A Report to the Montana Legislature

Financial Audit

Teachers' Retirement Board

For the Fiscal Year Ended June 30, 2015

December 2015

Legislative Audit Division

14-09B

Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Audit Staff

Joseph Andriolo
Jeane Carstensen-Garrett
Katie Majerus
Monica Birlut
Mary Currin
Alexa O'Dell

Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

December 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit of the Teachers' Retirement Board (board), a component unit of the state of Montana, for the fiscal year ended June 30, 2015. Included in this report are the Independent Auditor's Report, financial statements prepared by board personnel, related notes to the financial statements, required supplementary information, and supplementary information. Required supplementary information and supplementary information presented in this report include information about the Teachers' Retirement System's total and net pension liability as well as additional investment, contribution, and expense data.

The board's response to our audit is on page C-1. We thank the executive director and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Table of Contents

Appointed and Administrative Officials

			Term Expires
Teachers' Retirement Board	Kari Peiffer, Chair	Kalispell	July 2017
	Scott Dubbs, Vice Chair	Lewistown	July 2018
	Janice Muller	Hamilton	July 2016
	Marilyn Ryan	Missoula	July 2016
	Daniel Trost	Helena	July 2019
	Lisa Cordingly	Helena	July 2015

Administrative Officials

Shawn Graham, Executive Director

Tammy Rau, Deputy Executive Director

Nolan Brilz, Accounting and Fiscal Manager

Denise Pizzini, Chief Legal Counsel

For additional information concerning the Teachers' Retirement System, contact:

Shawn Graham, Executive Director
1500 Sixth Avenue
P. O. Box 200139
Helena, MT 59620-0139

e-mail: ShawnGraham@mt.gov

phone: (406) 444-3376

Montana Legislative Audit Division

Financial Audit
Teachers' Retirement Board
For the Fiscal Year Ended June 30, 2015

December 2015 | 14-09B | Report Summary

The Teachers' Retirement Board administers the Teachers' Retirement System, a multiple-employer, cost-sharing, defined-benefit, public pension plan. In fiscal year 2015, the system had 365 reporting employers. Total membership in the system for the fiscal year was approximately 47,600, which includes 14,839 retirees and beneficiaries receiving benefits. The July 2015 actuarial valuation indicated the system is actuarially sound, meaning the plan's assets are estimated to be sufficient to fund benefit payments for all existing members and the cost of amortizing unfunded liabilities over a period of no more than 30 years.

Context

Teachers' Retirement Board (board) is a component unit of the state of Montana, responsible for administering the Teachers' Retirement System (system). Statutorily, full-time members of the public teaching profession, including administrative and professional staff, are required to be members of the system. Certain employees of the Montana University System hired after July 1, 1993, are not required to be members.

At July 1, 2015, the system had more than 18,300 active members. During fiscal year 2015, members contributed $72.2 million, employers contributed $87.3 million, and in total, including supplemental contributions, $202.9 million was contributed to the system. The system had net investment income of $165.7 million. In contrast, $303.7 million in benefits were paid to 14,839 members or their beneficiaries during the fiscal year. The Montana Constitution requires the system to be funded on an actuarially sound basis. This is defined as having contributions sufficient to pay benefits and the cost of amortizing unfunded liabilities over a period of no more than 30 years. The July 1, 2015, actuarial valuation indicated the system's amortization period is 26 years.

For fiscal year 2015, the total pension liability and net pension liability were approximately $5.4 billion and $1.6 billion, respectively. This is an increase from fiscal year 2014 in which the total pension liability and net pension liability were $5.1 billion and $1.5 billion, respectively.

Effective fiscal year 2015, a new accounting standard changed financial reporting requirements for employers of pension plans. Because board employees are members of the Public Employees' Retirement System–Defined Benefit Retirement Plan (PERS–DBRP), the system was required to present an allocated proportion of PERS–DBRP's net pension liability, deferred outflows and deferred inflows of resources, and pension expense in the financial statements, notes, and required supplementary information.

Our audit work included sample testing of contributions and benefits and testing significant internal controls. As part of our audit, we also reviewed the presentation of the system's financial statements and note disclosures to determine they were supported by the underlying accounting records and the actuarial valuation as of June 30, 2015. We also tested key employee data for retirement system members, as this information is used by the board's actuary to calculate the total pension liability.

Results

The report does not contain recommendations and we issued an unmodified opinion on the system's financial statements for fiscal year 2015. This means the reader can rely on the information presented in the financial statements.

For a complete copy of the report (14-09B) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at
http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **ladhotline@mt.gov**.

Chapter I – Introduction

Introduction

We performed a financial audit of the Teachers' Retirement Board (board) for the fiscal year ended June 30, 2015. The objectives of our audit were to:

1. Determine if the Teachers' Retirement System's (system) financial statements present fairly, in all material respects, the financial position of the system and the results of operations for the fiscal year ended June 30, 2015.
2. Obtain an understanding of the board's controls to the extent necessary to support our audit of the system's financial statements and, if appropriate, make recommendations for improvement in the internal and management controls of the system.
3. Determine compliance with selected state laws and regulations.

The financial statement notes and required supplementary information disclose the total and net pension liability for the system as well as additional investment and contribution data. The total pension liability is the actuarial present value of projected benefit payments attributable to past periods of member services. The net pension liability is a measure of the extent to which the total pension liability is not covered by the fiduciary net position of the pension plan. The total pension liability and net pension liability for the system at June 30, 2015, were approximately $5.4 billion and $1.6 billion, respectively.

Our audit work included testing member contributions and retiree benefit payments through samples to ensure contributions made and benefits paid were in accordance with state law and system requirements, as well as testing significant controls designed by board personnel to prevent and/or detect errors. As part of our audit, we also reviewed the presentation of the system's financial statements and note disclosures to determine they were supported by the underlying accounting records and the actuarial valuation as of June 30, 2015. We also tested important employee data for retirement system members, as this information is used by the board's actuary to calculate the total pension liability. Through samples of select employers participating in the system, we tested the accuracy and completeness of key member data such as gender, birthdate, hire date, salary, and employment status.

GASB Statement 68–Changes in Employer Financial Reporting

Effective in fiscal year 2015, pension plan employers are required to implement a new accounting standard issued by the Governmental Accounting Standards Board regarding financial reporting for employers participating in pension plans. Because the board's employees are members of the Public Employees' Retirement System–Defined Benefit Retirement Plan (PERS–DBRP), the financial statements must present the board's allocated proportionate share of PERS–DBRP's net pension liability, deferred outflows and deferred inflows of resources, and pension expense. For fiscal year 2015, the system was allocated a net pension liability of $1,009,567. The notes to the financial statements and required supplementary information also disclose these amounts along with other required information.

The Teachers' Retirement System, as a pension plan, also prepared pension schedules to provide participating employers and their auditors with required information for their financial presentations. We rendered an opinion on these schedules in a separate engagement. The opinion and schedules are available on the system's website.

Background

The board is a component unit of the state of Montana. A component unit is a legally separate organization for which the state of Montana is financially accountable. The six-member board, appointed by the Governor for five-year terms, governs the system. In addition to providing oversight to system personnel, the board's responsibilities include establishing rules and regulations necessary for the administration and operation of the system, and hiring an actuary to provide consultation on the technical actuarial aspects of the retirement system.

The executive director and board personnel are responsible for the daily administration of the system. At June 30, 2015, 18 full-time equivalent (FTE) positions were authorized for the system.

The system is defined as a multiple-employer, cost-sharing defined-benefit, public pension plan. Full-time members of the public teaching profession, including administrative and professional staff, are required to be members of the system. Certain employees of the Montana University System hired after July 1, 1993, are not required to be members. The system had 18,316 active contributing members and 14,503 terminated employees not yet receiving benefits at July 1, 2015. There were 14,839 retirees or their beneficiaries receiving retirement, disability, or survivor benefits as of July 1, 2015.

Independent Auditor's Report and System Financial Statements

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Plan Net Position of the Teachers' Retirement System (system), prepared by the Teachers' Retirement Board, a component unit of the State of Montana, as of June 30, 2015, and the related Statement of Changes in Plan Net Position for the fiscal year then ended, and the related notes which collectively comprise the system's basic financial statements.

Management's Responsibility for the Financial Statements
Management, the Teachers' Retirement Board (board) and its staff, 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 an opinion on these financial statements based on our audit. 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.

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 system'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 system'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

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2015, and the changes in net position 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, Schedule of Changes in Net Pension Liability–TRS Plan, Schedule of the Net Pension Liability–TRS Plan, Schedule of Investment Returns–TRS Plan, Schedule of Employer and Non-Employer Contributing Entities Contributions–TRS Plan, Schedule of Proportionate Share of the Net Pension Liability–TRS as Employer of PERS Plan, Schedule of Contributions–TRS as Employer of PERS Plan, and Other Postemployment Benefits Plan Information Schedule of Funding Progress 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 as a whole. The Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants are presented for purposes of additional analysis and is not a required part of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the board'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 board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 14, 2015

TEACHERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers' Retirement System's (TRS or the System) provides a narrative overview of the TRS's financial activities for the fiscal year ended June 30, 2015.

Overview of the Financial Statements

The TRS 2015 financial statements, notes to the financial statements, and required supplementary information were prepared in conformity with GASB Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the System's ongoing plan perspective. The Statement of Plan Net Position reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Plan Net Position presents the changes that occurred in those resources for the fiscal year ended June 30, 2015.

The Notes to the Basic Financial Statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The required supplementary information consists of the following four schedules of the defined benefit pension plan administered by TRS; changes of employers' net pension liability, employers' net pension liability, employer contributions, and the money-weighted rate of investment returns.

Financial Highlights

- The TRS plan net position increased by $57.4 million from $3.652 billion at 06/30/14 to $3.708 billion at 06/30/15; representing an increase of 1.5% from year to year.
- The TRS plan net investment income was $165.7 million at 06/30/15.
- The TRS plan rate of return on investments during FY 2015 was 4.6% compared with FY 2014 rate of return of 17.1%. The lower rate of return was primarily due to leveling market performance in FY 2015. FY 2014 was also an exceptional year for returns.
- The TRS benefit payments paid to benefit recipients increased 6.4% to $303.7 million for FY 2015, which is consistent with prior years.
- The TRS plan had a Net Pension Liability of $1.64 billion and Net Pension Liability as a percentage of covered payroll was 213.7% as of June 30, 2015.

Condensed Financial Information (in millions)

For comparative purposes, the Condensed Financial Information below is presented with FY 2014 financial information. (Presented in Millions)

Fiduciary Net Position	FY2015	FY2014	Percent Change
Cash/Short-term Investments	$ 78.5	$ 85.8	(8.5%)
Receivables	27.1	27.2	(0.4%)
Investments (fair value)	3,743.3	3,691.3	1.4%
Other Assets (net)	1.5	0.6	166.7%
Total Assets	3,850.4	3,804.9	1.2%
Pension Deferred Outflows	0.1	N/A	N/A
Liabilities	141.8	152.7	(6.9%)
Pension Deferred Inflows	0.3	N/A	N/A
Fiduciary Net Position	**$3,708.4**	**$3,652.2**	**1.5%**

Change in Fiduciary Net Position	FY2015	FY2014	Percent Change
Additions:			
Employer Contributions	$ 87.3	$ 83.4	4.6%
Plan Member Contributions	72.2	70.5	2.4%
Other Contributions	43.4	64.9	(33.1%)
Net Investment Income	165.7	540.3	(69.3%)
Total Additions	368.6	759.1	(51.4%)
Deductions:			
Benefit Payments	303.7	285.2	6.5%
Withdrawals	5.4	4.8	12.5%
Administrative Expenses	2.2	2.1	4.5%
Total Deductions	311.2	292.1	6.5%
Change in Fiduciary Net Position	**$ 57.4**	**$ 467.1**	**(87.7%)**

Financial Analysis

- The change from year-to-year in cash/short-term investments was due to the change in the number of shares held, at a per share value of $1, in the Short Term Investment Pool.
- The increase in Employer Contributions and Plan Member Contributions was due to HB 377 provisions that took effect in FY 2014 that increase contribution rates by 0.10% each year for ten years.
- The decrease in Other Contributions was due to a HB 377 provision for FY2014 only that created a one-time Retirement Reserve Sweep payment from School Districts. The provision created a $22 million revenue injection for FY 2014 that was not realized in FY 2015.

- The increase in investments for FY 2015 was less significant than FY 2014 due to a leveling of the recovery in the economy and capital market conditions.
- Net investment income for FY2015 was positive. However the investment income was down significantly from FY2014 due to lower rates of return and a slower economy.
- The increase in Other Assets was due to investment in an upgrade to the current Pension Administration System. The system will be implemented in stages and the overall cost will be capitalized. The total costs of the project as of FYE 2015 were recorded as Construction Work in Progress. Property and Equipment is further described in Note C of this CAFR.
- The increase in benefit payments from year-to-year reflects an increase in the number of retirees and beneficiaries plus the 1.5% guaranteed annual benefit adjustment. The increase is comparative to previous fiscal years.

Overview of the Actuarial Funding

An actuarial valuation of the System is performed annually. As of July 1, 2015, the date of the most recent actuarial valuation, the funded ratio of the System was 67.5%. This was an increase from the System's July 1, 2014 valuation funded ratio of 65.5%.

In determining contribution rates, an actuarial value of assets is used rather than a market value of assets. The actuarial value of assets is based on a smoothed income investment rate. The TRS plan experienced an asset gain over the last year. The market value of assets had a positive return of 4.57% net of investment and operating expenses. The actuarial value of assets earned 9.59%, which is 1.84% greater than the actuarial assumption of 7.75%. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption.

MCA 19-20-201 requires the actuarial report to show how market performance is affecting the actuarial funding of the retirement system. The July 1, 2015 market value of assets is $56.3 million more than the actuarial value of assets. This is due to the smoothing of investment gains and losses over a four year period. If the market value of assets was used, the amortization period would be 23 years and the funded ratio would be 69.30%. The following table compares the annual returns for the past three fiscal years.

Fiscal Year	Market Return	Actuarial Return	Actuarial Return over/(under) 7.75 %
7/1/2012 to 6/30/2013	12.94%	11.99%	4.24%
7/1/2013 to 6/30/2014	17.09%	13.21%	5.46%
7/1/2014 to 6/30/2015	4.57%	9.59%	1.84%

As of July 1, 2015, the System's unfunded actuarial accrued liability was $1.742 billion. This was a net decrease in the unfunded position of $52 million compared to July 1, 2014.

(This Page Intentionally Left Blank)

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF PLAN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2015

ASSETS		**2015**
Cash/Cash Equivalents-Short Term		
Investment Pool (Note B)	$	78,462,079
Receivables:		
Accounts Receivable		22,104,153
Interest Receivable		4,982,758
Total Receivables	$	27,086,911
Investments, at fair value (Note B):		
Equity in Pooled Investments	$	3,602,502,966
Other Investments		608,874
Securities Lending Collateral (Note B)		140,212,476
Total Investments	$	3,743,324,316
Assets Used in Plan Operations:		
Land and Buildings	$	193,844
Less: Accumulated Depreciation		(150,545)
Equipment		229,000
Less: Accumulated Depreciation		(160,956)
Construction Work in Progress		1,395,626
Total Other Assets		1,506,968
TOTAL ASSETS	$	3,850,380,274
Pension Deferred Outflows (Note E)	$	84,106
LIABILITIES		
Accounts Payable	$	144,638
Securities Lending Liability (Note B)		140,212,476
Compensated Absences (Note B)		162,407
OPEB Implicit Rate Subsidy (Note G)		286,574
Net Pension Liability (Note E)		1,009,567
TOTAL LIABILITIES	$	141,815,662
Pension Deferred Inflows (Note E)	$	262,880
NET POSITION RESTRICTED FOR PENSION BENEFITS	**$**	**3,708,385,838**

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN PLAN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2015

ADDITIONS		**2015**
Contributions:		
Employer	$	87,290,863
Plan Member		72,215,797
Other		43,389,534
Total Contributions	$	202,896,194
Miscellaneous Income	$	27,297
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	$	45,548,576
Investment Earnings		139,711,734
Security Lending Income (Note B)		903,722
Investment Income/(Loss)	$	186,164,032
Less: Investment Expense		20,315,557
Less: Security Lending Expense (Note B)		163,522
Net Investment Income/(Loss)	$	165,684,953
TOTAL ADDITIONS	$	368,608,444
DEDUCTIONS		
Benefit Payments	$	303,675,300
Withdrawals		5,368,359
Administrative Expense		2,035,081
OPEB Expense (Note G)		64,400
Pension Expense (Note E)		76,231
TOTAL DEDUCTIONS	$	311,219,370
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	$	57,389,074
NET POSITION RESTRICTEDFOR PENSION BENEFITS BEGINNING OF YEAR	$	3,652,220,265
Prior Period Adjustment		(1,223,501)
NET POSITION END OF YEAR	$	**3,708,385,838**

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2015

NOTE A. DESCRIPTION OF THE PLAN

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension 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 TRS Board and staff administer the retirement system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at www.trs.mt.gov.

The Teachers' Retirement Board is the governing body of the System. The System was established by the State of Montana in 1937 to provide retirement, death, and disability benefits to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

Board Composition

The Teachers' Retirement Board (the Board) consists of six members, all appointed by the Governor. Three Board 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 Board member must be a retired teacher who was a member of TRS at the time of retirement. Two Board members are appointed from the public at large. TRS Board members serve staggered five year terms. Three Board members constitutes a quorum.

Reporting Entities

At June 30, 2015, the number and type of reporting entities participating in the system were as follows:

Local School Districts & Co-ops	352
Community Colleges	3
University System Units	2
State Agencies	8
Total	365

System Membership

At July 1, 2015, the date of the most recent actuarial valuation, system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	14,839
Terminated Members:	
Vested	1,664
Non-vested	12,839
Active Plan Members:	
Full-Time	12,468
Part-Time	5,848
Total Membership	47,658

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. 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% x AFC x 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 1st 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 is calculated at 1.5% of the benefit payable as of January 1st. For Tier Two members, the GABA to be calculated 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.

Overview of Contributions

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2015, were required to contribute 8.15% of their earned compensation. School district and community college employers were required to contribute 8.57% of earned compensation. The State's General Fund contributes an additional 2.38% of earned compensation for school district and community college employers. University System and State Agency employers were required to contribute 10.95% of earned compensation. The State's General Fund also contributes an additional .11% of total earned compensation of all TRS members. Each employer in the Montana University System contributes to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Montana University System Retirement Program (MUS-RP).

Contribution rates for FY 2014, 2015 and 2016 for school district and community college employers are listed below.

Fiscal Year	Members	Employers	General Fund	Total
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%

Contribution rates for FY 2014, 2015 and 2016 for state agencies and the University System, employers are listed below.

Fiscal Year	Members	Employers	General Fund	Total
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%

Pursuant to 19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014 through fiscal year 2024.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The TRS, a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity, prepares its financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period when due pursuant to statutory requirements and investment income is recognized when earned. Benefit and withdrawal payments are recorded in the period in which the liabilities are due and payable.

The System adheres to all applicable Governmental Accounting Standards Board (GASB) Statements.

GASB Statement No. 67 which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The statement required changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes included an actuarial calculation of total and net pension liability. It also included comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note D.

GASB Statement No. 68 which was adopted during the year ended June 30, 2015, addresses accounting and financial reporting requirements for public pension plan employers. As an active employer in the Public Employees' Retirement System (PERS), TRS is required to comply with GASB Statement No. 68. The statement requires additional notes to the financial statements and required supplementary information. Significant changes include recording and reporting of pension amounts including: Net Pension Liability, Pension Expense, and Deferred Inflows and Outflows of resources. The GASB Statement No. 67 actuarial calculation of total and net pension liability for PERS was allocated to each employer of PERS based on the FY2014 employer contributions. The allocated pension amounts, determined in accordance with GASB Statement No. 68, are presented in Note E.

Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors and/or changes in accounting policy from prior periods. The adjustment herein is related to changes in accounting policy from the implementation of GASB Statement 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

The implementation of Statement 68 requires employers to record a beginning net pension liability at transition and present the amount as a prior period adjustment. The implementation of GASB 68 resulted in a prior period adjustment for recording the beginning net pension liability in the amount of ($1,299,159).

The implementation of GASB 71 requires employers to record a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date (FY 2014 contributions). The implementation of GASB 71 resulted in a prior period adjustment for recording the beginning deferred outflow of resources in the amount of $75,657.

The implementation of GASB 68 and GASB 71 together resulted in a prior period adjustment for TRS in the amount of ($1,223,501) for FY 2015.

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2015.

Investments

The Montana Board of Investments (BOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by Section 19-20-501, Montana Code Annotated. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. Investments administered by the BOI for the TRS are subject to their investment risk policies. TRS does not have an investment policy of its own to address risks. Information on investment policies, investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Cash and cash equivalents consist of funds deposited in the State Treasurer's pooled cash account and cash invested in the Short-Term Investment Pool (STIP). Pooled investments other than STIP are reported at the fair value of each unit times the number of units owned. STIP is recorded at one dollar per unit for each unit held. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers' valuation reports.

The TRS investments include: STIP; Retirement Funds Bond Pool (RFBP); Montana Domestic Equity Pool (MDEP); Montana International Equity Pool (MTIP); Montana Private Equity Pool (MPEP), Montana Real Estate Pool (MTRP). Other Investments consist of a portfolio of Structured Investment Vehicles (SIVs) at June 30, 2015.

TRS Cash Equivalent and Investment Portfolio
June 30, 2015

Investment	Book Value	Fair Value
Short-term Investment Pool	$ 70,298,226	$ 70,298,226
Retirement Funds Bond Pool	755,614,080	819,646,514
MT Domestic Equities Pool	396,477,203	1,456,908,955
MT International Equities Pool	360,489,693	609,168,891
MT Private Equities Pool	173,722,719	392,552,846
MT Real Estate Pool	271,099,988	324,225,760
Other Asset Backed Securities	608,874	608,874
Total	$ 2,028,310,783	$ 3,673,140,066

The investment risks for the pooled investments that TRS participates in are described in the following paragraphs. Investments are administered by the BOI, for the TRS, as part of the State of Montana's Unified Investment Program and are responsible for setting investment risk policies.

Credit Risk – Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of BOI's investment in a single issuer.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

All securities in pools are held in the name of the Montana BOI, or were registered in the nominee name for the Montana BOI and held in the possession of the BOI's custodial bank. MDEP, MTIP, MPEP, and MTRP do not invest in debt securities, so interest rate risk, credit risk, and concentration of credit risk do not apply to these holdings. According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a7-like pool. STIP, as an external investment pool, has not been rated. RFBP consists of corporate bonds (rated), international government bonds, municipal government bonds, sovereign bonds, U.S. government direct obligations, and U.S. government agency.

The TRS investments subject to credit and interest rate risk at June 30, 2014 are categorized below:

Investment	Fair Value 6/30/15	Credit Quality Rating 6/30/15	Effective Duration 6/30/15
RFBP	$ 819,646,514	A+	5.37
STIP	70,298,226	NR	N/A

With the exception of the U.S. Government securities, the RFPB fixed income instruments have credit risk as measured by major credit rating services. Obligations of the U.S. Government or obligation explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The total fixed income investments credit quality of rating for RFBP is not rated (NR).

MPEP, MTRP, MTIP, and RFBP include assets subject to foreign currency risk. TRS' position in these pools is approximately 37% at June 30, 2014. The Montana BOI MPEP and MTRP investments in EURO currency had a fair value of approximately $36,061,000 at June 30, 2015. The Montana BOI MTIP and RFBP had cash and securities with a foreign currency value of approximately $422,245,000 at June 30, 2015.

Securities Lending – Under the provisions of state statutes, BOI is authorized to lend its securities and has contracted with the custodial bank to lend the BOI 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 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The BOI and the custodial bank split the earnings, 80/20% respectively, on security lending activities. The BOI retains all rights and risks of ownership during the loan period. At June 30, 2015, the BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending. There were no failures by any borrowers to return or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower.

NOTE C. PROPERTY and EQUIPMENT

Property and equipment consist of the amounts shown in the following table as of June 30, 2015, and 2014. Assets under $5,000 are expensed in the year purchased. Assets valued at $5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Assets valued at $100,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. There were no significant leases as of June 30, 2015, or 2014. As of June 30, 2015 TRS has completed several modules of its upgraded pension administration system project (M-Trust). The system upgrade is being implemented on a modular basis with all modules expected to be completed by June 30, 2016. The cost of implementing and upgrading the system as of June 30, 2015 is shown below and on the Basic Financial Statements in the Construction Work in Progress line item. The upgrade will be amortized once the project is complete. The Board approved a $2.7 million investment in the upgraded system in the spring of 2014.

	2015	2014
Land and Buildings	$ 193,844	$ 193,844
Less: Accumulated Depreciation	(150,545)	(150,545)
Equipment	229,000	206,696
Less: Accumulated Depreciation	(160,956)	(132,925)
Construction Work in Progress	1,395,626	499,184
Net Property and Equipment	$ 1,506,968	$ 616,255

NOTE D. NET PENSION LIABILITY– TRS PLAN REPORTING

Net Pension Liability – TRS Plan

	Fiscal Year Ending June, 30 2015
Total Pension Liability	$5,351,391,599
Fiduciary Net Position	3,708,385,838
Net Pension Liability	$1,643,005,761
Ratio of Fiduciary Net Position to Total Pension Liability	69.30%

The net pension liability, the retirement system's total pension liability (TPL) determined in accordance with GASB No. 67 less the fiduciary net position (FNP), as of June 30, 2015, is as shown above. July 1, 2015 is the date of the actuarial valuation upon which the TPL is based. Roll forward procedures were not used.

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The most recent experience study was performed in the spring of 2014 for the five year period ending July 1, 2013. The Schedule of Net Pension Liability presents multi-year trend information about whether the plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability. This schedule is presented in the Required Supplementary Information section.

Summary of Actuarial Assumptions – TRS Plan

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 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* 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Growth in Membership 0.00%
- Postretirement Benefit Increases (starting three years after retirement) 1.50%
- Interest on Member Accounts 5.00%

*Total Wage Increases include 4.00% general wage increase assumption and 4.51% merit and longevity increases.

Target Allocations – TRS Plan

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long-Term Expected Portfolio Real Rate of Return* (a) x (b)
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
Totals	100.00%		4.75%
	Inflation		3.25%
	Expected arithmetic nominal return		8.00%

*The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2008 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 System's target asset allocation as of June 30, 2015, is summarized in the above table.

The discount rate (long-term rate of return assumption) 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 plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana State Code. These rates are shown in the following tables. In addition to these contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2116. 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**.**

History of Legislated Contributions
School District and Other Employers
by percent of covered payroll

	Members	Employers	General fund	Total employee & employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

State and University Employers

	Members	Employers	General Fund	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

Pursuant to 19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014 through fiscal year 2024.

Sensitivity Analysis – TRS Plan

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Net Pension Liability	$ 2,257,357,650	$ 1,643,005,761	$ 1,126,063,873

In accordance with GASB 67 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 7.75%, 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.

Schedule of Investment Returns – TRS Plan

TRS PLAN
SCHEDULE OF INVESTMENT RETURNS

	2015*	2014*
Annual Money Weighted Rate Return, net of Investment Expense	4.618%	17.18%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

The annual money weighted rate of return on pension plan investments expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

NOTE E. NET PENSION LIABILITY– EMPLOYER REPORTING

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, TRS is required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 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 and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, The State of Montana has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as grant revenue. However, since TRS does not receive any other contributions from the state as a result of being an employer of PERS, the State of Montana Proportionate share is $0 as seen below.

Net Pension Liability – TRS as an Employer of PERS Plan

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
TRS Proportionate Share	$ 1,299,158	$ 1,009,567	0.081024%
State of Montana Proportionate Share associated with TRS	$ 0	$ 0	0.000000%
Total	$ 1,299,158	$ 1,009,567	0.081024%

At June 30, 2015, TRS recorded a liability of $1,009,567 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014. TRS' proportion of the Net Pension Liability was based on the employer contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the TRS' proportion was 0.081024 percent.

Summary of Actuarial Assumptions – PERS Plan

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 employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense - TRS as an Employer of PERS Plan

		Pension Expense as of 6/30/14
TRS Proportionate Share	$	48,946
Proportionate Share of Coal Severance Tax contributions associated with TRS	$	27,285
Total	$	76,231

At June 30, 2015, TRS recognized a Pension Expense of $76,231 for its proportionate share of the PERS' pension expense. TRS also recognized grant revenue of $27,285 for the support provided by the State of Montana for the proportionate share of the Coal Severance Tax contributions made to PERS that are associated with TRS.

Recognition of Beginning Deferred Outflow - TRS as an Employer of PERS Plan

At June 30, 2015, TRS recognized a beginning deferred outflow of resources for TRS' FY 2014 contributions of $75,657

Deferred Inflows and Outflows - TRS as an Employer of PERS Plan

At June 30, 2015, TRS reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 0	$ 0
Changes in actuarial assumptions	$ 0	$ 0
Difference between projected and actual investment earnings	$ 0	$ 260,856
Differences between TRS contributions and proportionate share of contributions	$ 0	$ 2,024
Changes in proportion	N/A	N/A
*Contributions paid to PERS subsequent to the measurement date - FY 2015 Contributions	$ 84,104	$ 0
Total	$ 84,104	$ 262,880

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions in FY 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	$ -	$ 65,889	$ (65,889)
2017	$ -	$ 65,889	$ (65,889)
2018	$ -	$ 65,889	$ (65,889)
2019	$ -	$ 65,214	$ (65,214)
2020	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

Plan Description – PERS Plan

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, 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 PERS-DCRP by filing an irrevocable election. Members may not be members 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). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

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. Member rights are vested after five years of service.

Summary of Benefits – PERS Plan

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 part of a member's highest average compensation.

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

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)*
• 3% for members hired **prior to** July 1, 2007
• 1.5% for members hired **on or after** July 1, 2007 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.

Overview of Contributions – PERS Plan

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

2. Member contributions to the system:
   a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.90% member contributions 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.

3. Employer contributions to the system:
   a. State and University System employers are required to contribute 8.27% of members' compensation.
   b. Local government entities are required to contribution 8.17% of members' compensation.
   c. School district employers contributed 7.90% of members' compensation.
   d. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. 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.
   e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
   f. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

4. Non Employer Contributions
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributes from the Coal Tax Severance fund

Stand-Alone Statements – PERS Plan

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

CAFR information including PERS stand-alone financial statements can be found on their website at http://mpera.mt.gov/annualReports.shtml

The latest actuarial valuation and experience study can be found at their website at http://mpera.mt.gov/actuarialValuations.asp

Actuarial Assumptions – PERS Plan

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

• General Wage Growth*	4.00%
*includes Inflation at	3.00%
• Merit Increases	0% to 6%
• Investment Return	7.75%

• Postretirement Benefit Increases
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired on or after July 1, 2007
    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.

• Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

• Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate – PERS Plan

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 plan members, employers, and non-employer contributing entities will be made based on the PERS Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. 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' 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 – PERS Plan

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the PERS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector 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 expense and inflation) are 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 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 are presented as the arithmetic real rates of return for each major asset class included in the PERS target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis – TRS as an Employer of PERS Plan

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
TRS' proportion of Net Pension Liability	$1,606,117	$1,009,567	$506,436

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 7.75%, 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.

Summary of Significant Accounting Policies – PERS Plan

The Montana Public Employee Retirement Administration (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 have been determined on the same accrual basis as they are reported by 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. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

NOTE F. TRS PLAN CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2015, were required to contribute 8.15% of their earned compensation and the employer contribution rate for the fiscal year ending June 30, 2015 was 8.57% of earned compensation. For State Agency and University System employers the employer contribution rate was 10.95% of members' earned compensation.

The State's general fund contributed an additional 2.38%, for school district and community college employers, of their members' earned compensation. In addition, the State's general fund contributed .11% of earned compensation for all TRS members. Each employer in the Montana University System contributed 4.72% of the earned compensation of employees participating in the Montana University System Retirement Program (MUS-RP).

TRS actuary determines the actuarial implications of the funding requirement in annual actuarial valuations. 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 accrued liability determined as a level percentage of earned compensation. Contribution rates consist of an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and an amount for amortization of the unfunded actuarial accrued liability.

Contributions made by employers and members were in accordance with actuarially computed funding requirements. Information with regard to contributions to the System, for the year ended June 30, 2015, is indicated in the Required Supplemental Information, Schedule of Employer Contributions.

NOTE G. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

TRS employees and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration (MDOA). In accordance with Section 2-18-704, MCA, the State provides optional post-employment medical, vision and dental health care benefits for retirees and their dependents and beneficiaries that elect to continue coverage and pay administratively established premiums. Plan coverage is on a calendar year basis. For GASB 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and TRS is considered to be a separate employer participating in the plan. Information about the State of Montana Other Postemployment Benefits (OPEB) can be obtained from the Department of Administration, State Financial Services Division, at P.O. Box 200102, Helena, MT 59620-0102.

The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the TRS.

Funding Policy

The contribution requirements of plan members are established and may be amended by the MDOA. The monthly premium for plan members ranges from $299 to $1,061 for calendar year 2013 depending on the medical plan selected, family coverage, and Medicare eligibility. The plan is financed on a pay-as-you-go basis.

Annual OPEB Cost

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual OPEB Cost

	TRS
Annual required contribution/OPEB cost	$ 60,923
Interest on net OPEB obligation	16,119
Amortization on net OPEB obligation	(12,642)
Annual OPEB cost	64,400
Contributions made	(18,155)
Increase in net OPEB obligation	46,245
Net OPEB obligation – beginning of year	240,329
Net OPEB obligation – end of year	$286,574

The 2015 ARC is calculated for all the plan's employers and then allocated to each participating employer. The TRS 2015 ARC is $60,923. The 2015 ARC is equal to an annual amount required each year to fully fund the liability over 30 years. The amount of the estimated OPEB actuarial accrued liability was determined in accordance with GASB Statement 45, and the liability for TRS is estimated at $493,412. (The actuarial accrued liability is the present value of future retiree benefits and expenses.) For fiscal year 2015, the TRS allocated annual OPEB cost (expense) was $64,400. The June 30, 2013 figure was restated due to a change in calculation of annual OPEB costs, which did not previously include adjustments for amortization. The TRS annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 and the five preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	59,948	20.4%	96,844
6/30/2011	62,837	27.9%	134,832
6/30/2012	59,112	9.4%	164,529
6/30/2013	59,793	12.0%	194,444
6/30/2014	58,073	21.0%	240,329
6/30/2015	64,400	28.2%	286,574

OPEB Funded Status and Funding Progress

Other Postemployment Benefits Plan Information
Schedule of Funding Progress
(All dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of covered Payroll ((b-a/c)
12/31/2007	-	$ 449,321	$ 449,321	0%	519,969	86.41%
12/31/2009	-	$ 357,664	$ 357,664	0%	526,794	67.89%
12/31/2011	-	$ 361,053	$ 361,053	0%	558,646	64.63%
12/31/2013	-	$ 493,412	$ 493,412	0%	828,985	59.52%

The funded status of the TRS allocation of the plan as of December 31, 2013, the most recent valuation date was as follows:

Actuarial accrued liability (AAL)	$493,412
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$493,412
Funded ratio (actuarial value of plan assets/AAL)	0
TRS Covered payroll (active plan members)	$828,985
UAAL as a percentage of covered payroll	59.52%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and 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 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.

OPEB Plan Actuarial Methods and Assumptions

As of December 31, 2013, the TRS actuarially accrued liability (AAL) for benefits was $493,412, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $493,412, and the ratio of the UAAL to the covered payroll was 59.52%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2013, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.0% for 2013 and decreases by 0.5% per year down to 5% for 2023 and beyond for medical and 10.0% for prescription drugs decreasing by 1% to 5% at 2018 and beyond.

NOTE H. PENDING LITIGATION

The actuarial valuation for the retirement system as of July 1, 2014, included consideration for a plan change made in the 2013 Montana legislative session that authorized a reduction in the statutory "guaranteed annual benefit adjustment" ("GABA" – referred to as a cost of living adjustment in other systems), which would apply to current TRS retirees and active members as well as to new hires. The prior GABA was a non-variable 1.5%, compounding, annual benefit adjustment applied each January 1st to the benefits of members who had received at least 36 monthly benefit payments as of that date. The 2013 legislative change, codified at 19-20-719(1), MCA, and effective July 1, 2013, is summarized as follows:

- GABA must be decreased to .50% if the most recent actuarial valuation shows that retirement system liabilities are less than 90% funded
- If the most recent actuarial valuation shows that retirement system liabilities are at least 90% funded and the provision of the increase is not projected to cause the system's liabilities to be less than 85% funded, the GABA must increase from the .5% floor up to 1.5%, as set by the retirement board

In October 2013, litigation was filed by Plaintiffs who were/are active members or retirees of TRS as of July 1, 2013, challenging the constitutionality of the GABA reduction under the "contract rights" and "takings" provisions of the Montana Constitution, and requesting a preliminary injunction. In December, 2013, the Court granted the Plaintiffs' motion for a preliminary injunction, which prohibited TRS from reducing the GABA pending the Court's decision in the pending litigation. In January, 2014 and again in January, 2015, the GABA calculated for eligible benefit recipients was 1.5% rather than the reduced rate of 0.5% that would have been calculated pursuant to 19-20-719(1), MCA (2013), but for the preliminary injunction.

Both parties to the litigation filed motions for summary judgment, with briefing concluded in November, 2014. On June 30, 2015, Judge Menahan issued his order on the cross-motions for summary judgment. Judge Menahan determined that: TRS's GABA benefit is part of TRS's contract with its members; the reduction of the GABA for current TRS benefit recipients or Tier One members (individuals who became members of TRS before July 1, 2013) is a substantial impairment of the contract; and, the reduction of the GABA effectuated by the 2013 legislation was not reasonable and necessary. Therefore, the reduction of the GABA was a violation of TRS retirees' and Tier One members' constitutional contract rights. Judge Menahan's order permanently enjoined the retirement system from applying the modified GABA provision to TRS retirees and Tier One members. However, the modified GABA provision can and will be applied to Tier Two TRS members (individuals who first became members of TRS on or after July 1, 2013, or individuals who were TRS members prior to July 1, 2013, but subsequently withdrew (or withdraw) their accumulated contributions and then became (or become) TRS members again on or after July 1, 2013).

Following issuance of Judge Menahan's order, the parties to the lawsuit agreed to settle the case. In the settlement stipulation, Attorney General Tim Fox, on behalf of the State and TRS, agreed not to appeal Judge Menahan's decision and the Plaintiffs agreed to dismiss their pending claim for attorneys' fees. The stipulation for settlement was entered with and signed by the District Court on August 20, 2015. Pursuant to the settlement stipulation, Judge Menahan's order will stand as the final determination of the case.

Because the GABA continued to be calculated and paid by TRS at the 1.5% rate pursuant to the temporary restraining order, all GABA adjustments to TRS benefit recipients have been paid in accordance with the final determination of the lawsuit, and no adjustment of benefits by TRS will be required.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION AND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net Pension Liability – TRS Plan

	2015*	2014*
Total Pension Liability		
Service Cost	73,820,438	77,006,174
Interest	390,555,879	373,456,442
Benefit Changes	-	-
Difference Between Expected and Actual Experience	9,660,152	20,297,029
Changes of Assumptions	(4,670,553)	46,502,421
Benefit Payments	(303,675,300)	(285,182,358)
Refunds of Contributions	(5,368,359)	(4,788,688)
Net change in Total Liability	160,322,257	227,291,020
Total Pension Liability Beginning	5,191,069,342	4,963,778,322
Total Pension Liability Ending (a)	5,351,391,599	5,191,069,342
Plan Net Position		
Contributions - Employer	87,290,863	83,439,612
Contributions - Member	72,215,797	70,468,354
Contributions - Non-Employer Contributing Entities	43,389,534	64,923,320
Misc. Income	27,297	6,000
Net Investment Income	165,684,953	540,277,362
Benefit Payments	(303,675,300)	(285,182,358)
Administrative Expenses	(2,035,081)	(2,022,636)
Refund of Contributions	(5,368,359)	(4,788,688)
Other	(140,631)	(58,073)
Net Change in Plan Net Position	57,389,073	467,062,894
Plan Net Position - Beginning	3,652,220,265	3,185,064,406
Prior Period Adjustment	(1,223,501)	92,965
Plan Net Position - Ending (b)	3,708,385,838	3,652,220,265
Net Pension Liability - Ending (a - b)	1,643,005,761	1,538,849,077

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Note to RSI - Schedule of Changes in the Net Pension Liability and Schedule of Net Pension Liability

The total pension liability contained in these schedules was provided by the Systems actuary, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System.

Schedule of the Net Pension Liability – TRS Plan

	2015*	2014*
Total Pension Liability	5,351,391,599	5,191,069,342
Plan Net Position	3,708,385,838	3,652,220,265
Net Pension Liability	1,643,005,761	1,538,849,077
Ratio of Plan Net Position to Total Pension Liability	69.30%	70.36%
Covered -Employee Payroll	768,718,699	750,604,063
Net Pension Liability as a Percentage of Covered-Employee Payroll	213.73%	205.01%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of Investment Returns – TRS Plan

	2015*	2014*
Annual Money Weighted Rate Return, net of Investment Expense	4.618%	17.18%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of Employer and Non-Employer Contributing Entities Contributions – TRS Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Employer Contributions	$ 130,680,397	$ 148,362,932	$ 130,533,530	$ 108,993,492	$ 91,879,263	$ 90,967,180	$ 80,997,968	$ 81,414,325	$ 40,807,133	$ 42,768,730
Actual Contributions:										
Employers	87,290,863	83,439,612	74,113,191	72,422,404	72,879,950	72,179,128	66,850,644	67,921,950	61,943,986	58,268,941
Non-Employer Contributing Entities	43,389,534	64,923,320	17,521,347	16,843,766	17,437,366	17,241,610	14,147,324	13,492,375	720,266	693,226
Total	130,680,397	148,362,932	91,634,538	89,266,170	90,317,316	89,420,738	80,997,968	81,414,325	62,664,252	58,962,167
Annual Contribution Deficiency / (Excess)	-	-	38,898,992	19,727,322	1,561,947	1,546,442	-	-	(21,857,119)	(16,193,437)
Covered - Employee Payroll	768,718,699	750,604,063	742,608,987	735,586,961	746,694,434	747,037,330	683,235,462	657,435,444	664,100,000	636,000,000
Actual Contributions as a Percentage of Covered-Employee Payroll	17.00%	19.77%	12.34%	12.14%	12.10%	11.97%	11.86%	12.38%	9.44%	9.27%

Note to RSI - Schedule of Employer Contributions

The actuarially determined employer contributions and amount of those contributions actually made are presented in the schedule.

Note to RSI - Actuarial Assumptions – TRS Plan

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board. Additional information as of the latest actuarial valuation follows.

Note to RSI - Changes of Benefit Terms – TRS Plan

The following changes to the plan provision were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The GABA for Tier 1 members has also been modified as follows:

- If the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the funded ratio is at least 90% and the increase is not projected to cause the System's funded ratio to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

(1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
(3) **Early Retirement**: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
(4) **Professional Retirement Option**: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement . Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%

(5) **Annual Contribution**: 8.15% of member's earned compensation
(6) **Supplemental Contribution Rate**: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
   a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
   b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
   c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
(8) **Guaranteed Annual Benefit Adjustment (GABA)**:
   a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
  - School Districts contributions will increase from 7.47% to 8.47%
  - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Note to RSI - Changes in Actuarial Assumptions and Methods – TRS Plan

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.

- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

  For Males: 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, with mortality improvements projected by Scale BB to 2018.

  For Females: 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 two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members was updated to the following:

  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.

Note to RSI - Method and assumptions used in calculations of actuarially determined contributions – TRS Plan

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	28 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Schedule of Proportionate Share of the Net Pension Liability - TRS as Employer of PERS Plan

	2015*
TRS' proportion of the net pension liability	0.081024%
TRS' proportionate share of the net pension liability	$ 1,009,567
State of Montana's proportionate share of the net pension liability associated with the TRS	$ 0
Total	$ 1,009,567
TRS' covered-employee payroll	$ 1,208,079
TRS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	83.6%
Plan fiduciary net position as a percentage of the total pension liability	79.9%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available*

Schedule of Contributions - TRS as Employer of PERS Plan

	2015*
Contractually required contributions	$ 75,657
Contributions in relation to the contractually required contributions	$ 75,657
Contribution deficiency (excess)	$ 0
Employer's covered-employee payroll	$ 1,208,079
Contributions as a percentage of covered-employee payroll	6.3%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available*

Note to RSI – PERS Plan

Changes in Plan Provisions: The following changes in plan provisions have been made since the prior measurement date:

- None

Changes of assumptions: The following changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date:

- None

Method and assumptions: 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 payroll, open
Remaining amortization period	29.3 years
Asset valuation method	4-year smoothed market
Salary increase	General Wage Growth - 4.00% (including inflation at 3.00%) Merit – 0% - 6%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Administrative Expenses as a Percentage of Payroll	0.27%
Benefit Adjustments	GABA – 3.0% or 1.5% for new hires on or after July 1, 2007, after 1 year

Other Postemployment Benefits Plan Information
Schedule of Funding Progress

(All dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of covered Payroll ((b-a/c)
12/31/2007	-	$ 449,321	$ 449,321	0%	519,969	86.41%
12/31/2009	-	$ 357,664	$ 357,664	0%	526,794	67.89%
12/31/2011	-	$ 361,053	$ 361,053	0%	558,646	64.63%
12/31/2013	-	$ 493,412	$ 493,412	0%	828,985	59.52%

Note to RSI - OPEB

The funded status of the TRS allocation of the plan as of December 31, 2013, the most recent valuation date was as follows:

Actuarial accrued liability (AAL)	$493,412
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$493,412
Funded ratio (actuarial value of plan assets/AAL)	0
TRS Covered payroll (active plan members)	$828,985
UAAL as a percentage of covered payroll	59.52%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and 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 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.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULES / SUPPLEMENTARY INFORMATION
FISCAL YEARS ENDED JUNE 30, 2015

SCHEDULE OF ADMINISTRATIVE EXPENSES

Expenses for the administration of the plan, excluding compensated absences, depreciation and amortization, are budgeted and approved by the TRS Board. The administrative costs of the TRS are financed through realized investment income. The expenses, less amortization of intangible assets, may not exceed 1.5% of retirement benefits paid. Administrative expenses for the fiscal year ended June 30, 2015 are outlined below:

		2015
Administrative Expenses:		
Personnel Services:		
Salaries	$	936,684
Other Compensation		2,450
Employee Benefits		260,336
Total Budgeted Personal Services	$	1,199,469
Operating Expenses:		
Contracted Services	$	456,583
Supplies & Material		59,009
Communications		97,664
Travel		22,833
Rent		57,957
Repair & Maintenance		42,429
Other Expenses		62,495
Total Budgeted Operating Expenses	$	798,970
Non-Budgeted Expenses:		
Compensated Absences	$	8,610
Depreciation		28,031
Amortization		-
Total Non-Budgeted Expenses	$	36,641
Total Administrative Expenses	**$**	**2,035,081**

SCHEDULE OF INVESTMENT EXPENSES

as of June 30, 2015

Investment	BOI	Custodial Bank	External Managers	Other	Total
Short-term Investment Pool	$ 17,976	$ 6,526	N/A	$ 119,618	$ 144,120
Retirement Funds Bond Pool	$ 245,503	$ 65,721	$ 566,935	$ 2,178	$ 880,336
Montana Domestic Equity Pool	$ 247,875	$242,545	$ 3,446,052	$1,411,984	$ 5,348,456
Montana International Pool	$ 213,477	$ 65,236	$ 1,361,124	$ 187,598	$ 1,827,436
Montana Private Equity Pool	$ 350,122	$ 35,180	$ 5,905,020	$1,314,312	$ 7,604,633
Montana Real Estate Pool	$ 223,683	$ 29,836	$ 3,880,735	$ 374,099	$ 4,508,353
Other*		$ 2,222			$ 2,222
Totals	**$1,298,636**	**$447,226**	**$15,159,866**	**$3,409,788**	**$20,315,557**

*Expense associated with the calculation of Money Weighted Return on Investment for GASB 67

SCHEDULE OF PAYMENTS TO CONSULTANTS

Costs included in the table below are a result of administrative expenses, as well as several costs associated with the M-Trust project (Intangible Assets - Capital Work in Progress)

	2015
Actuarial Services	$ 161,500
Consulting Services	86,154
Legal Services	13,565
Medical Evaluations	350
Information Technology Services	818,251
Total Consultant Payments	**$ 1,079,820**

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

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 Statement of Plan Net Position and Statement of Changes in Plan Net Position of the Teachers' Retirement System (system), prepared by the Teachers' Retirement Board (board), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Teachers' Retirement System's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the board'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 board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

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. 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 attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the system's financial statements are free from material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 board'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 board'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 14, 2015

Teachers' Retirement Board

Board Response

TEACHERS' RETIREMENT SYSTEM

STEVE BULLOCK, GOVERNOR
www.trs.mt.gov
STATE OF MONTANA
1500 EAST SIXTH AVENUE
PO BOX 200139
HELENA, MONTANA 59620-0139
1-866-600-4045
406-444-3134

December 17, 2015

RECEIVED
DEC 18 2015
LEGISLATIVE AUDIT DIV.

Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Ms. Hunthausen:

Thank you for the opportunity to reply to the financial audit report of the Teachers' Retirement Board for the fiscal year ending June 30, 2015. The Teachers' Retirement Board appreciates the services provided by your staff in conducting the audit. The funded status and amortization period for the Teachers' Retirement System continues to improve as a result of the legislation passed and approved during the 2013 Legislative Session; as of July 1, 2015, the system is 67.46% funded and can fully amortize any unfunded liabilities in 26 years compared to 65.5% funded and a 28 year amortization period the previous year.

We are pleased with the unmodified opinion on the financial statements for the fiscal year ending June 30, 2015, and I would like to thank Ms. Hunthausen and her staff (Katie Majerus, Joseph Andriolo, Jeane Carstensen-Garrett, Monica Birlut, Mary Currin and Alexa Odell) for their professionalism and courtesy as they conducted the audit.

Sincerely,

Shawn J. Graham
Executive Director
Teachers' Retirement System
(406) 444-3376

SG/cp