intended to test a statistically valid sample of 49 payments out of the approximately 960 payments totaling approximately \$10.5 million during the audit period, but based on testing the first four items in the sample, it was clear the support for these payments did not provide enough information to determine whether the amounts requested were for allowable costs under the grant. We instead focused our testing on the office's monitoring process to determine whether any unallowable costs would have been detected by the office.

Office staff perform monitoring visits in the first year of each subrecipient's grant award and at least once in the remaining years (years 2-5). These visits include reviews of financial records and supporting documents. However, this leaves three years of the 5-year grant period without any monitoring beyond the payment request review. If a subrecipient's second monitoring visit does not occur until year five, the office could be paying for unallowable costs for three years before identifying it with a monitoring visit. Combined with the lack of supporting documentation for the payments, this time frame does not allow the office to timely identify if unallowable costs have been paid. Additionally, many of the program subrecipients are nonschool entities that do not receive as much scrutiny and monitoring as schools do.

Effect: Without more robust controls, there is risk that unallowable costs are being paid and would not be detected by office staff.

Cause: The office believes their current process provides them reasonable assurance the funds are expended as required by the federal regulations.

Recommendation: We recommend the Office of Public Instruction enhance their internal controls over the 21st Century Community Learning Centers program payments in order to ensure the expenditures charged are supported.

Views of Responsible Officials: The office partially concurs with the recommendation. For additional information regarding the office's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2019-031: U.S. Department of Education
 CFDA #84.010, Title I Grants to Local Education Agencies
 Grant #S010A180026, S010A190026

Criteria: Federal regulation, 2 CFR 200.303(a), requires the Office of Public Instruction (office) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

The Elementary and Secondary Education Act, Section 1111(b)(2)(B)(iii), requires the office to establish and maintain an assessment system which uses testing to provide data used to measure student achievement. Student testing must be valid, reliable, and consistent with relevant professional and technical standards. In order to ensure the tests are valid and reliable, the office must have policies and procedures in place to ensure local education agencies (LEAs) are maintaining test security.

Condition: In the prior audit, we found the office's procedures for ensuring LEAs are maintaining test security were incomplete. Information regarding test security was distributed to Montana's K-12 schools. However, the office had not yet developed a plan to monitor school level implementation of security procedures. We tested this requirement in the current audit and found the office took steps to address the issue but was unable to fully implement the recommendation during the audit period.

Questioned Costs: No questioned costs identified.

Context: There are six required assessments in Montana: the Smarter Balanced Assessment Test, the ACCESS for ELLS 2.0, the Science Criterion-Referenced Test, the Science Criterion-Referenced Test-Alternate, the Multi-State Alternate Assessment, and the American College Testing (ACT).

During fiscal year 2018, the office maintained its previous test security policy requiring schools to electronically certify they are abiding by the office's policies, but performed no additional on-site monitoring, as it conducted best practices research and developed a new testing security monitoring process. In fiscal year 2019, the office began implementing the new monitoring process. The new process includes obtaining the certifications from the schools and following up on schools without the certifications or with incomplete certifications. The office began following up on the missing or incomplete certifications, but this extended beyond the audit period, meaning there were many schools

who had not implemented the required testing security in fiscal year 2019. The office also performed on-site test monitoring for 34 schools during fiscal year 2019, as required by the new process.

Even though the office developed and implemented the new testing security monitoring process during the audit period, they did not ensure the LEAs were maintaining test security while the new monitoring process was being developed in fiscal year 2018, which is an integral part of ensuring the tests are valid and reliable. This noncompliance extended into fiscal year 2019 because there were 58 schools with missing or incomplete certifications.

Repeat Finding: This is a repeat finding, initially reported as 2017-006 in Montana's Single Audit report for the two fiscal years ended June 30, 2017.

Effect: The office is not in compliance with the federal regulations. State assessments are important in securing federal funding like Title I. They also allow teachers and parents to identify needs for each individual student. Without oversight, there is the possibility of unfair testing or inaccurate data.

Cause: Office staff stated it took time to perform the best practices research and implement a new monitoring process.

Recommendation: We recommend the Office of Public Instruction:

- A. Continue to implement control procedures to monitor Montana's schools' implementation of the assessment security process.
- B. Comply with federal assessment security requirements for the Title I, Grants to Local Education Agencies.

Views of Responsible Officials: The office concurs with the recommendation. For additional information regarding the office's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-032: U.S. Department of Education
 CFDA #84.010, Title I Grants to Local Education Agencies
 Grant #S010A180026, S010A190026

CFDA #84.027, 84.173, Special Education Cluster (IDEA)
 Grant #H027A180096, H027A190096

CFDA #84.287, Twenty-First Century Community Learning Centers
 Grant #S287C180026, S287C190026

U.S. Department of Agriculture
 CFDA #10.553, 10.555, 10.556, and 10.559, Child Nutrition Cluster
 Grant #183MT306N1099, 193MT306N1099

Criteria: Federal regulation, 2 CFR 200.303(a), requires the Office of Public Instruction (office) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 2 CFR 200.331(b), requires the office to evaluate each subrecipient's risk of noncompliance to determine the appropriate monitoring.

Federal regulation, 2 CFR 200.331(d), requires the office to monitor subrecipients' audits, including following up on all deficiencies.

Federal regulation, 2 CFR 200.331(f), requires the office to verify that each subrecipient receives a Single Audit if required.

Federal regulation, 2 CFR 200.521, requires the office to issue management decisions for any deficiencies identified in subrecipients' audit reports within six months of the Federal Audit Clearinghouse's acceptance of the audit report. The regulation also requires these management decisions to contain specific elements.

Condition: The office's controls over subrecipient monitoring are not sufficient to ensure compliance with the federal regulations, as outlined below:

- ◆ Subrecipient Audits: Review of subrecipient audit reports is performed centrally by office staff. The office does not have controls in place to verify its nonschool entity subrecipients receive a Single Audit and that school subrecipient audits are reviewed timely. The nonschool entities are not for profit organizations.
- ◆ Risk Assessments: As part of reviewing subrecipient audit reports, central office staff create a risk assessment for each subrecipient. Program staff for the Title I, Special Education, and Child Nutrition programs rely on this central risk assessment and do not perform their own. Thus, for these programs, the only subrecipients who are assessed for risk are those receiving a Single Audit. A Single Audit is not required for subrecipients expending less than \$750,000 in federal awards each year, but a risk assessment is required for all subrecipients regardless of the amount of federal funds they expend. Office personnel indicated the program managers complete risk assessments in addition to the risk assessments completed by the central office. However, upon request, no documentation supporting this statement was provided by the office.
- ◆ Management Decisions: During design of the audit, office staff stated the letters issued to subrecipients who are put on high risk or watch status as part of the central risk assessment process serve as their management decisions. We reviewed these letters during fieldwork and determined many of the elements were not present. When we communicated this noncompliance, office staff stated audit acceptance letters issued by Local Government Services in the Department of Administration were in fact the management decisions. These letters contain none of the elements required by the federal regulations. In addition, we determined all of the letters the office issued to subrecipients tested in our sample were not issued within 6 months of the subrecipient audit report being accepted by the federal audit clearinghouse.

Questioned Costs: No questioned costs identified.

Context: Of the 413 local education entities receiving federal funds under the Title I, IDEA B, and Child Nutrition programs in fiscal year 2018 and 414 in fiscal year 2019, only 59 are included in the risk assessment for each year. Of the 47 entities awarded 21st CCLC funds in fiscal year 2018 and 29 in fiscal year 2019, 10 were non-school entities in each year.

We intended to review a statistically valid sample of 45 subrecipients out of the population of 827 subrecipients for the audit period for subrecipient monitoring activities. However, as we completed this testing we determined not all subrecipients should have received a management decision and did not complete the full sample for those requirements. Instead, we tested all 11 high-risk and watch letters issued by the office during the audit period. We also tested 6 of the audit acceptance letters issued by Local Government Services.

We also identified two school subrecipients as part of our testing who received a Single Audit report during the audit period, but the office had not reviewed it as of the date of testing, even though our testing occurred months after the audit reports were submitted.

Effect: The office is not in compliance with federal regulations.

Cause: Office staff stated verifying nonschool entities receive a Single Audit has not become a high enough priority to be addressed. Office staff further stated their concept of risk has evolved over the last several years to go beyond just financial risk, but they are having trouble developing a risk assessment process to encompass all risks associated with the subrecipients. Office staff believe they were meeting the intent of the management decision federal regulations through other, less formal interactions with subrecipients.

Recommendation: We recommend the Office of Public Instruction:

- A. Implement internal controls to ensure compliance with federal subrecipient monitoring requirements.
- B. Comply with federal subrecipient monitoring requirements for the Title I, Grants to Local Education Agencies; Individuals with Disabilities Act, Part B; 21st Century Community Learning Centers; and Child Nutrition Cluster programs.

Views of Responsible Officials: The office concurs with the recommendation. For additional information regarding the office's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-033: U.S. Department of Education
CFDA #84.010, Title I Grants to Local Education Agencies
Grant #S010A180026, S010A190026

CFDA #84.027, 84.173, Special Education Cluster (IDEA)
Grant #H027A180096, H027A190096

CFDA #84.287, Twenty-First Century Community Learning Centers
Grant #S287C180026, S287C190026

U.S. Department of Agriculture
CFDA #10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant #183MT306N1099, 193MT306N1099

Criteria: Per 2 CFR 180.300 and .305, participants are required to verify that the person they are doing business with is not excluded or disqualified, and they may not enter into a transaction with an excluded person.

Federal regulation, 2 CFR 200.303, requires the Office of Public Instruction (office) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The office receives many federal awards it then subawards out to various subrecipients. The office performs a monthly check of subrecipients to determine whether any are suspended or debarred. This check is done centrally for all federal programs but was not documented for a portion of the audit period. This check only includes schools, but the office awards funds to nonschool entities in some of its programs.

Questioned Costs: There are no questioned costs.

Context: When we tested the monthly central suspended and debarred check performed by the office for schools, we found no evidence the suspended and debarred status of subrecipients was checked for 8 of the 24 months of the audit period. Six of the 8 months were consecutive, and payments made

during these months constitute approximately 25 percent, or \$63.8 million, of total payments made for the IDEA B, Title I, 21st CCLC, and Child Nutrition programs.

During our audit of the 21st CCLC program, we found the program had 14 nonschool subrecipients during the audit period. The office awarded these nonschool subrecipients approximately \$1,400,000 and \$2,000,000 in fiscal years 2018 and 2019, respectively. These awards comprised approximately 26 percent and 37 percent of the total amount awarded to subrecipients in fiscal years 2018 and 2019, respectively.

Effect: The office cannot demonstrate its compliance with federal regulations requiring that it confirm that the entities it is entering into transactions with are not suspended or debarred. This could result in the office conducting business with a suspended or debarred entity. Our audit testing did not identify any suspended or debarred subrecipients.

Cause: Office staff indicate there was a change in staff completing these checks during the audit period. Office staff could not locate documentation of those checks completed before the change occurred, but represented the checks were performed. Office staff stated the data used in the monthly check includes all entities, but their current process does not provide a listing of nonschool entities for the verification.

Recommendation: We recommend the Office of Public Instruction strengthen internal controls related to checking suspended and debarred status for all subrecipients.

Views of Responsible Officials: The office partially concurs with the recommendation. For additional information regarding the office's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2019-034: U.S. Department of the Interior
CFDA #15.605 and 15.611, Fish and Wildlife Cluster
Grants # F18AF00061, F18AF00195, F18AF00596, F18AF00631,
F18AF00633, F18AF00634, F18AF00647, F18AF00751, F18AF00752,
F18AF00860, F11AF01282, F15AF00490, F17AF00653, F18AF00581,
F18AF00582, F18AF00593, F18AF00594, F18AF00622, F18AF00624,
F18AF00635, F18AF01043, F18AF01066, F18AF01172, F19AF00301,
F13AF00104, F13AF00116, F15AF01166, F16AF00234, F16AF00359,
F16AF00970, F16AF01144, F17AF00455, F17AF00468, F17AF00474,
F17AF00505, F17AF00506, F17AF00507, F17AF00549, F18AF0006,
F18AF00099, F15AF00528, F11AF01282, F14AF00109, F15AF00010,
F15AF00022, F15AF00490, F16AF00108, F16AF00109, F16AF00293,
F16AF00294, F16AF00516, F16AF00865, F16AF01118, F16AF01202,
F17AF00472, F17AF00477, F17AF00478, F17AF00479, F17AF00480,
F17AF00508, F17AF00527, F17AF00652, F17AF00726, F17AF01222,
F18AF00008, F18AF00393

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.403(a), states costs must be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

Condition: The Department of Fish, Wildlife, & Parks (department) requires all charges to a federal program to be reviewed by the program supervisor to ensure the costs are accurate and allowable. During the current audit, we identified expenditures related to the department's vehicle and aircraft fleet that were not reviewed and approved by a program supervisor.

Questioned Costs: No questioned costs were identified.

Context: The department maintains a fleet of vehicles and aircraft for department personnel use. As of June 30, 2019, the department had 629 vehicles and 7 aircraft in its inventory. When department

personnel use fleet vehicles or flight services, either the employee using the vehicle or the pilot of the aircraft subsequently submits a mileage or flight log to accounting staff. The logs contain the project codes used by accounting staff to record the expenditure on the state's accounting system. In fiscal years 2018 and 2019, the department recorded \$473,859 and \$578,386, respectively, in vehicle fleet expenditures and \$240,071 and \$189,982, respectively, in aircraft fleet expenditures to federal funds.

We completed a statistical sample of 32 operating expenditures recorded to the Wildlife and Sport Fish Restoration (WSFR) grant programs in fiscal years 2018 and 2019. We found five vehicle and two aircraft fleet transactions, totaling \$6,265, were not reviewed and approved by a program supervisor as required by department policy.

The department utilizes hundreds of project codes to identify the proper funding sources for expenditures and if an incorrect project code is used, it could result in unallowable costs being charged to a federal grant. The program supervisor's review helps mitigate the risk of employees using incorrect project codes.

Effect: The department does not have controls in place to ensure fleet and aircraft expenditures are allowable costs of the Fish and Wildlife Cluster federal programs.

Cause: In relation to its vehicle fleet expenditures, department personnel stated they have tried to enforce the policy, but it frequently resulted in expenditures not being recorded timely due to delays in receiving the approved paperwork. In order to process the expenditures timely, the department stopped requiring a program supervisor's signature for these expenditures.

Regarding the aircraft expenditures, department staff stated it was not feasible to obtain signatures from program supervisors. The project codes recorded on the flight logs are often given to the pilots via email or text message when the flight is requested, and pilots do not keep the paper flight log in the aircraft for safety reasons.

Recommendation: We recommend the Department of Fish, Wildlife & Parks either implement new procedures, or enforce its current procedures, to ensure the allowability of vehicle and aircraft expenditures charged to the Wildlife and Sport Fish Restoration grant programs.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-035: U.S. Department of the Interior
CFDA #15.605 and 15.611, Fish and Wildlife Cluster
Grants # F18AF00061, F18AF00195, F18AF00596, F18AF00631,
F18AF00633, F18AF00634, F18AF00647, F18AF00751, F18AF00752,
F18AF00860, F11AF01282, F15AF00490, F17AF00653, F18AF00581,
F18AF00582, F18AF00593, F18AF00594, F18AF00622, F18AF00624,
F18AF00635, F18AF01043, F18AF01066, F18AF01172, F19AF00301,
F13AF00104, F13AF00116, F15AF01166, F16AF00234, F16AF00359,
F16AF00970, F16AF01144, F17AF00455, F17AF00468, F17AF00474,
F17AF00505, F17AF00506, F17AF00507, F17AF00549, F18AF0006,
F18AF00099, F15AF00528, F11AF01282, F14AF00109, F15AF00010,
F15AF00022, F15AF00490, F16AF00108, F16AF00109, F16AF00293,
F16AF00294, F16AF00516, F16AF00865, F16AF01118, F16AF01202,
F17AF00472, F17AF00477, F17AF00478, F17AF00479, F17AF00480,
F17AF00508, F17AF00527, F17AF00652, F17AF00726, F17AF01222,
F18AF00008, F18AF00393

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.56, defines indirect costs as those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Condition: We estimate unallowed costs included in the Department of Fish, Wildlife & Parks (department) indirect cost rate calculations totaled \$205,791 and \$585,102 in fiscal years 2018 and 2019, respectively. The department does not have internal controls in place over the calculation of its indirect cost rate, resulting in noncompliance with federal regulations.

Questioned Costs: No questioned costs were identified.

Context: We completed a basic recalculation of the indirect cost rates for both years, adjusting for the identified errors. For fiscal year 2018, despite the errors and unallowed costs we identified, due to how the rate is calculated, our calculation reflected the same indirect cost rate determined by the department. For fiscal year 2019, we determined the department's rate was lower than it should have been, resulting in the department forfeiting \$167,302 in federal indirect cost recoveries.

The department did not:

- ◆ Have adequate documentation of underlying calculations and decisions such as the split in technology expenses between direct and indirect.
- ◆ Exclude unallowed items or document why they were allowable items.
- ◆ Ensure the calculation was free of mathematical errors.
- ◆ Calculate the rate consistently between years.

Effect: Because the department does not have controls in place over the calculation of its indirect cost rate, errors were made in the calculation of the indirect cost rates for fiscal years 2018 and 2019, resulting in noncompliance with federal regulations.

Cause: Department staff responsible for calculating the rate stated there were no written procedures when they took over the calculation several years ago but have been keeping notes over different aspects of the calculation each year, just not consistently.

Recommendation: We recommend the Department of Fish, Wildlife & Parks implement internal controls over the calculation of its indirect cost rate to comply with federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-036: U.S. Department of Interior
CFDA #15.605 and 15.611, Fish and Wildlife Cluster
Grants # F18AF00061, F18AF00195, F18AF00596, F18AF00631,
F18AF00633, F18AF00634, F18AF00647, F18AF00751, F18AF00752,
F18AF00860, F11AF01282, F15AF00490, F17AF00653, F18AF00581,
F18AF00582, F18AF00593, F18AF00594, F18AF00622, F18AF00624,
F18AF00635, F18AF01043, F18AF01066, F18AF01172, F19AF00301,
F13AF00104, F13AF00116, F15AF01166, F16AF00234, F16AF00359,
F16AF00970, F16AF01144, F17AF00455, F17AF00468, F17AF00474,
F17AF00505, F17AF00506, F17AF00507, F17AF00549, F18AF0006,
F18AF00099, F15AF00528, F11AF01282, F14AF00109, F15AF00010,
F15AF00022, F15AF00490, F16AF00108, F16AF00109, F16AF00293,
F16AF00294, F16AF00516, F16AF00865, F16AF01118, F16AF01202,
F17AF00472, F17AF00477, F17AF00478, F17AF00479, F17AF00480,
F17AF00508, F17AF00527, F17AF00652, F17AF00726, F17AF01222,
F18AF00008, F18AF00393

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.405(a), states that for a cost to be allocable to a federal award, the services must be chargeable or assignable to that federal award in accordance with relative benefits received. This standard is considered met if a cost:

1. Is incurred specifically for the Federal award;
2. Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
3. Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

Federal regulation, 2 CFR 200.403, states, among other things, that costs must be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

Federal regulation, 50 CFR 80.50, outlines the numerous activities eligible for funding under the Pittman-Robertson Wildlife Restoration Act. These allowed activities are centered around all aspects related to the management and restoration of wildlife.

Federal regulation, 50 CFR 80.51, outlines the numerous activities eligible for funding under the Dingell-Johnson Sport Fish Restoration Act. These activities are centered around all aspects related to the management and restoration of sport fish.

Condition: The Department of Fish, Wildlife, and Parks (department) does not have controls in place to determine the portion of its internal auditor's time to be allocated to the Wildlife and Sport Fish Restoration (WSFR) grant program. The internal auditor's job duties encompass multiple state and federal programs, but during fiscal years 2018 and 2019, 100% of the internal auditor's time was charged to the WSFR.

Questioned Costs: We question costs totaling \$49,362 and \$49,855 for fiscal years 2018 and 2019, respectively.

Context: During our audit, we reviewed a list of employees who charged their time to the WSFR grant programs in fiscal years 2018 and 2019 to determine the reasonableness of the expenditures based on our outlined expectations. Because the internal auditor's job duties encompass multiple state and federal programs, we would not expect all of the employee's time to be recorded to the WSFR grant programs.

Effect: Because the department does not have internal control procedures established to determine the portion of the internal auditor's time spent specifically on activities benefitting the WSFR grant programs, the department cannot demonstrate compliance with federal regulations, resulting in questioned costs in fiscal years 2018 and 2019.

Cause: Department management stated they requested and received specific approval in a grant award from the federal government to include the internal auditor position in the funding under the WSFR grant programs, so they believed it was allowable for the internal auditor to charge all of their time to the WSFR grant programs.

Recommendation: We recommend the Department of Fish, Wildlife & Parks implement procedures to ensure the internal auditor's time is allocated to the Wildlife and Sport Fish Restoration grant in accordance with federal regulations.

Views of Responsible Officials: The department partially concurs with this finding, stating, "...we strongly believe the ineligible hours are minimal and still benefit the grant program as a whole." For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1

Rebuttal of Views of Responsible Officials: We have reviewed the department's partial concurrence with this finding. The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

Research and Development Cluster Activity by CFDA # and Location

Federal Agency and CFDA Information		Location	
CFDA #	Title	UM - Missoula*	MSU - Bozeman
U.S Department of Agriculture			
10.001	Agricultural Research Basic and Applied Research	X	X
10.025	Plan and Animal Disease, Pest Control, and Animal Care		X
10.200	Grants for Agricultural Research, Special Research Grants		X
10.202	Cooperative Forestry Research	X	
10.215	Sustainable Agriculture Research and Education		X
10.217	Higher Education - Institution Challenge Grants Program		X
10.227	1994 Institutions Research Program	X	X
10.250	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		X
10.290	Agricultural Market and Economic Research		X
10.303	Integrated Programs		X
10.304	Homeland Security Agricultural		X
10.307	Organic Agriculture Research and Extension Initiative		X
10.309	Specialty Crop Research Initiative		X
10.310	Agriculture and Food Research Initiative (AFRI)	X	X
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	X	
10.318	Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		X
10.329	Crop Protection and Pest Management Competitive Grants Program		X
10.330	Alfalfa and Forage Research Program		X
10.350	Technical Assistance to Cooperatives		X
10.406	Farm Operating Loans		X
10.460	Risk Management Education Partnerships		X
10.500	Cooperative Extension Service		X
10.610	Export Guarantee Program	X	
10.652	Forestry Research	X	X
10.664	Cooperative Forestry Assistance		X
10.672	Rural Development, Forestry, and Communities		X
10.678	Forest Stewardship Program	X	
10.680	Forest Health Protection	X	X
10.683	National Fish and Wildlife Foundation	X	
10.684	International Forestry Programs	X	
10.699	Partnership Agreements	X	X
10.902	Soil and Water Conservation	X	X
10.903	Soil Survey	X	
10.912	Environmental Quality Incentives Program	X	
10.960	Technical Agricultural Assistance		X
U.S Department of Commerce			
11.431	Climate and Atmospheric Research	X	
11.438	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	X	
11.440	Environmental Sciences, Applications, Data, and Education		X
11.472	Unallied Science Program		X
11.620	Science, Technology, Business and/or Education Outreach		X

U.S Department of Defense			
12.002	Procurement Technical Assistance for Business Firms		X
12.114	Collaborative Research and Development		X
12.300	Basic and Applied Scientific Research	X	X
12.420	Military Medical Research and Development	X	X
12.431	Basic Scientific Research		X
12.632	Legacy Resource Management Program	X	
12.800	Air Force Defense Research Sciences Program	X	X
12.910	Research and Technology Development		X
U.S Department of the Interior			
15.034	Agriculture on Indian Lands		X
15.224	Cultural and Paleontological Resources Management	X	X
15.225	Recreation and Visitor Services	X	X
15.228	BLM Fuels Management and Community Fire Assistance Program Activities	X	
15.230	Invasive and Noxious Plant Management		X
15.231	Fish, Wildlife and Plant Conservation Resource Management	X	X
15.232	Joint Fire Science Program	X	X
15.236	Environmental Quality and Protection	X	
15.238	Challenge Cost Share	X	X
15.517	Fish and Wildlife Coordination Act		X
15.605	Sport Fish Restoration		X
15.608	Fish and Wildlife Management Assistance	X	X
15.611	Wildlife Restoration and Basic Hunter Education	X	
15.615	Cooperative Endangered Species Conservation Fund	X	
15.631	Partners for Fish and Wildlife		X
15.637	Migratory Bird Joint Ventures	X	
15.650	Research Grants (Generic)	X	X
15.654	National Wildlife Refuge System Enhancements		X
15.655	Migratory Bird Monitoring, Assessment and Conservation		X
15.657	Endangered Species Conservation - Recovery Implementation Funds	X	X
15.660	Endangered Species - Candidate Conservation Action Funds		X
15.663	NFWF - USFWS Conservation Partnership	X	
15.665	National Wetlands Inventory	X	
15.670	Adaptive Science	X	
15.678	Cooperative Ecosystem Studies Units	X	X
15.805	Assistance to State Water Resources Research Institutes		X
15.808	U.S. Geological Survey Research and Data Collection	X	X
15.810	National Cooperative Geologic Mapping	X	X
15.812	Cooperative Research Units	X	X
15.815	National Land Remote Sensing Education Outreach and Research		X
15.820	National and Regional Climate Adaption Science Centers	X	X
15.921	Rivers, Trails and Conservation Assistance	X	
15.926	American Battlefield Protection	X	
15.945	Cooperative Research and Training Programs - Resources of the National Park System	X	X

U.S Department of Justice			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		X
U.S Department of State			
19.022	Educational and Cultural Exchange Programs Appropriation Overseas Grants		X
19.408	Academic Exchange Programs - Teachers		X
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges		X
19.500	Middle East Partnership Initiative		X
19.600	Bureau of Near Eastern Affairs		X
U.S Department of Transportation			
20.109	Air Transportation Centers of Excellence		X
20.200	Highway Research and Development Program		X
20.205	Highway Planning and Construction		X
20.514	Public Transportation Research, Technical Assistance, and Training		X
20.600	State and Community Highway Safety		X
20.609	Safety Belt Performance Grants		X
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		X
20.616	National Priority Safety Programs		X
20.701	University Transportation Centers Program		X
20.724	Pipeline Safety Research Competitive Academic Agreement Program (CAAP)		X
U.S Department of Treasury			
21.020	Community Development Financial Institutions Program		X
U.S National Aeronautics and Space Administration			
43.001	Science	X	X
43.007	Space Operations		X
43.008	Office of Stem Engagement (OSTEM)		X
43.009	Cross Agency Support		X
43.012	Space Technology		X
U.S National Endowment for the Humanities			
45.129	Promotion of the Humanities Federal/State Partnership		X
45.161	Promotion of the Humanities Research	X	
45.312	National Leadership Grants		X
45.313	Laura Bush 21st Century Librarian Program		X
U.S National Science Foundation			
47.041	Engineering	X	X
47.049	Mathematical and Physical Sciences	X	X
47.050	Geosciences	X	X
47.070	Computer and Information Science and Engineering	X	X
47.074	Biological Sciences	X	X
47.075	Social, Behavioral, and Economic Sciences	X	X
47.076	Education and Human Resources	X	X
47.078	Polar Program	X	X
47.079	Office of International Science and Engineering	X	X
47.080	Office of Cyberinfrastructure	X	
47.083	Integrative Activities	X	X

U.S Small Business Administration			
59.058	Federal and State Technology Partnership Program		X
U.S Department of Veterans Affairs			
64.054	Research and Development		X
U.S Environmental Protection Agency			
66.202	Congressionally Mandated Projects	X	
66.454	Water Quality Management Planning	X	
66.461	Regional Wetland Program Development Grants	X	
66.466	Chesapeake Bay Program	X	
66.509	Science to Achieve Results (STAR) Research Program		X
66.510	Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development		X
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		X
66.951	Environmental Education Grants	X	
U.S Department of Energy			
81.049	Office of Science Financial Assistance Program	X	X
81.087	Renewable Energy Research and Development		X
81.089	Fossil Energy Research and Development		X
81.121	Nuclear Energy Research, Development and Demonstration	X	
81.135	Advanced Research Projects Agency - Energy		X
U.S Department of Education			
84.217	TRIO McNair Post-Baccalaureate Achievement		X
84.299	Indian Education - Special Programs for Indian Children		X
84.305	Education Research, Development and Dissemination	X	
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)		X
U.S Department of Health and Human Services			
93.001	Civil Rights and Privacy Rule Compliance Activities		X
93.107	Area Health Education Centers		X
93.110	Maternal and Child Health Federal Consolidated Programs	X	
93.113	Environmental Health	X	X
93.143	NIEHS Superfund Hazardous Substances - Basic Research and Education		X
93.155	Rural Health Research Centers		X
93.157	Centers of Excellence	X	
93.172	Human Genome Research	X	
93.173	Research Related to Deafness and Communication Disorders	X	
93.178	Nursing Workforce Diversity		X
93.184	Disabilities Prevention	X	
93.213	Research and Training in Complementary and Integrative Health		X
93.242	Mental Health Research Grants	X	X
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	X	X
93.262	Occupational Safety and Health Program	X	X
93.273	Alcohol Research Programs		X
93.279	Drug Abuse and Addiction Research Programs	X	X

93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health		X
93.301	Small Rural Hospital Improvement Grant Program		X
93.307	Minority Health and Health Disparities Research		X
93.325	Paralysis Resource Center	X	
93.350	National Center for Advancing Translational Sciences	X	X
93.351	Research Infrastructure Programs	X	
93.358	Advanced Education Nursing Traineeships		X
93.359	Nurse Education, Practice Quality and Retention Grants		X
93.361	Nursing Research		X
93.393	Cancer Cause and Prevention Research	X	X
93.424	Non-ACA/PPHF-Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations	X	
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	X	
93.504	Family to Family Health Information Centers	X	
93.524	Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations-financed in part by Prevention and Public Health Funds (PPHF)	X	
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	X	
93.670	Child Abuse and Neglect Discretionary Activities		X
93.732	Mental and Behavioral Health Education and Training Grants	X	
93.822	Health Careers Opportunity Program	X	
93.837	Cardiovascular Diseases Research	X	
93.838	Lung Diseases Research	X	
93.846	Arthritis, Musculoskeletal and Skin Diseases Research		X
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	X	X
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	X	X
93.855	Allergy and Infectious Diseases Research	X	X
93.859	Biomedical Research and Research Training	X	X
93.865	Child Health and Human Development Extramural Research	X	X
93.866	Aging Research	X	X
93.867	Vision Research		X
93.879	Medical Library Assistance	X	X
93.884	Grants for Primary Care Training and Enhancement	X	
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement		X
93.913	Grants to State for Operation of State Offices of Rural Health		X
93.933	Demonstration Projects for Indian Health		X
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	X	
93.969	PPHF Geriatric Education Centers	X	
93.970	Health Professions Recruitment Program for Indians	X	X
U.S Social Security Administration			
96.007	Social Security Research and Demonstration		X
U.S Agency for International Development			
98.001	USAID Foreign Assistance for Programs Overseas		X

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

D-1

STEVE BULLOCK
GOVERNOR



CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

March 26, 2020

RECEIVED
March 26, 2020
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena MT 59620-1705

Re: Corrective Action Plan
Montana Single Audit Report #18-02
For the Two Fiscal Years Ended June 30, 2019

Dear Mr. Maciver:

In accordance with Uniform Guidance requirements, the state of Montana is responsible for follow-up and corrective action on all audit findings identified in the Montana Single Audit Report. As part of this responsibility, the state is required to prepare a corrective action plan to address each financial or federal audit finding included in this report. The Office of Budget and Program Planning compiles this information on behalf of the state and oversees the implementation status of these audit findings.

Attached is the State of Montana's Corrective Action Plan for the two fiscal years ended June 30, 2019. This summary document, which was prepared by each agency or university with a finding in this report, provides the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date. As you can see from the attached summary, the corrective actions for most of the findings identified have either been already completed or will be finalized within the next few months. The exception is those findings requiring legislation or related to agency review processes that are updated on an annual basis.

Sincerely,

/s/ Tom Livers

Tom Livers
Budget Director

cc: Sonia Powell, Single Audit Coordinator

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019				
Finding #	CFDA #	CAP-Corrective Action Plan	Person Responsible for CAP	Target Date
2019-1	Various	<p>Financial Statement Preparation, Board of Investments - For fiscal year 2019, the Legislative Audit Division issued an unmodified opinion on both the Unified Investment Program's and the Enterprise Program's financial statements. Furthermore, no recommendations or internal control findings were found in either audit report.</p> <p>During fiscal year 2019, the board completed the corrective action steps as previously detailed.</p>	Dan Villa, Executive Director Board of Investments	Completed
2019-2	Various	<p>Amortization of Certain Retirement Systems - Teachers' Retirement System - For the Teachers' Retirement System (TRS), if the amortization period is greater than 30 years, the TRS Benefit and Funding policy provides that the board will direct its contracted actuary to project forward the actuarially-recommended contribution rate that can be reasonably expected to fully amortize the Unfunded Actuarial Accrued Liability over a closed 30-year period effective as of the July 1 following the next regular legislative session.</p> <p>The TRS Benefit and Funding policy also provides that the board will recommend to the governor and the legislature that funding be increased, and/or liabilities be reduced, whenever the most recent actuarial valuation shows that the amortization period of the unfunded liabilities exceeds 30 years and the board cannot reasonably anticipate that the amortization period will decline, or the funded ratio will improve, without an increase in funding and/or a reduction in liabilities.</p> <p>In this case, the actuaries projected that, with no contribution rate increase or liability reduction, the amortization period would again be 30 years or less as of July 1, 2019 (the July 1 following the end of the next regular legislative session and the date of the retirement system's next actuarial valuation). Therefore, provided that the actuarial assumptions are met, no contribution rate increase is necessary to bring the amortization period to 30 years or less.</p>	Shawn Graham, Executive Director Teachers' Retirement System	Completed
2019-2	Various	<p>Amortization of Certain Retirement Systems - Montana Public Employee Retirement Administration The Montana Public Employee Retirement Administration (MPERA), as staff for the Montana Public Employees Retirement Board (MPERB), provides the following response to your finding of material noncompliance for the actuarial unsoundness of the Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), and the Game Wardens' and Peace Officers' Retirement System (GWPORS).</p> <p>As constitutionally required by Article VIII § 15 of the Montana Constitution, MPERA and the MPERB monitors and confronts all defined benefit plan funding shortfalls and recommends funding legislation, when necessary, for plans that will not amortize within 30 years. MPERA, on behalf of the MPERB, is monitoring closely the funding status of PERS, HPORS and GWPORS and has already seen a decrease in funding for both PERS and GWPORS. Based upon the expert opinion furnished to MPERA and MPERB by its actuary, Cavanaugh Macdonald Consulting LLC, during the most recent valuation for each system, MPERA and the MPERB expect actuarial gains on investments for each system in future fiscal years. As such, if the adopted actuarial assumptions of the MPERB are met for each of these systems during these years, the future valuations of PERS, HPORS and GWPORS are set to recognize more actuarial gains than losses.</p> <p>Ahead of the 2021 Legislative Session, MPERA and the MPERB will continue monitoring PERS, HPORS, and GWPORS and should it become necessary, based upon the expert opinion of its actuary, MPERA will propose funding legislation for approval by MPERB for any one or all of these plans.</p>	Dore Schwinden, Executive Director Public Employees' Retirement Administration	Ongoing

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2019-3	Various	<p>Medicaid and Children's Health Insurance Program Eligibility Determinations - The Department of Public Health and Human Services does not concur with this audit finding. The department has established and maintained controls to timely verify client eligibility factors for all applicants and clients at application and redetermination. Further, the department does comply with federal regulations and state plan requirements, placing eligible clients into the correct eligibility categories. The auditors chose to test member eligibility using standards that are 1) not approved, 2) not consistent with federal regulation, and 3) not permissible under federal law.</p> <p>The auditors claim ineligibility based primarily on a data source unavailable to the agency under state law, and impermissible according to federally-approved state plans. Pursuant to federal regulation, the State of Montana is mandated to follow its federally-approved state plans. Expecting the state to determine eligibility under an unapproved, unavailable rubric places the state at considerable risk of non-compliance with its federally-approved state plans.</p> <p>The auditors "redetermined" eligibility based on auditor-designed calculations that do not comply with federal law and regulation. Medicaid law states that when using the Modified Adjusted Gross Income (MAGI)-based income methodology to determine eligibility, the financial eligibility must be based on the current monthly income and family size. Pursuant to regulatory requirements, income can and should be documented from many sources, not just tax return data.</p>	<p>Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services</p>	N/A
		<p>Applicable Requirements:</p> <ul style="list-style-type: none"> The Social Security Act Section 1902 (e) 14 (H) states that an individual's income must be determined at "the point in time at which an application for medical assistance... is processed..." Federal regulations require that MAGI-based financial eligibility for Medicaid "must be based on current monthly household income and family size." (42 CFR 425.603 (h)) Federal definition and direction are clear that MAGI-based calculations constitute a required methodology, not a number on a tax return. This is because tax return information does not represent an individual's current income at the time of determination. <p>The auditors used state tax data to the exclusion of current evidence available in the member case files. This flawed approach was reinforced by implications in the audit report that the increased use of a file that contained limited Internal Revenue Service tax data would result in improved eligibility determinations. These statements re-confirm that the auditors misunderstand the MAGI-based eligibility determination requirements established in the Social Security Act. This results in an audit testing methodology that creates a hypothetical standard of eligibility that does not comply with the Medicaid federal regulations.</p> <p>The auditors use limited, unavailable information that is not current and impermissible methods to conclude that participants are ineligible. Montana has a legal obligation to provide health care coverage to citizens who meet the eligibility requirements of the legislatively-approved Medicaid program. It would be unlawful for the Department of Public Health and Human Services to deny or revoke health care coverage to Montanans who are eligible for the program as designed and approved.</p>		

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2019-4	Various	<p>The calculation of known and questioned costs is based on several incorrect factors, assumptions, and approaches. Claims for all 63 individuals in the sample set were independently queried and researched by data analysts in three distinct areas in the department who are subject matter experts in Medicaid claims and cost analysis. Significant errors and discrepancies were noted and communicated to the auditors. For example, the auditors concluded that 26 of 63 individual member samples had "indications of ineligibility," based on unapproved eligibility determination design. The department identified 5 of 63 individual member samples in error using required eligibility design. There are significant errors in the identification of known questioned costs, which forms the basis of projected likely questioned costs. The department is unable to conclude, with any level of confidence, that either the known or likely questioned costs are what a prudent person would consider reasonable.</p> <p>Supplemental Nutrition Assistance Program Controls - The Department of Public Health and Human Services maintains that there are significant controls in place (and demonstrated to the auditors) to ensure that the Supplemental Nutrition Assistance Program (SNAP) payments are reported accurately on the financial statements. The department only issues assistance to eligible Montanans based on the controls built within our eligibility process and system, our benefit issuance process and files, and benefit redemption process. The department fully reconciles the benefits issued to the amount of benefits placed on Electronic Benefit Transfer (EBT) cards.</p> <p>The department acknowledges that the SNAP federal guidelines are specific as to the requirements of independent audits of EBT service organizations and will be pursuing the appropriate level of audit beyond the annual System and Organization Controls (SOC) 2 Type 2 audit currently conducted. However, the department is not completely without controls in place to provide assurance over the operating effectiveness and appropriate design of controls at the service organization.</p> <p>The department will request a SOC 1 Type 2 audit be conducted, and results submitted, to the department from its EBT vendor. The department will include SOC 1 Type 2 audits in base requirements for all information technology (IT) systems that provide financial processing services on behalf of the department and include standard language regarding SOC reports in IT system contract templates</p>	David Crowson, Chief Information Officer Information Technology Services Division Department of Public Health and Human Services	9/30/2020
2019-001	93.775 93.777 93.778 93.767	<p>Medicaid and Children's Health Insurance Program Eligibility Determinations - The Department of Public Health and Human Services does not concur with this audit finding. The department has established and maintained controls to timely verify client eligibility factors for all applicants and clients at application and redetermination. Further, the department does comply with federal regulations and state plan requirements, placing eligible clients into the correct eligibility categories. The auditors chose to test member eligibility using standards that are 1) not approved, 2) not consistent with federal regulation, and 3) not permissible under federal law.</p> <p>The auditors claim ineligibility based primarily on a data source unavailable to the agency under state law, and impermissible according to federally-approved state plans. Pursuant to federal regulation, the State of Montana is mandated to follow its federally-approved state plans. Expecting the state to determine eligibility under an unapproved, unavailable rubric places the state at considerable risk of non-compliance with its federally-approved state plans.</p> <p>The auditors "redetermined" eligibility based on auditor-designed calculations that do not comply with federal law and regulation. Medicaid law states that when using the Modified Adjusted Gross Income (MAGI)-based income methodology to determine eligibility, the financial eligibility must be based on the current monthly income and family size. Pursuant to regulatory requirements, income can and should be documented from many sources, not just tax return data.</p>	Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services	N/A

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019			
Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP
		<p>Applicable Requirements:</p> <ul style="list-style-type: none"> The Social Security Act Section 1902 (e) 14 (H) states that an individual's income must be determined at "the point in time at which an application for medical assistance... is processed..." Federal regulations require that MAGI-based financial eligibility for Medicaid "must be based on current monthly household income and family size." (42 CFR 425.603 (h)) Federal definition and direction are clear that MAGI-based calculations constitute a required methodology, not a number on a tax return. This is because tax return information does not represent an individual's current income at the time of determination. <p>The auditors used state tax data to the exclusion of current evidence available in the member case files. This flawed approach was reinforced by implications in the audit report that the increased use of a file that contains limited Internal Revenue Service tax data would result in improved eligibility determinations. These statements re-confirm that the auditors misunderstand the MAGI-based eligibility determination requirements established in the Social Security Act. This results in an audit testing methodology that creates a hypothetical standard of eligibility that does not comply with the Medicaid federal regulations.</p> <p>The auditors used limited, unallowable information that is not current and impermissible methods to conclude that participants are ineligible. Montana has a legal obligation to provide health care coverage to citizens who meet the eligibility requirements of the legislatively approved Medicaid program. It would be unlawful for the Department of Public Health and Human Services to deny or revoke health care coverage to Montanans who are eligible for the program as designed and approved.</p>	
2019-002	93.775 93.777 93.778	<p>Medicaid Third Party Liability - The Department of Public Health and Human Services does not concur with this audit finding. The department follows its approved state plans with regard to the state wage information collection agency (SWICA) interfaces and uses many methods to identify the legal liability of third parties (TPL). The auditors appear to take issue with the timing of one of the methods used.</p> <p>The department has the following preventive controls in place for the SWICA and Social Security Administration Interfaces:</p> <ol style="list-style-type: none"> For non-Modified Adjusted Gross Income (MAGI) applicants, the interfaces are run prior to eligibility determination. For MAGI applicants, the interfaces are run within 90 days of application through the post eligibility verification (PEV) process authorized by the Centers for Medicare and Medicaid Services (CMS) via the verification plan. The department considers the PEV process an extension of application and eligibility determination and has an approved plan with CMS to conduct these matches on the MAGI population as a part of that process. 	<p>Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services</p>
			N/A

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019				
Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2019-003	93.775 93.777 93.778	<p>Medicaid Provider Fraud Documentation - The Department of Public Health and Human Services partially concurs with this audit finding. Internal controls regarding case file maintenance will be strengthened and staff will be retrained on the documentation requirements. However, it is not prudent for the department to commit to seeking changes in legislation, when that activity is outside the department's control.</p> <p>The department feels that an increased focus on new provider reviews offers the opportunity for proper education and training on allowable billing to establish best practices from the start of Medicaid service provision. Prior to auditor review, the department's own internal review of the Surveillance Utilization Review Section plan identified an uneven ratio of new provider reviews in state fiscal year 2018, and adjustments were made to ensure an appropriate cross-section of providers in review. The auditors identified instances where record keeping activities could be strengthened.</p> <p>The department follows current state law with regard to records requests and allowable time frames. The statute that creates this criteria passed the 2017 Montana State Legislature with an overwhelming majority vote (49-0 in Senate; 94-2 in House). A bill reversing the limitations in the 2019 Montana State Legislature did not make it out of committee. The ultimate responsibility for changes in legislation lies with the Legislative Branch, not the department. The department cannot implement policy that conflicts with state law.</p>	<p>Carter Anderson, Administrator Quality Assurance Division Department of Public Health and Human Services</p>	6/30/2020
2019-004	93.775 93.777 93.778	<p>Medicaid Beneficiary Fraud and Abuse Controls - The Department of Public Health and Human Services does not concur with this audit finding. The department already complies with federal regulations regarding investigations of Medicaid fraud and referral to law enforcement.</p> <p>The department currently conducts investigations as required by federal regulations. Preliminary investigations are conducted on all referrals to the program integrity unit. If fraud or abuse is supported in available information, a full investigation is conducted. The auditors appear to take exception to time management guidelines included in desk level procedures. Those guidelines were removed in September 2019. The department makes referrals to law enforcement when, after the conclusion of a full investigation, there is reason to believe fraud has occurred.</p>	<p>Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services</p>	N/A

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019				
Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2019-005	93.775 93.777 93.778	<p>Medicaid Contract Language - The Department of Public Health and Human Services does not concur with this audit finding. The auditors' interpretation of what constitutes acceptance of contract terms and conditions is unnecessarily narrow, and the condition of non-compliance for this finding does not exist.</p> <p>The department has established and documented internal controls to ensure all relevant contract disclosures are conducted in a manner consistent with federal regulation. 2 CFR 180.300 allows for three options for verifying the entity with whom we intend to do business is not excluded or disqualified:</p> <p>(a) Checking System for Award Management exclusions; (b) Collecting a certification from that person; or (c) <u>Adding a clause or condition to the covered transaction with that person</u></p> <p>The required language related to debarment and suspension was communicated to the entity the department has contracted with to provide these services through a standard purchase order. The purchase order (which is issued to vendors prior to the delivery of and payment for services) includes this standard language, and constitutes the covered transaction with the vendor:</p> <p><i>The Contractor in agreeing to engage in the delivery of services in accordance with the Purchase Order to which this "Standard Terms and Conditions" document is attached and incorporated further agrees to acceptance of the Department's following terms and conditions and any other provisions stated in any other attachments to the Purchase Order.</i></p> <p>Further, the "Standard Terms and Conditions" includes the following statement:</p> <p><i>DEBARMENT: The Contractor certifies that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this Purchase Order by any governmental department or agency. If Contractor cannot certify this statement, attach a written explanation for review and consideration by the Department.</i></p> <p>This information was provided to the auditors several times. However, the auditors concluded that this evidence is insufficient as it does not include a physical signature. The auditors did not identify an instance in which the federal requirements were not met.</p>	<p>Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services</p>	N/A
2019-006	93.767	<p>Children's Health Insurance Program - Health Insurance Premium Payments - The Department of Public Health and Human Services will develop control procedures to ensure that the Health Insurance Premium Payment program maintains an accurate list of charging mechanisms and that impacted staff understand their use.</p> <p>The department has identified inappropriate costs charged to the Children's Health Insurance Program as a result of this finding and returned the funds to the federal government.</p>	<p>Darci Wiebe, Administrator Health Resources Division Department of Public Health and Human Services</p> <p>Carter Anderson, Administrator Quality Assurance Division Department of Public Health and Human Services</p> <p>Kim Aiken, Administrator Business & Financial Services Division Department of Public Health and Human Services</p>	7/1/2020
2019-007	Various	<p>Research and Development Suspension and Debarment Controls - The University of Montana - Missoula started screening vendors automatically in June 2019. The screening is performed through PaymentWorks, a cloud-based supplier information management system. Sanction alerts, including suspensions and debarments, are captured in PaymentWorks and reviewed by the vendor maintenance administrator. Suspended or debarred vendors are reported to the accounts payable manager and excluded from the procurement process.</p>	<p>Dan Jenko, Controller Business Services University of Montana - Missoula</p>	Completed

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019				
Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2019-008	10.551 10.557 10.561 93.558	<p>System and Organization Controls Examinations - The Department of Public Health and Human Services partially concurs with this audit finding. The department has established, and maintained, adequate internal controls but has not required a System and Organization Controls (SOC) 1 Type 2 from its Electronic Benefits Transfer (EBT) vendor. The department will request a SOC 1 Type 2 audit be conducted, and results submitted, to the department from its EBT vendor. This will include SOC 1 Type 2 audits in base requirements for all information technology (IT) systems that provide financial processing services on behalf of the department and include standard language regarding SOC reports in IT system contract templates.</p> <p>The department maintains that there are significant controls in place (and demonstrated to the auditors) to ensure Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, and Special Supplemental Nutrition Program - WIC benefit transactions achieve applicable compliance requirements. The department only issues assistance to eligible Montanans based on the controls built within our eligibility process and system, our benefit issuance process and files, and benefit redemption process. The department fully reconciles the benefits issued to the amount of benefits placed on EBT cards. The department acknowledges that the SNAP federal guidelines are specific as to the requirements of independent audits of EBT service organizations and will be pursuing the appropriate level of audit beyond the annual SOC 2 Type 2 audit currently conducted, but is not completely without controls in place to provide assurance over the operating effectiveness and appropriate design of controls at the service organization.</p>	David Crowson, Chief Information Officer Technology Services Division Department of Public Health and Human Services	9/30/2020
2019-009	10.551 10.561	<p>Supplemental Nutrition Program Reconciliations - The Department of Public Health and Human Services partially concurs with this audit finding. The department conducts the necessary reconciliations required by the U.S. Department of Agriculture's Food and Nutrition Service (FNS), but does not consistently document follow up on identified discrepancies. Controls have been revised and implemented, and the instances in which differences were noted by the auditors have been researched and documented.</p> <p>The auditors indicate that Federal regulations require the department to reconcile all the benefits issued, redeemed, and unredeemed each day with the state's drawdown account. The Food and Nutrition Service has provided written clarifying guidance and indicates that the reconciliation is a fundamental requirement of the Electronic Benefit Transfer (EBT) system, and that the state should only need to verify on a detailed basis when discrepancies are found. The Food and Nutrition Service agrees that the basic functionality of reconciliation is tested extensively as a part of system acceptance. The state verifies the accuracy in summary.</p> <p>Guidance received from FNS as it relates to 7 CFR 274.4 (a)(1):</p> <p>Correctly logging transactions to the appropriate recipient accounts and retailers is the fundamental requirement of an EBT system. This basic functionality is tested extensively as part of system acceptance and is considered to be an EBT system function once the system is operational. However, system testing occurs in a relatively controlled environment. Testers have only a limited ability to create "unexpected" scenarios as part of their "what-if" testing. In addition, the extreme volume and high-speed processing of an EBT system brings many challenges related to system stress and capacity. Therefore, it can be expected that a certain amount of system errors will occur in an operational setting.</p>	Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2019-010	10.551 10.561	<p>The intent of this regulatory citation is that the EBT system routinely performs this reconciliation. As an added control, the accuracy of transaction logging is verified annually as part of required SSAE-16 audits. Therefore, FNS does not expect state staff to perform this reconciliation on a daily basis for individual recipients. This reconciliation is required at a summary level as part of the overall EBT system reconciliation (7 CFR 274.4 (a)(1)(v)). The state would only need to perform this detailed reconciliation on an exception basis in the course of dispute resolution or in researching reconciliation discrepancies. States may opt to delegate this error resolution responsibility to their EBT processor, however, it may still be necessary for the State to intervene in some circumstances.</p> <p>The auditors indicate that all the necessary reconciliations are not in place. However, the reconciliations not done by the state are done by the EBT contractor and available through reports generated in the EBT system. The statement that the reconciliations are incomplete is incorrect. They are complete when considering both the service organization and the state processes. This finding is redundant. Obtaining the System and Organization Controls (SOC) 1 Type 2 report identified in the previous finding will provide the added control verifying the transaction logging.</p>	Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services	7/1/2021
2019-011	10.551 10.561	<p>Supplemental Nutrition Program Treasury State Agreement - The Department of Public Health and Human Services partially concurs with this audit finding. The department is working with the Department of Administration to update the 2021 Treasury State Agreement (TSA), which goes into effect July 1, 2020.</p> <p>The department maintains that controls are in place to assure that draws completed by the Electronic Benefits Transfer (EBT) service provider are completed appropriately by the contracted services organization. The administrative burden associated with transferring the Supplemental Nutrition Program's cluster benefit draws to the state is too significant warrant shifting for the remainder of state fiscal year 2020.</p> <p>Supplemental Nutrition Assistance Program Automation and Reporting - The Department of Public Health and Human Services does not agree with this audit finding. The recommendation does not address the underlying issues associated with the error rate, and are based (at least in part) on the federal Supplemental Nutrition Assistance Program (SNAP) error rate. The department is in an extensive corrective action plan directly with our federal partners aimed at addressing the core issues. Further, an automated beginning balance is unnecessary, as it is not an editable field for completing the federal report, and a monthly reconciliation is redundant and unnecessary.</p> <p>The department does have controls in place to ensure that results of the quality control reviews performed in the Quality Assurance Division are reviewed and acted upon by program staff. When the quality control (QC) unit identifies an error, the QC review documents and related documentation are uploaded to a shared document storage site. The SNAP Policy Specialist reviews the information and provides guidance and direction to the field as to what needs to be done to correct the errors. In addition, the QC summary reports are reviewed by the Human and Community Services Division's senior management team to identify trends and determine appropriate program or system changes necessary to mitigate errors. These controls were provided to the auditors, and discussed at length.</p> <p>The department attributes the higher error rate to a backlog of work due to staffing shortages during the audit period, and not as a result of a lack of training or not documenting training. The department conducts extensive new hire training and annual refresher training with eligibility staff. The department acknowledges that it is in a liability status with FNS regarding active case errors and has been working extensively with the federal agency on corrective action. The department is also partnering on a business process re-engineering project with field, state, and federal representation aimed at reducing the SNAP error rate in Montana.</p>	Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services	N/A

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019			
Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP
		<p>The department does not agree that updating the Accounts Receivable Management System to automatically generate beginning balances is required to complete the FNS-209. The Food Programs Reporting System (FPRS) is the federal reporting system in which the department reports the FNS-209. This system generates the beginning balance for the FNS-209 from the ending balance of the previous report and is a locked field.</p> <p>The department performs a daily reconciliation that meets federal requirements for the monthly FNS-46 report. As was communicated in the course of the audit, the department is ensuring the FNS-46 report is supported by accurate information through a daily reconciliation. A monthly reconciliation is redundant and unnecessary.</p>	
2019-012	93.558	<p>Temporary Assistance for Needy Families Income Eligibility and Verification System - The Department of Public Health and Human Services does not concur with this audit finding. The department feels that this recommendation is not necessary, as the department is in compliance with the federal requirements as is pertains to the use of the Disclosure of Information to Federal, State and Local Agencies (DIFSLA) file received from the Internal Revenue Service.</p> <p>Specifically, the federal regulations state:</p> <p>Sec 1137. [42 U.S.C.1320b-7] (a) (4) (C) shows that the "use of such information shall be targeted to those uses which are most likely to be productive in identifying and preventing ineligibility and incorrect payments, and no State shall be required to use such information to verify the eligibility of all recipients"</p> <p>Further, the department only receives the information twice a year. It is not a consistent source of information to use in making an eligibility decision, and the information included in the file is significantly dated. The IRS DIFSLA file is limited to income such as dividends, interest and retirement income as reported on Forms 1099.</p> <p>When the file is received from the federal government, the department acts on it appropriately, reviewing cases against the IRS data in order to determine if more information is needed from clients as cases are worked. While the department is not in control of when or how often the IRS transmits the DIFSLA file, the department did add internal controls to reach out to the federal government when a file is not received as expected.</p>	<p>N/A</p> <p>Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services</p>
2019-013	93.558	<p>Temporary Assistance for Needy Families Benefit Tracking - The Department of Public Health and Human Services will update internal controls to ensure the tracking spreadsheet for recipients of extended Temporary Assistance for Needy Families benefits is complete. The department will also train impacted staff on the changes to the control procedure.</p>	<p>Gene Hermanson, Administrator Human & Community Services Division Department of Public Health and Human Services</p>
2019-014	93.558	<p>Temporary Assistance for Needy Families 196R Report - The Department of Public Health and Human Services was completing the federal reports based on direction from federal partners that may not have been accurate. These recommendations make the expenditure identification and reporting process more efficient for the department.</p> <p>The department will revise federal reporting procedures to only include expenditures incurred during the reporting period, and current cumulative expenditures, when completing federal Temporary Assistance for Needy Families reports. The department will also provide training on the updated control procedures to impacted staff.</p>	<p>Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services</p>
			<p>6/30/2020</p> <p>4/30/2020</p>

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019			
Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP
2019-015	93.558	<p>Temporary Assistance for Needy Families and Foster Care Procurement Policies - The Department of Public Health and Human Services does not concur with this audit finding. The department already complies with state procurement policies and federal regulations.</p> <p>State statute (Section 18-4-123(b), MCA) specifically excludes the provision of human services administered by the Department of Public Health and Human Services from the state procurement policies. These payments were for direct services provided to clients being served through the department.</p> <p>The disputed transactions are not deficient measured against federal regulations, which allow the department to micro-purchase services in small aggregate amounts. The department purchases services in this program as separate and discrete transactions for specific clients in specific circumstances, which in most cases, do not exceed the aggregate limit. For larger amounts, federal regulations allow the department to use relatively simple and informal procurement methods for small purchases of services that do not cost more than the simplified acquisition threshold. The auditors chose to review expenditures based on provider total payment amounts, and not as discrete purchases by client, as is allowed under federal regulations.</p>	<p>Erica Johnston, Chief Operating Officer/Chief Financial Officer Operations Services Branch Department of Public Health and Human Services</p>
2019-016	93.658	<p>Foster Care Subrecipient Disclosures - Although the Department of Public Health and Human Services concurs with this audit finding, parts of the recommendation seem duplicative. The auditors detected a weakness in internal controls related to the inclusion of disclosures for subrecipients in the Foster Care program.</p> <p>The department will develop and implement internal controls relative to acquisition planning and implementation activities, to include a contract checklist reminding staff to include subrecipient requirements in contract language, when applicable.</p> <p>The department will also identify and amend existing contracts that do not currently include subrecipient disclosures and communicate with impacted vendors.</p>	<p>Nikki Grossberg, Deputy Administrator Child & Family Services Department of Public Health and Human Services</p>
2019-017	93.658	<p>Foster Care Training Costs Documentation - The Department of Public Health and Human Services will establish billing criteria for Foster Care program participants to ensure that billing support provides appropriate evidence that only allowable activities are being billed to the department. The audit identified weaknesses in internal controls related to sufficient billing support and the appropriate claiming of administrative staff.</p> <p>The department will update its training plan to appropriately identify all training reimbursement proposals and ensure alignment with the federally-approved plans. The department will also adjust training budgets to ensure that administrative staff are appropriately claimed.</p>	<p>Nikki Grossberg, Deputy Administrator Child & Family Services Department of Public Health and Human Services</p>
2019-018	93.658	<p>Foster Care Reporting - The Department of Public Health and Human Services has internal controls to ensure that required information is included in the Foster Care CB-496 report. The controls were insufficient, however, to identify possible omissions when the 5% variance threshold was not reached, which is what happened in this case. All impacted CB-496 reports have been corrected.</p> <p>The department will strengthen internal controls to ensure that omissions are detected, even when below the allowable 5% variance threshold, and correct and submit all impacted CB-496 reports.</p>	<p>Nikki Grossberg, Deputy Administrator Child & Family Services Department of Public Health and Human Services</p>

Target Date
N/A

Completed

Completed

6/30/2020

Completed

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019				
Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2019-019	93.575 93.596	<p>Child Care Development Fund Period of Performance - The Department of Public Health and Human Services does not concur with this audit recommendation. The department already complies with the federal regulations associated with the Child Care Development Fund (CCDF).</p> <p>The department follows documented controls for obligation of funds via the ACF 696 report. The obligation of child care funds are further supported by documented historical data, which informs completion of the ACF 696 obligations. The ACF 696 report has consistently demonstrated obligation of CCDF funds supported by historical data and certificate obligations. If the report had not been done correctly, the federal matching funds could not have been released. The condition of non-compliance for this finding does not exist.</p> <p>The department has established internal controls to ensure obligation of mandatory, discretionary and matching funds for the federal Child Care Development Fund occur within the timelines required in federal regulation.</p>	Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services	N/A
2019-020	93.575 93.596	<p>Child Care Development Fund Health and Safety Requirements - The Department of Public Health and Human Services conducts thorough health and safety inspections of day-care facilities. The auditors identified weaknesses in internal controls, due to administrative rules and checklists not being updated timely with changes in federal regulation.</p> <p>The department will update administrative rules associated with reviews of day-care facilities to ensure all required elements are included. The department will also update checklists used in reviews of day-care facilities to ensure all required elements are not only checked, but documented in the review record.</p>	Jamie Palagi, Administrator Early Childhood & Families Division Department of Public Health and Human Services	6/30/2020
2019-021	93.575 93.596	<p>Child Care Development Fund Overpayments - The Department of Public Health and Human Services did not have internal controls in place to ensure these activities continued during staffing shortages.</p> <p>Internal control procedures have been updated, and a collections specialist hired, to confirm letters have been sent and collections initiated.</p>	Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2019-022	Various	<p>Cost Allocation Plan - The Department of Public Health and Human Services does not agree with the underlying findings related to two cost pools; therefore the department partially concurs with this audit recommendation. The department has established controls to timely verify to ensure that cost pools are allocated according to the cost allocation plan. Cost pools are tested monthly, including reviews of variance, completeness, and statistics results which provide additional oversight of cost pools and their allocation methodology.</p> <p>Additionally, the department reviews the cost pools as a part of their Public Assistance Cost Allocation Plan (PACAP) submission. These controls were insufficient to detect variance in cost pools with a full-time equivalent (FTE) directly supervised statistic. The department has updated the department-wide review of their PACAP submission to include statistics data, and has incorporated a monthly process in which FTE-based statistics are compared with the PACAP, the department's organization chart, and other data supporting supervisory structure. While the department agrees that the FTE-based statistic cost pools exhibited errors in allocation, the department does not agree that the County Use Allowance and Reimbursement Travel Indirect cost pools are in error. The auditors note that charges were made prior to submitting a revised allocation plan. However, the allocation plan submitted served only to provide additional clarity around costs previously summarized in more general cost pools.</p> <p>The department only implements changes to the cost allocation process after submitting plan revisions to the federal government. It is not always feasible to submit, or receive, approval for cost allocation plans prior to claiming costs related to modified or amended cost pools. The department may request an earlier or later date of a cost allocation plan amendment per 45 CFR 95.515 in order to avoid a significant inequity to either the state or federal government.</p>	<p>Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services</p>	N/A
		<p>The department instituted a review of cost pools to ensure costs are allocated as specified in the plan. Internal controls have also been implemented to detect variances in cost pools based on a full-time equivalent staff statistic.</p>	<p>Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services</p>	Completed
2019-023	93.568	<p>Low-income Home Energy Assistance Program Cash Management - The Department of Public Health and Human Services does not concur with this audit finding. The department has an internal review process which detected the clearance pattern error, as is the control process design.</p> <p>The staff communicated the clearance pattern error to the auditor during the course of the audit, but not as a deficiency. Because the control procedure worked as designed, the error was detected, the internal draw spreadsheet was corrected, and the draw rectified.</p>	<p>Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services</p>	N/A
2019-024	10.557 93.563	<p>Special Supplemental Nutrition Program for Women, Infants and Children and Child Support Enforcement Cash Management - The Department of Public Health and Human Services partially concurs with this audit finding. The department may not be able to fully estimate collections from non-federal sources to completely eliminate excess cash, but has documented controls in place to minimize federal cash on hand.</p> <p>Additional controls are being researched to determine if the department can modify draws to incorporate cash collections from non-federal sources to reduce instances of excess federal cash. However, the collections from non-federal sources have enough variation that instances of excess cash may still occur if reasonable estimation is insufficient to prevent excess cash.</p>	<p>Kim Aiken, Administrator Business & Financial Services Division Department of Health and Human Services</p>	4/20/2020 4/30/2020

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019			
Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP
2019-025	93.563 93.658 93.659 93.767 93.775 93.777 93.778	<p>Automated Data Processing System Security - The Department of Public Health and Human Services agrees that the review of two of the 80 systems was not completed in the required timeframe. However, these reviews were completed prior to the audit review (1/18/2019 and 11/26/2019).</p> <p>The department will adopt and implement the Department of Administration's tracking tool to ensure that all required reviews are identified and conducted as required by federal regulations.</p>	David Crowson, Chief Information Officer Information Technology Services Division Department of Public Health and Human Services
2019-026	20.205 20.219 20.224	<p>Highway Planning and Construction Cluster Certified Payroll - It is the responsibility of the contractors to submit certified weekly payrolls to the Montana Department of Transportation (MDT) when working on an MDT construction project. The department's internal control is that the Engineering Project Managers (EPM) ensure certified payrolls are received each week for their contracts.</p> <p>The labor compliance specialist has increased education of this requirement to contractors, as well as enhanced training to EPM's. Through the increased training of the contractors and field staff, the projects managed outside of the new electronic payroll submission module will be monitored for all certified payrolls.</p> <p>The Montana Department of Transportation also implemented a new module for AASHTOWare CRL that requires the contractors to submit the certified payrolls electronically. This was completed October 2019 and will assist in improving compliance. Additionally, MDT's Audit Services has a step to review this process as part of their annual Construction Project Audits.</p>	Dwane Kailey, Administrator Highways & Engineering Division Montana Department of Transportation
2019-027	20.205 20.219 20.224	<p>Highway Planning and Construction Cluster Contract Adjustments - The Montana Department of Transportation has updated the Specification Book to include the updated Specification for Significant Change in Character of Work. This was included on all contracts let after April 25, 2019. This specification includes verbiage to require a change order for all major items that overrun or underrun.</p> <p>The Montana Department of Transportation will include verbiage on the 90% complete memo to have the Engineering Project Manager check for any quantity deficiencies and determine the nature of any changes and if a change order is required.</p>	Dwane Kailey, Administrator Highways & Engineering Division Montana Department of Transportation
2017-028	97.042 97.067 97.039	<p>Disaster and Emergency Services Allowable Costs - The Montana Disaster and Emergency Services Division, and the Montana Department of Military Affairs, conditionally concurs with this audit finding. The division strongly supports internal controls and grant management oversight. However, the audit did not provide specific examples of instances where unallowable expenditures were reimbursed.</p> <p>In response to this audit recommendation, the department has:</p> <p>Updated their State Grant Guidance on reimbursement documentation for the next grant cycle;</p> <p>Created a check list and notational guidance for each level of internal review being implemented, which will be fully implemented with next grant cycle; and</p> <p>Instructed subrecipients on changes through ongoing monitoring.</p>	Della Bruno, Administrator Disaster and Emergency Services Division Department of Military Affairs
2019-029	12.401	<p>Military Operations and Maintenance Match Requirements - The Department of Military Affairs has implemented this recommendation. The Construction Facilities Maintenance Office (CFMO) established a working group to evaluate each facility with a federal/state split and ensure the calculations are correct and properly annotated. The CFMO updated the real state standard operating procedures to include re-validation of splits every five years, or as necessary when change of use occurs.</p>	Todd Verrill Construction Facilities Maintenance Officer Army National Guard Department of Military Affairs

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019			
Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP
2019-030	84.287	<p>Twenty-First Century Community Learning Centers Payment Controls - The Office of Public Instruction partially concurs with this audit finding. The office believes that the current budget approval process, fiscal review, and monitoring practices meet all federal compliance requirements.</p> <p>In addition to these controls, the office completes annual reviews of school audits which provide reasonable assurance over allowable activities. In an effort to enhance current internal controls, the office will implement an annual desk audit for non-school recipients of 21st Century funds that do not receive an audit.</p>	<p>Jay Phillips Centralized Services Division Administrator Office of Public Instruction</p>
2019-031	84.010	<p>Title I Monitoring of Test Security - The Office of Public Instruction will continue to implement the assessment test security monitoring procedures approved via the peer review process by the U.S. Department of Education.</p>	<p>Ken Bailey, Chief Financial Officer Department of Operations Office of Public Instruction</p>
2019-032	10.553 10.555 10.556 10.559 84.010 84.027 84.173 84.287	<p>Subrecipient Monitoring - The Office of Public Instruction will review audits provided by all subrecipients that are non-school entities before making any additional awards. The office will implement a risk assessment system for all entities receiving federal grants from the Office of Public Instruction prior to awarding any further grants.</p> <p>The office has created a management decision letter template that complies with federal regulations and will be used for all audits received from this point forward.</p>	<p>Ken Bailey, Chief Financial Officer Department of Operations Office of Public Instruction</p>
2019-033	10.553 10.555 10.556 10.559 84.010 84.027 84.173 84.287	<p>Suspension and Debarment Review - The Office of Public Instruction partially concurs with this audit finding. The office did complete the suspended and debarment review for the entire audit period, even though supporting documentation was not available for a portion of the period reviewed.</p> <p>The office has also enhanced the review process to include non-school entities.</p>	<p>Jay Phillips, Administrator Centralized Services Division Office of Public Instruction</p>
2019-034	15.605 15.611	<p>Fish and Wildlife Cluster Program Supervisor Review for Allowable Expenditures - The Department of Fish, Wildlife & Parks agrees that the normal processing procedures for aircraft usage and fleet usage need to be reviewed to ensure an adequate review for allowable costs is considered. In coordination with key department personnel, the department will develop alternative review processes surrounding these functions.</p>	<p>Jennifer Thompson, Accounting Bureau Chief Administration Division Department of Fish, Wildlife & Parks Tim Grace, Fleet Operations Manager Department of Fish, Wildlife & Parks</p>
2019-035	15.605 15.611	<p>Fish and Wildlife Cluster Indirect Cost Rate Calculation - While the Department of Fish, Wildlife & Parks could not recalculate the same figures identified within the finding, the department agrees that the process needs to be improved. The department will formally document the process to include adequate internal controls surrounding the calculation, ensure all unallowable items are provided adequate consideration, and provide formalized supporting documentation.</p> <p>The department will also work with our cognizant agency to determine the most appropriate course of action going forward.</p>	<p>Denise Dawson, Budget Bureau Chief Administration Division Department of Fish, Wildlife & Parks</p>

Draft Process -
6/30/2020

Finalized
Process -
11/30/2020

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2019-036	15.605 15.611	<p>Fish and Wildlife Cluster Internal Audit Time Allocation - The Department of Fish, Wildlife & Parks partially concurs with this audit finding and agrees that the internal audit position has limited tasks that are not related directly to the award that was approved by the U.S. Fish and Wildlife Service. However, the department strongly believes the ineligible hours are minimal and still benefit the grant program as a whole.</p> <p>The department will work with the U.S. Fish and Wildlife Service to determine the most appropriate course of action, since this is an active grant award which expires 6/30/2020. Effective fiscal year 2021, this position will be included in the indirect cost pool.</p>	Adam Brooks Federal Aid Compliance Bureau Chief Administration Division Department of Fish, Wildlife & Parks	6/30/2020

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

E-1

STEVE BULLOCK
GOVERNOR



CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

March 26, 2020

RECEIVED
March 26, 2020
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena MT 59620-1705

Re: Summary Schedule of Prior Audit Findings
Montana Single Audit Report #18-02
For the Two Fiscal Years Ended June 30, 2019

Dear Mr. Maciver:

In accordance with Uniform Guidance requirements, the state of Montana is responsible for follow-up and corrective action on all audit findings identified in the Montana Single Audit Report. As part of this responsibility, the state is required to prepare a summary schedule reporting the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards. The Office of Budget and Program Planning compiles this information on behalf of the state and oversees the implementation status of these audit findings.

Attached is the State of Montana's Summary Schedule of Prior Audit Findings for the two fiscal years ended June 30, 2019. This summary identifies the implementation status of all prior audit findings, except for those findings that have been fully corrected, are no longer valid, or do not warrant further action on the part of the state.

Sincerely,

/s/ Tom Livers

Tom Livers
Budget Director

cc: Sonia Powell, Single Audit Coordinator

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various Federal Agencies - Financial Statement Findings							
Various	Various Federal Agencies	1-2 2013-2 2015-2 2017-1	Actuarial soundness of the Public Employees' Retirement System.	None	2	2006-07	Discussed as part of Finding 2019-2.
Various	Various Federal Agencies	2017-2	Errors in financial statements and note disclosures for the Board of Investment's Unified Investment and Enterprise Fund programs.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
Various Federal Agencies - Federal Compliance Findings							
Various	Various	2017-002	Noncompliance with Cash Management Improvement Act.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2018.
U.S. Department of Agriculture							
10.665	Schools and Roads - Grants to States	2015-001 2017-001	Insufficient subrecipient monitoring procedures.	None	4	2014-15	The Montana Department of Administration has been in recent communication with the U.S. Forest Service, National Partnership Office in Washington DC about this finding. The office indicates they do not want to add undue burdens or requirements to states and counties, and is looking at amending the audit guidance (or lack of) in the coming months.
10.555	National School Lunch Program	2015-027 2017-005	Noncompliance with federal Cash Management Improvement Act requirements.	None	1	2014-15	This prior audit finding was fully implemented as of June 30, 2019.
10.553 10.555 10.556 10.559	Child Nutrition Cluster	2017-005	Noncompliance with federal Cash Management Improvement Act requirements.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.

Category of Corrective Action Taken

- 1 - Finding has been fully corrected. 2 - Finding has not been corrected or partially corrected.
3 - Corrective action taken is significantly different than reported. 4 - Finding is no longer valid.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	2017-014	Noncompliance with federal allowable costs/cost principles requirement.	Questioned costs relate to HHS programs also identified in the audit finding.	2	2016-17	Discussed as part of Finding 2019-022.
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	2017-020	Noncompliance with federal food instrument and cash-value voucher disposition requirements.	\$22,800	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	2017-021	Noncompliance with federal food instrument and cash-value voucher disposition requirements.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2018
U.S. Department of Education							
84.010	Title 1 Grants to Local Education Agencies	2015-027	Noncompliance with federal Cash Management Improvement Act requirements.	None	1	2014-15	This prior audit finding was fully implemented as of June 30, 2019.
84.027	Special Education Cluster (IDEA)	2017-005					
84.173							
84.010	Title 1 Grants to Local Education Agencies	2017-006	Noncompliance with federal assessment security requirements.	None	2	2016-17	Discussed as part of Finding 2019-031.
84.007	Student Financial Assistance Cluster	2017-007	Noncompliance with federal cash management requirements for reimbursement requests.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
84.033							
84.038							
84.063							
84.268							
84.379							

Category of Corrective Action Taken

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
84.007 84.033 84.038 84.063 84.268 84.379	Student Financial Assistance Cluster	2017-008	Noncompliance with university's internal control procedures to annually review Banner system's current users and their security profiles.	None	2	2016-17	This prior audit finding is partially implemented as of June 30, 2019. The University of Montana - Missoula will complete their fiscal year 2020 Banner security review by March 31, 2020.
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2017-025	Noncompliance with federal allowable costs/cost principle requirements.	\$58,270	2	2016-17	This prior audit finding is still under review by the U.S. Department of Education. The Legislative Audit Division will continue to monitor the implementation status of this prior audit finding, but they make no further recommendation at this time.
U.S. Department of Health and Human Services							
93.658	Foster Care - Title V-IE	2015-014	Noncompliance with federal subrecipient monitoring requirements.	None	2	2014-15	Discussed as part of Finding 2019-016.
93.558	Temporary Assistance for Needy Families	2015-026	Improvements needed in department's Combined Healthcare Information and Montana Eligibility System's - Enterprise Architecture to ensure accuracy of eligibility determinations and benefit payments.	None	1	2014-15	This prior audit recommendation was fully implemented as of June 30, 2019.
93.264 93.342 93.364	Student Financial Assistance Cluster	2017-007	Noncompliance with federal cash management requirements for reimbursement requests.	None	1	2016-17	This prior audit recommendation was fully implemented as of June 30, 2019.
93.264 93.342 93.364	Student Financial Assistance Cluster	2017-008	Noncompliance with university's internal control procedures to annually review Banner system's current users and their security profiles.	None	2	2016-17	This prior audit finding is partially implemented as of June 30, 2019. The University of Montana - Missoula will complete their fiscal year 2020 Banner security review by March 31, 2020.

Category of Corrective Action Taken

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**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.558	TANF Cluster	2017-014	Noncompliance with federal allowable costs/cost principles requirement.	\$43,800	2	2016-17	Discussed as part of Finding 2019-022.
93.667	Social Services Block Grant			\$6,300			
93.767	Children's Health Insurance Program (CHIP)			\$111,000			
93.775	Medicaid Cluster						
93.777							
93.778							
93.558	TANF Cluster	2017-015	Noncompliance with federal Cash Management Improvement Act requirements.	None	2	2016-17	Discussed as part of Finding 2019-023.
93.568	Low Income Housing Energy Assistance Program						
93.575	CCDF Cluster						
93.596	Foster Care - Title IV-E						
93.658	Adoption Assistance						
93.659							
93.775	Medicaid Cluster	2017-016	Noncompliance with federal Medicaid provider agreement requirements.	None	1	2016-17	This prior audit recommendation was fully implemented as of June 30, 2019.
93.777							
93.778							
93.775	Medicaid Cluster	2017-017	Noncompliance with federal Medicaid fraud reporting requirements.	None	1	2016-17	This prior audit recommendation was fully implemented as of June 30, 2019.
93.777							
93.778							
93.775	Medicaid Cluster	2015-008	Insufficient controls over completeness and accuracy of CMS-64 reports.	None	1	2014-15	This prior audit recommendation was fully implemented as of June 30, 2019.
93.777	Children's Health Insurance Program	2017-018					
93.778							
93.775	Medicaid Cluster	2015-012	Noncompliance with federal risk analyses and Automated Data Processing systems reviews.	None	2	2014-15	Discussed as part of Finding 2019-025.
93.777		2017-019					
93.778							
93.575	CCDF Cluster	2017-022	Noncompliance with federal child care payment recovery requirements.	\$2,669	2	2016-17	Discussed as part of Finding 2019-021.
93.596				\$3,741			

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**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.558	TANF Cluster	2017-023	Noncompliance with federal TANF income comparison requirements	None	2	2016-17	Discussed as part of Finding 2019-012.
93.558	TANF Cluster	2017-024	Noncompliance with federal procurement requirements.	\$640,900	2	2016-17	Discussed as part of Finding 2019-015.
93.268	Immunization Cooperative Agreements	2017-026	Noncompliance with federal allowable costs/cost principles requirements.	\$66,962	1	2016-17	This prior audit recommendation was fully implemented as of June 30, 2019.
U.S. Department of Homeland Security							
97.042	Emergency Management	2017-011	Noncompliance with federal allowable costs requirements.	Up to \$734,400	2	2016-17	Discussed as part of Finding 2019-028.
97.047	Performance Grants			Up to \$968,400			
97.067	Pre-Disaster Mitigation Homeland Security Grant Program						
U.S. Department of Housing and Urban Development							
14.871	Section 8 Housing Choice Vouchers	2015-020 2017-012	Noncompliance with federal Cash Management Improvement Act requirements.	None	1	2014-15	This prior audit finding was fully implemented as of June 30, 2019.
14.871	Housing Voucher Cluster	2017-013	Noncompliance with federal procurement requirements.	\$1,291,564 \$1,424,914	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
U.S. Department of Labor							
17.225	Unemployment Insurance	2015-025 2017-004	Noncompliance with federal data validation requirements for Overpayment Detection and Recovery Activities report.	None	1	2014-15	This prior audit finding was fully implemented as of June 30, 2019.

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
17.225	Unemployment Insurance	2017-003	Noncompliance with Cash Management Improvement Act.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
U.S. Department of Transportation							
20.205 20.509	Highway Planning and Construction Formula Grants for Rural Areas	2015-021	Noncompliance with Federal Funding Accountability and Transparency Act reporting requirements.	None	2	2014-15	The Montana Department of Transportation has enhanced internal controls to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA). The internal controls include updating the FFATA Reporting Process document, which designates the responsible person for all reporting and the applicable person for each program.
20.205 20.219	Highway Planning and Construction Cluster	2017-009	Noncompliance with federal Cash Management Improvement Act requirements.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
20.205 20.219	Highway Planning and Construction Cluster	2017-010	Noncompliance with federal subrecipient monitoring requirements.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
20.205 20.219	Highway Planning and Construction Cluster	2017-027	Noncompliance with federal procurement requirements.	\$900,000	2	2016-17	Discussed as part of Finding 2019-027.
20.205 20.219	Highway Planning and Construction Cluster	2017-028	Noncompliance with federal certified payroll requirements.	None	2	2016-17	Discussed as part of Finding 2019-026.
20.205 20.219	Highway Planning and Construction Cluster	2017-029	Noncompliance with federal allowable costs/cost principles requirements.	\$143,000	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2019

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
20.509	Formula Grants for Rural Areas	2017-030	Noncompliance with federal reporting requirements.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
20.509	Formula Grants for Rural Areas	2017-031	Noncompliance with federal vehicle procurement requirements.	None	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.

Category of Corrective Action Taken

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