A Report
to the
Montana
Legislature

Federal Single Audit

Montana Single Audit Report

For the Two Fiscal Years Ended June 30, 2017

March 2018

Legislative Audit
Division

16-02

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Federal Single Audit

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

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

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

Audit Staff

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

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

March 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2017. The Single Audit was conducted in accordance with Government Auditing Standards and Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). This document contains the Independent Auditor's Reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2017 (page A-3), and June 30, 2016 (page B-5). The Independent Auditor's Reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements.

The audit disclosed certain questioned costs and deficiencies in internal control and compliance, which are summarized in the Schedule of Findings and Questioned Costs (pages C-13 through C-95). The Independent Auditor's Reports on pages A-1 and on B-1 summarize control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Montana Legislative Audit Division

Federal Single Audit
Montana Single Audit Report
For the Two Fiscal Years Ended June 30, 2017

March 2018 16-02 Report Summary

The state of Montana reported approximately $7.3 billion in federal funds for fiscal years 2016 and 2017. This is an increase over the prior biennium of approximately $1.9 billion, primarily due to increased Medicaid case load and costs, including Medicaid expansion under the Affordable Care Act. We identified over $5.7 million in costs inappropriately charged to the federal programs due to violations of federal regulations. Federal grantor agencies are responsible for resolution of these questioned costs, and have the authority to require funds be repaid.

Context

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

The federal government provides extensive requirements for recipients of federal grants. Our audits of each state agency include determining compliance with these requirements when the federal grant is determined to be a major federal program under federal audit guidelines. The state of Montana spent approximately $3.9 billion and $3.4 billion in federal funds in fiscal years 2017 and 2016, respectively. Programs with expenditures totaling at least $20.2 million during the 2017 biennium and not determined to be low risk were identified as major federal programs. The federal audit guidelines establish criteria to consider when determining when a program is determined to be low risk. Among these requirements are whether the program was audited in one of the two most recent audits and whether any issues related to internal controls, compliance, or questioned costs were identified. After this determination is made, we are required to audit an additional 25 percent, or 3 programs in this case, to replace these low risk programs with identified risky programs below the monetary threshold of $20.2 million.

The state of Montana had 22 major federal programs during the 2017 biennium, as listed on page C-14, which are administered by 10 different state agencies. During fiscal years 2017 and 2016 approximately 75 percent of the federal funds spent were related to Montana's major federal programs. Of the 75 percent, the Medicaid Cluster and the Highway Planning and Construction Cluster makes up approximately 36 percent and 13 percent, respectively.

(continued on back)

Results

Federal audit regulations specifically require the Single Audit to report whether each major federal program complied with selected federal requirements. Out of the 22 major federal programs tested, we identified 18 that did not comply with federal requirements in all material respects and we rendered a qualified opinion on 15 programs that did not materially comply with federal requirements. We also identified over $5.7 million of questioned costs, which are costs that resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Federal audit requirements also define varying degrees of deficiencies in internal controls. These include a control deficiency, a significant deficiency, and a material weakness, in order from least to most serious. The 33 recommendations contained in this report include 14 significant deficiencies and 11 material weaknesses.

Federal grantor agencies are the primary users of the Single Audit report, and the form of the audit report is designed to meet their oversight needs. Legislators and others may also find the report useful. In particular, the Schedules of Expenditures of Federal Awards for fiscal years 2017 and 2016, included in the report provide an overview of the state's federal grant activity, by the Catalog of Federal Domestic Assistance number (CFDA#), and the Corrective Action Plan summarizes the efforts state agencies are taking to remediate identified noncompliance and internal control deficiencies.

For a complete copy of the report (16-02) 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
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FY17 Financial Section

FY17 Financial Section

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements, and have issued our report thereon dated January 23, 2018. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the state of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these component units.

Internal Control Over Financial Reporting

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

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

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

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the Economic Development Bonds major fund, the portion of the Business-Type Activities attributed to this activity, and related note disclosures.

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

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the portion of the Remaining Fund Information attributed to Investment Trust Fund Activity.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans and an Other Post Employment Benefit (OPEB). The Montana Constitution and state law require all retirement systems to be actuarially sound. The Game Wardens' and Peace Officers' retirement system and Highway Patrol Officers' retirement system were not actuarially sound at June 30, 2017 because they amortize in 70 years and 37 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law.

State of Montana's Response to Findings

The state of Montana's response to the findings identified in this report are described in the separately issued Public Employees' Retirement Administration audit report (16-08B), Board of Investments audit report (16-04B) and on page B-1 of this report. The state of Montana's response was not subjected

to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 23, 2018

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
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Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2017, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University (MSU) component units and the University of Montana (UM) component units, which represents 17.05 percent, 32.80 percent, and

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15.91 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

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

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

Summary of Opinions

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 19 to the financial statements, at June 30, 2017, the Game Wardens' and Peace Officers' retirement system and Highway Patrol Officers' retirement system were not actuarially sound at June 30, 2017, as required by the Montana Constitution because they amortize in 70 years and 37 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 3 to the financial statements, in fiscal year 2017, the Board of Investments transitioned its internal pool structure for pension investments from five individual investment pools to a single investment pool. Our opinions are not modified with respect to this matter.

As discussed in Note 18A footnote 1, Montana State Fund (MSF) was issued a Certificate of Authority, became an authorized insurer regulated by the Montana Commission of Securities and Insurance, and is now subject to the provisions of Title 33, Montana Insurance Code. Effective January 1, 2016, MSF operates on a calendar year basis. The basic financial statements for the fiscal year ended June 30, 2016, included MSF financial information for a 6-month reporting period. This report, for the year ended June 30, 2017, includes a 12-month financial reporting period for MSF. Our opinion for the Aggregate Discretely Presented Component Units is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Post Employment Benefit Plan Information, and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 23, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2017 by $8.2 billion compared with $8.1 billion at the end of fiscal year 2016, representing a 1.8% increase in net position. Component units reported net position of $1.9 billion at the end of fiscal year 2017 compared to $1.8 billion at the end of fiscal year 2016, representing a 7.2% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2017, the State's governmental funds reported combined ending fund balances of $3.9 billion compared with $4.1 billion at fiscal year 2016. Of the 2017 balance, $1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.3 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1.0 billion restricted, $1.2 billion committed, $13.5 million assigned and $47.9 million unassigned. This represents a $179.5 million (4.4%) decrease in total fund balance. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2017 in the amount of $395.0 million compared with fiscal year 2016 net position of $372.0 million. Of the 2017 business-type activity net position, $19.0 million was reported as net investment in capital assets. Net position of $376.0 million was in spendable form with $8.3 million unrestricted and $367.7 million restricted to expenditure for a specific purpose. This represents a $19.8 million (5.6%) increase in spendable net position from the fiscal year 2016 balance of $356.2 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by $37.2 million, from $230.6 million in fiscal year 2016 to $193.4 million, a 16.2% decrease in fiscal year 2017.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. The report also contains additional required supplementary information, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

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

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

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. In other words, they follow methods that are similar to those used by most businesses, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements: The *Statement of Net Position* and the *Statement of Activities*, as defined below.

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

The *Statement of Activities* presents information related to the government's net position changes during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including federal grants. Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bonds Program, which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

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

Fund Financial Statements - Reporting the State's Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted individually. The three categories of funds are as follows:

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the

governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas, internal service funds report activities that provide supplies and services to the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary fund statements use the full accrual basis of accounting.

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the $149.2 million increase (1.8%) in net position. This improvement resulted from a continued economic recovery within the State.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.2 billion at the end of fiscal year 2017. Net position of the both governmental and business-type activities increased by $126.1 million (1.6%) and $23.0 million (6.2%), respectively. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position.

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

Net Position
June 30,
(expressed in thousands)

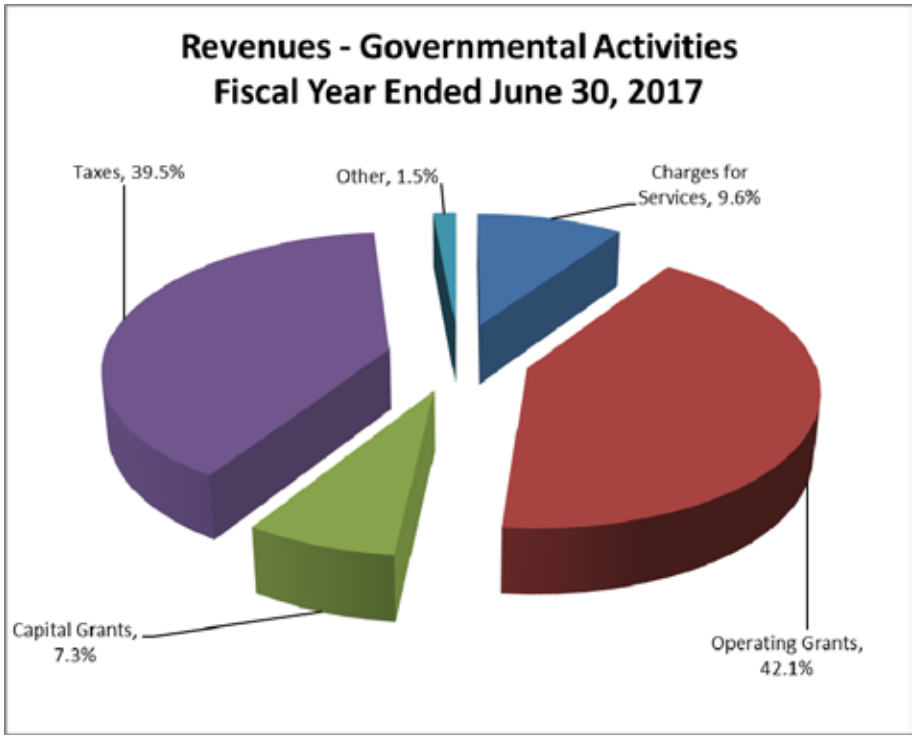
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Current and other assets	$5,172,386	$5,143,823	$525,340	$549,267	$5,697,726	$5,693,090
Capital assets	5,753,621	5,991,964	16,363	19,400	5,769,984	6,011,364
Total assets	10,926,007	11,135,787	541,703	568,667	11,467,710	11,704,454
Deferred outflows of resources	201,784	342,370	1,481	3,120	203,265	345,490
Long-term liabilities						
Due in more than one year	2,318,021	2,513,940	24,508	27,252	2,342,529	2,541,192
Other liabilities	937,756	1,055,609	145,603	149,298	1,083,359	1,204,907
Total liabilities	3,255,777	3,569,549	170,111	176,550	3,425,888	3,746,099
Deferred inflows of resources	144,983	55,436	1,100	229	146,083	55,665
Net investment in capital assets	5,616,889	5,873,003	15,760	18,986	5,632,649	5,891,989
Restricted	2,890,669	2,951,964	347,818	367,734	3,238,487	3,319,698
Unrestricted	(780,527)	(971,795)	8,395	8,288	(772,132)	(963,507)
Total net position	$7,727,031	$7,853,172	$371,973	$395,008	$8,099,004	$8,248,180

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

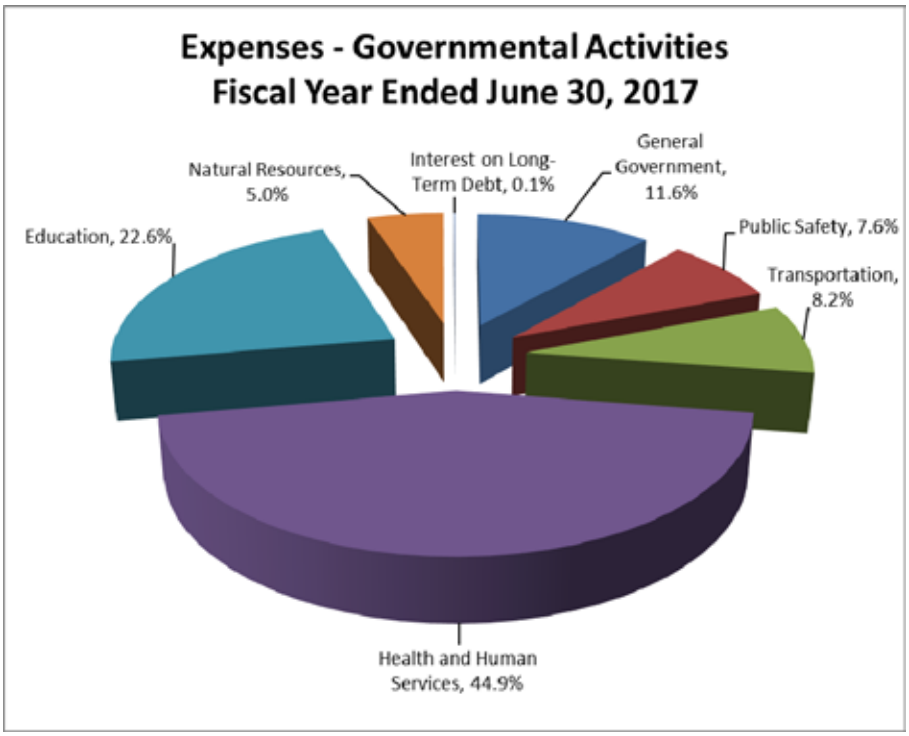
Changes in Net Position
For Fiscal Year Ended June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program revenues						
Charges for services	$ 577,679	$ 571,927	$397,793	$389,279	$ 975,472	$ 961,206
Operating grants	2,093,817	2,506,711	56,565	60,219	2,150,382	2,566,930
Capital grants	456,588	434,860	857	604	457,445	435,464
General revenues						
Taxes	2,318,433	2,352,133	27,078	27,958	2,345,511	2,380,091
Other	146,716	93,077	2,701	3,708	149,417	96,785
Total revenues	5,593,233	5,958,708	484,994	481,768	6,078,227	6,440,476
Expenses:						
General government	696,984	688,798			696,984	688,798
Public safety	420,532	454,194			420,532	454,194
Transportation	464,092	484,214			464,092	484,214
Health and human service	2,174,506	2,668,273			2,174,506	2,668,273
Education	1,324,299	1,344,121			1,324,299	1,344,121
Natural resources	295,332	295,853			295,332	295,853
Interest on long-term debt	9,373	7,484			9,373	7,484
Unemployment Insurance			119,088	117,788	119,088	117,788
Liquor Stores			81,556	83,313	81,556	83,313
State Lottery			47,202	43,377	47,202	43,377
Economic Dev Bonds			1,198	1,851	1,198	1,851
Hail Insurance			817	1,696	817	1,696
Gen Govt Services			71,343	72,489	71,343	72,489
Prison Funds			9,099	8,140	9,099	8,140
MUS Group Insurance			87,535	81,051	87,535	81,051
MUS Workers Comp			2,430	2,786	2,430	2,786
Total expenses	5,385,118	5,942,937	420,268	412,491	5,805,386	6,355,428
Increase (decrease) in net position before transfers	208,115	15,771	64,726	69,277	272,841	85,048
Transfers	49,813	46,141	(49,813)	(46,141)	-	-
Change in net position	257,928	61,912	14,913	23,136	272,841	85,048
Net position, beg of year (as adjusted)	7,469,103	7,791,260	357,060	371,872	7,826,163	8,163,132
Net position, end of year	$7,727,031	$7,853,172	$371,973	$395,008	$8,099,004	$8,248,180

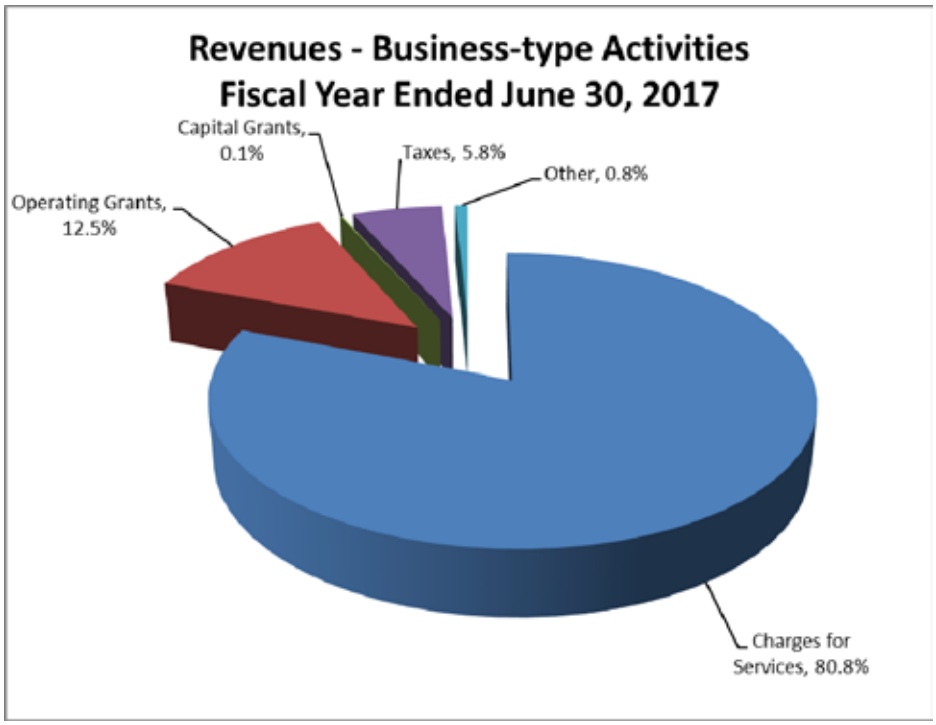
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:



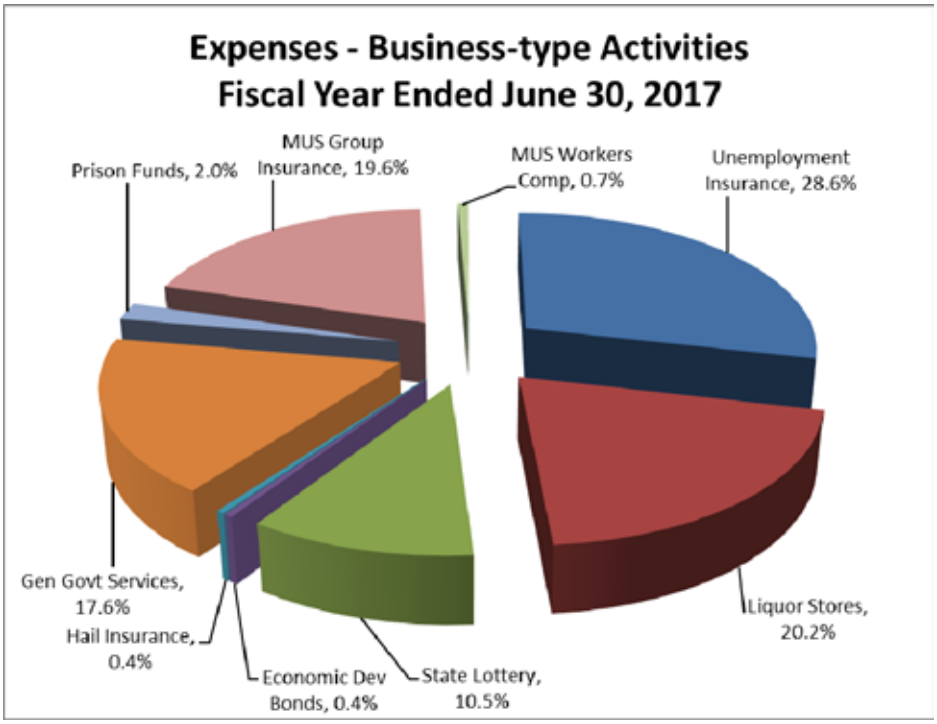
The following chart depicts expenses of the governmental activities for the fiscal year:



Business-type Activities
The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $3.9 billion. Of this total, $2.3 billion (58.7%) constitutes spendable fund balance and $1.6 billion (41.3%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. For fiscal year 2017, the total fund balance of the General Fund was reported at approximately $67.0 million. Of this balance $7.7 million is non-spendable. The remaining $59.3 million is spendable with $11.4 million assigned and $47.9 million unassigned. This represents 2.6% of the $2.3 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, $11.4 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance decreased by $204.3 million when compared to the previously reported fund balance of $271.3 million. Changes in both expenditures and revenues are discussed in detail below. The 2017 Legislative Session projected $112.0 million General Fund unassigned fund balance for fiscal year 2017, without regard to a fund balance spend down in fiscal year 2018.

General Fund Revenues – Total General Fund revenues were $2.1 billion for fiscal year 2017 (lower than legislative estimation), a 1.3% increase from the $2.0 billion reported in 2016 (which were also lower than legislative estimation). Fiscal year 2017 tax revenue increased by 1.0% in total over 2016, with natural resource and corporate income tax collections up 8.9% and 11.5%, respectively. Individual income tax collections decreased slightly by 0.8%. Other noted increases in revenues included rentals / leases / royalties, contributions / premiums, and grants / contracts / donations.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2017 increased by $88.9 million (4.0%). This increase in expenditures occurred in the general government, health and human services, education and natural resources functions as follows:

- General government expenditures increased by $10.3 million (3.0%)
- Health and human services expenditures increased by $53.0 million (10.9%)
- Education expenditures increased by $21.8 million (2.1%)
- Natural resources expenditures increased by $2.7 million (7.8%)

Transfers out decreased by $45.9 million (50.3%) to $45.3 million in 2017, mostly attributable to the decrease in fire suppression transfers. Another noted decrease in expenditures were capital outlay.

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

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2017, general fund appropriations that reverted to 2018 were $25.2 million.

The Department of Administration had unspent appropriations of $7.9 million, the vast majority of which was attributable to supplemental transfers, banking charges, budget corrections and other operational costs.

The Department of Corrections had unspent appropriations of $4.1 million related to Medicaid savings and other operational costs.

The Office of Public Instruction had unspent appropriations of $3.3 million related K-12 base aid and other operational costs.

The Department of Legislative Services, the Judicial Branch, Commissioner of Higher Ed, the Department of Revenue, and the Department of Public Health and Human Services had unspent appropriations of $1.2 million, $1.2 million, $1.1 million, $1.1 million, and $1.1 million respectively, related to operational costs.

The remaining unspent appropriation of $4.2 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund
The fund balance of the State Special Revenue Fund increased by $27.4 million to $1.6 billion. Revenues increased by $33.4 million (3.8%) and expenditures decreased $5.1 million (0.5%), for fiscal year 2017. The largest increases in revenues are attributable to an increase in natural resources tax collections and charges for services, whereas there was a notable decrease in investment earnings and sale of miscellaneous items. The largest decreases in expenditures are attributable to reductions in education and capital outlay related expenditures. Other financing sources related to refunding bonds were not present in the current year and transfers in and out both decreased.

Federal Special Revenue Fund
The fund balance of the Federal Special Revenue Fund increased by $3.1 million (34.8%) to $12.1 million. Revenues and expenditures increased by $422.1 million (17.7%) and $414.1 million (17.5%) respectively, for the fiscal year 2017. Revenue increases are attributable to increases in federal revenue, expenditure increases are attributable to increases in health and human services, public safety, and transportation related expenditures however offset some by a decrease in capital outlay.

Coal Severance Tax Permanent Fund
The fund balance of the Coal Severance Tax Permanent Fund decreased by $6.4 million (0.6%) to $1.1 billion. Revenue decreased by $53.2 million (59.1%) to $36.8 million, primarily due to a decrease of $47.7 million in investment earnings. The transfers out increased by $18.9 million (78.4%).

Land Grant Permanent Fund
The fund balance of the Land Grant Permanent Fund increased by $15.0 million (2.1%) to $725.5 million. Within this fund, capital asset sale proceeds increased by $12.6 million, while rent/lease/royalties and investment earnings decreased by $11.1 million and $38.6 million, respectively.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $454.0 thousand (0.2%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2017 accompanied by an increase in the taxable wage base from $30.5 thousand to $31.4 thousand in 2017.

Economic Development Bonds Enterprise Fund
Net position decreased by 1.8% to $5.1 million in fiscal year 2017. Financing income revenue increased $582.0 thousand, while expenses from interest expense increased $621.0 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2017, amounted to $8.2 billion, with related accumulated depreciation of $2.2 billion, leaving a net book value of $6.0 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, intangible assets, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $241.4 million or 4.2% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the *notes to the financial statements*.

Debt Administration
Montana continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA), and Fitch Ratings (AA+), which remain unchanged from 2016.

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $115.5 million at June 30, 2016, to $98.6 million at June 30, 2017. There is cash available, of $6.7 million at the end of fiscal year 2017, in debt service funds to service general obligation debt.

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

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	$98,625	0.22%	$95
Total State debt	$182,179	0.40% (3)	$181 (3)

(1) Based on personal income for calendar year 2016.
(2) Based on estimated 2016 Montana population.
(3) Based on total of general obligations bonds, special revenue bonds, notes payable and lease/installment purchase payable for the percentage and state debt per capita

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

ECONOMIC CONDITION AND OUTLOOK
Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2016 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 1.6% in 2016, which was faster than the rate of inflation. Montana's unemployment rate has continued to remain lower than the national rate since the 2001 recession. Montana's annual unemployment rate of 4.1% in 2016 was the 16th lowest in the nation. Montana added roughly 6,481 jobs in 2016, for a growth rate of 1.3%. Montana had approximately 475,200 people employed in nonfarm non-adjusted jobs in August 2017, as compared to 467,600 in August 2016. Montana's personal income growth in 2016 was 2.3%. Montana's personal income growth over the past ten years is the 11th fastest among all states. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The 2017 Legislature completed work and adjourned in late April 2017. Upon adjournment, it was anticipated that 2019 biennium General Fund revenue collections would be approximately $4.9 billion while General Fund expenditures would be approximately $4.8 billion. At the end of fiscal year 2019, the estimated general fund balance will be approximately $200.0 million. During the 2017 Legislative Session Senate Bill (SB) 261 was passed. SB 261 contained various transfer and/or reductions in spending requirements based on June 30, 2017, unaudited General Fund revenue. Additionally, subsequent to fiscal year-end 2017, a special session of the Legislature was called to order to address an anticipated General Fund deficit for the budget period ended June 30, 2019. More information related to the fiscal year 2018 financial impacts of SB 261 and the special session is provided in Note 17.

The following are the major financial highlights of the 2019 biennium budget:

1. The Governor proposed and the 2017 Legislature approved a $6.0 million one-time-only appropriation for a preschool pilot program dedicated for early education efforts for pre-k children.

2. The 2017 Legislature adopted a series of bills aimed at re-balancing the correctional and judicial systems. Specifics of the bills include increased funding to community programs to divert inmates from county jail

holds, revising criminal justice laws, and investing in additional district court judges in the State of Montana.

3. The 2017 Legislature passed House Bill (HB) 639 which levies a community benefit assessment on certain hospitals in the State of Montana. The measure is anticipated to generate $13.1 million in General Fund revenue by fiscal year 2019.

4. The 2017 Legislature pass Senate Bill (SB) 261 which provided a short-term stabilization plan in which automatic reductions would be made to prescribed agency budgets, and transfers from the wildfire suppression fund to the General Fund would happen should revenues come in short of expectations in fiscal year 2017. SB 261 also provided for the creation of the Budget Stabilization Reserve to provide for a formal "Rainy Day" fund in the future.

5. The Montana University System received a one-time-only appropriation of $2.0 million to serve as funds to provide for buy-outs of long-time university system employees, particularly at the University of Montana.

6. The 2017 Legislature passed SB 260 which creates the school facilities fund in the Coal Severance Tax Fund and allocates 75% of coal severance taxes in excess of the amount needed in the coal severance bond fund to school facilities.

7. The 2017 Legislature passed HB 648 which restructured payments to the Public Employees' Retirement System and ultimately delinked these payments from coal-related revenues. This change will provide for a more stable and predictable financing structure into the future.

8. The Governor proposed and the 2017 Legislature funded a restructured appropriation for a sage grouse conservation fund, which will extend funding for sage grouse conservation through fiscal year 2021. Initial funding for this item was a major consideration in preventing listing on the endangered species list.

9. The 2019 biennium present law budget generally funds existing core services (i.e. health and human services, corrections, and education) at estimated caseload, population, and enrollment levels.

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2017, the Game Warden & Peace Officers' Retirement System (GWPORS), and the Highway Patrol Officers' Retirement System (HPORS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2017.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION
JUNE 30, 2017
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,147,781	$ 397,350	$ 1,545,131	$ 417,235
Receivables (net) (Note 4)	397,981	44,723	442,704	201,240
Due from primary government	-	-	-	1,682
Due from other governments	447,468	172	447,640	28,887
Due from component units	1,285	2,866	4,151	271
Internal balances	556	(556)	-	-
Inventories	26,218	5,488	31,706	5,178
Advances to component units	16,530	22,660	39,190	-
Long-term loans/notes receivable	464,800	45,014	509,814	469,305
Equity in pooled investments (Note 3)	2,268,060	4,962	2,273,022	48,514
Investments (Note 3)	295,737	23,090	318,827	2,081,358
Securities lending collateral (Note 3)	29,313	2,049	31,362	45,742
Net pension asset (Note 6)	33,852	-	33,852	-
Other assets	14,242	1,449	15,691	86,507
Depreciable capital assets and infrastructure, net (Note 5)	4,167,450	9,676	4,177,126	788,405
Land and nondepreciable capital assets (Note 5)	1,824,514	9,724	1,834,238	99,142
Total assets	11,135,787	568,667	11,704,454	4,273,466
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	342,370	3,120	345,490	66,963
LIABILITIES				
Accounts payable (Note 4)	760,832	18,795	779,627	79,057
Lottery prizes payable	-	3,570	3,570	-
Due to primary government	-	-	-	4,151
Due to other governments	30,539	74	30,613	24
Due to component units	1,682	-	1,682	271
Due to pension trust funds	34,451	-	34,451	-
Advances from primary government	-	-	-	39,190
Unearned revenue	33,248	2,000	35,248	94,083
Amounts held in custody for others	18,103	30	18,133	14,668
Securities lending liability (Note 3)	29,313	2,049	31,362	45,742
Other liabilities	4,065	-	4,065	23,544
Short-term debt (Note 11)	-	107,880	107,880	-
Long-term liabilities (Note 11):				
Due within one year	143,376	14,900	158,276	194,353
Due in more than one year	434,955	7,827	442,782	1,606,210
Net pension liability (Note 6)	1,789,810	14,293	1,804,103	206,646
OPEB implicit rate subsidy (Note 7)	289,175	5,132	294,307	122,245
Total liabilities	3,569,549	176,550	3,746,099	2,430,184
DEFERRED INFLOWS OF RESOURCES (Note 4)	55,436	229	55,665	2,477

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 5,873,003	$ 18,986	$ 5,891,989	$ 597,644
Restricted for:				
General government	6,873	-	6,873	-
Transportation	24,450	-	24,450	-
Natural resources	493,194	-	493,194	-
Public safety	242,570	-	242,570	-
Education	13,074	-	13,074	-
Funds held as permanent investments:				
Nonexpendable	1,596,057	-	1,596,057	391,658
Expendable	575,746	-	575,746	-
Unemployment compensation	-	298,631	298,631	-
Montana Board of Housing	-	-	-	153,326
Other purposes	-	69,103	69,103	256,566
Unrestricted	(971,795)	8,288	(963,507)	508,574
Total net position	$ 7,853,172	$ 395,008	$ 8,248,180	$ 1,907,768

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	**EXPENSES**	**CHARGES FOR SERVICES**	**OPERATING GRANTS AND CONTRIBUTIONS**	**CAPITAL GRANTS AND CONTRIBUTIONS**	**NET (EXPENSE) REVENUE**
Primary government:					
Governmental activities:					
General government	$ 688,798	$ 143,681	$ 141,349	$ 207	$ (403,561)
Public safety	454,194	161,380	41,040	7	(251,767)
Transportation	484,214	28,447	58,635	407,531	10,399
Health and human services	2,668,273	40,260	1,968,162	-	(659,851)
Education	1,344,121	32,750	184,950	1,713	(1,124,708)
Natural resources	295,853	165,409	112,575	25,402	7,533
Interest on long-term debt	7,484	-	-	-	(7,484)
Total governmental activities	5,942,937	571,927	2,506,711	434,860	(2,429,439)
Business-type activities:					
Unemployment Insurance	117,788	103,928	13,702	-	(158)
Liquor Stores	83,313	96,475	-	-	13,162
State Lottery	43,377	52,459	-	-	9,082
Economic Development Bonds	1,851	37	1,748	-	(66)
Hail Insurance	1,696	1,156	8	-	(532)
Other Service	72,489	24,290	44,200	604	(3,395)
Prison Funds	8,140	7,648	-	-	(492)
MUS[1] Group Insurance	81,051	99,448	403	-	18,800
MUS[1] Workers Compensation	2,786	3,838	158	-	1,210
Total business-type activities	412,491	389,279	60,219	604	37,611
Total primary government	$ 6,355,428	$ 961,206	$ 2,566,930	$ 435,464	$ (2,391,828)
Component units:					
Montana Board of Housing	$ 20,822	$ 1,541	$ 19,047	$ -	$ (234)
Facility Finance Authority	462	783	75	-	396
Montana State Fund	210,763	169,677	-	-	(41,086)
Montana State University	573,551	272,972	181,074	5,005	(114,500)
University of Montana	458,117	191,932	161,079	14,118	(90,988)
Total component units	$ 1,263,715	$ 636,905	$ 361,275	$ 19,123	$ (246,412)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,429,439)	$ 37,611	$ (2,391,828)	$ (246,412)
General revenues:				
Taxes:				
Property	277,254	-	277,254	-
Fuel	231,305	-	231,305	-
Natural resource	171,629	-	171,629	-
Individual income	1,160,431	-	1,160,431	-
Corporate income	132,538	-	132,538	-
Other (Note 1)	378,976	27,958	406,934	-
Unrestricted grants and contributions	13,596	2,845	16,441	107
Settlements	33,824	236	34,060	-
Unrestricted investment earnings	25,125	31	25,156	79,670
Transfers from primary government	-	-	-	240,167
Gain (loss) on sale of capital assets	15,640	(274)	15,366	594
Miscellaneous	4,892	870	5,762	1,237
Contributions to term and permanent endowments	-	-	-	52,218
Transfers between primary government	46,141	(46,141)	-	-
Total general revenues, contributions, and transfers	2,491,351	(14,475)	2,476,876	373,993
Change in net position	61,912	23,136	85,048	127,581
Total net position - July 1 - as previously reported	7,727,031	371,973	8,099,004	1,778,981
Adjustments to beginning net position (Note 2)	64,229	(101)	64,128	1,206
Total net position - July 1 - as adjusted	7,791,260	371,872	8,163,132	1,780,187
Total net position - June 30	$ 7,853,172	$ 395,008	$ 8,248,180	$ 1,907,768

[1] Montana University System

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	**STATE**	**FEDERAL**
ASSETS			
Cash/cash equivalents (Note 3)	$ 67,575	$ 714,907	$ 102,551
Receivables (net)	246,972	85,132	39,247
Interfund loans receivable (Note 12)	123,044	54,773	-
Due from other governments	12,423	919	434,125
Due from other funds (Note 12)	28,755	20,938	75
Due from component units	-	1,091	92
Inventories	3,065	20,195	-
Equity in pooled investments (Note 3)	-	347,899	-
Long-term loans/notes receivable	-	434,878	4,509
Advances to other funds (Note 12)	526	22,767	-
Advances to component units	-	8,729	-
Investments (Note 3)	6,814	105,094	4,821
Securities lending collateral (Note 3)	-	10,354	-
Other assets	5,887	6,400	146
Total assets	495,061	1,834,076	585,566
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	256,428	133,175	345,805
Interfund loans payable (Note 12)	-	11,624	164,372
Due to other governments	569	27,197	2,774
Due to other funds (Note 12)	269	13,657	14,418
Due to component units	34,585	363	1,184
Advances from other funds (Note 12)	-	10,018	17,811
Unearned revenue	2,514	28,517	7,382
Amounts held in custody for others	5,443	12,502	7
Securities lending liability (Note 3)	-	10,354	-
Other liabilities	2	664	-
Total liabilities	299,810	248,071	553,753
DEFERRED INFLOWS OF RESOURCES	128,267	4,548	19,735
Fund balances (Note 14):			
Nonspendable	7,696	21,076	47
Restricted	-	992,564	12,031
Committed	-	567,034	-
Assigned	11,355	783	-
Unassigned	47,933	-	-
Total fund balances	66,984	1,581,457	12,078
Total liabilities, deferred inflows of resources, and fund balances	$ 495,061	$ 1,834,076	$ 585,566

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ 60,239	$ 22,716	$ 72,198	$ 1,040,186
8,119	6,438	6,298	392,206
-	-	-	177,817
-	-	-	447,467
13	-	1,757	51,538
103	-	-	1,286
-	-	-	23,260
867,285	701,083	338,793	2,255,060
-	-	25,413	464,800
3,996	-	9,767	37,056
7,802	-	-	16,531
148,403	-	3,649	268,781
6,807	5,502	2,666	25,329
-	-	-	12,433
1,102,767	735,739	460,541	5,213,750
-	-	3,300	738,708
1,677	-	277	177,950
-	-	-	30,540
32	-	602	28,978
-	-	-	36,132
-	-	13,876	41,705
-	-	-	38,413
-	96	54	18,102
6,807	5,502	2,666	25,329
-	-	-	666
8,516	5,598	20,775	1,136,523
-	4,683	410	157,643
540,477	725,458	323,588	1,618,342
-	-	28,748	1,033,343
553,774	-	85,619	1,206,427
-	-	1,401	13,539
-	-	-	47,933
1,094,251	725,458	439,356	3,919,584
$ 1,102,767	$ 735,739	$ 460,541	$ 5,213,750

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017
(amounts expressed in thousands)

Total fund balances - governmental funds		$ 3,919,584
Amounts reported for governmental activities in the Statement of Net Position are different due to:		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):		
Land and nondepreciable capital assets	$ 1,824,514	
Depreciable capital assets and infrastructure, net	4,167,450	5,991,964
Deferred outflows of resources represent a consumption of net assets that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds.		342,370
Other assets not available in the current period and therefore are not reported in the governmental funds:		
Net pension asset		33,852
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets and long-term liabilities reported in specific areas.		129,805
Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.		(9,293)
Deferred inflows of resources represent an acquisition of net assets that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds.		102,206
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):		
Net pension liability	(1,789,810)	
OPEB implicit rate subsidy	(289,175)	
Other long-term liabilities	(578,331)	(2,657,316)
Total net position - governmental activities		$ 7,853,172

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	**STATE**	**FEDERAL**
REVENUES (Note 14)			
Licenses/permits	$ 125,737	$ 199,986	$ -
Taxes:			
Natural resource	71,042	69,683	-
Individual income	1,161,730	-	-
Corporate income	133,247	-	-
Property	258,698	18,556	-
Fuel	-	231,296	-
Other	237,589	138,386	-
Charges for services/fines/forfeits/settlements	35,035	123,145	35,494
Investment earnings	7,400	9,358	384
Securities lending income	55	201	2
Sale of documents/merchandise/property	369	4,940	3
Rentals/leases/royalties	8	1,213	-
Contributions/premiums	4,727	26,406	-
Grants/contracts/donations	10,116	23,448	108
Federal	18,416	6,332	2,694,127
Federal indirect cost recoveries	244	45,663	79,893
Other revenues	957	3,667	290
Total revenues	2,065,370	902,280	2,810,301
EXPENDITURES			
Current:			
General government	353,582	190,981	105,148
Public safety	318,926	93,619	13,475
Transportation	-	217,578	111,680
Health and human services	538,738	165,410	1,947,964
Education	1,058,596	72,246	214,285
Natural resources	37,738	213,629	68,119
Debt service:			
Principal retirement	56	638	30
Interest/fiscal charges	197	359	6
Capital outlay	7,270	52,517	319,171
Securities lending	19	90	1
Total expenditures	2,315,122	1,007,067	2,779,879
Excess of revenue over (under) expenditures	(249,752)	(104,787)	30,422
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	-	184	-
Insurance proceeds	-	43	-
General capital asset sale proceeds	252	325	42
Energy conservation loans	-	1,770	-
Transfers in (Note 12)	73,887	157,075	1,679
Transfers out (Note 12)	(45,337)	(27,054)	(28,929)
Total other financing sources (uses)	28,802	132,343	(27,208)
Net change in fund balances	(220,950)	27,556	3,214
Fund balances - July 1 - as previously reported	271,310	1,554,015	8,958
Adjustments to beginning fund balances (Note 2)	16,370	(984)	(94)
Fund balances - July 1 - as adjusted	287,680	1,553,031	8,864
Increase (decrease) in inventories	254	870	-
Fund balances - June 30	$ 66,984	$ 1,581,457	$ 12,078

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ -	$ 1,551	$ -	$ 327,274
23,811	-	7,281	171,817
-	-	-	1,161,730
-	-	-	133,247
-	-	-	277,254
-	-	-	231,296
-	-	1,762	377,737
-	-	12,830	206,504
12,665	6,200	12,912	48,919
279	226	107	870
-	10,952	4,241	20,505
-	48,370	-	49,591
-	-	-	31,133
-	5	-	33,677
-	-	-	2,718,875
-	-	-	125,800
-	(2)	-	4,912
36,755	67,302	39,133	5,921,141
-	-	3,651	653,362
-	-	974	426,994
-	-	-	329,258
-	-	736	2,652,848
-	-	89	1,345,216
-	4,390	205	324,081
-	-	33,165	33,889
-	-	8,958	9,520
-	1,332	26,663	406,953
106	86	41	343
106	5,808	74,482	6,182,464
36,649	61,494	(35,349)	(261,323)
-	-	-	184
-	-	-	43
-	15,183	13	15,815
-	-	-	1,770
10	8	50,346	283,005
(43,013)	(61,678)	(29,426)	(235,437)
(43,003)	(46,487)	20,933	65,380
(6,354)	15,007	(14,416)	(195,943)
1,100,605	710,451	453,772	4,099,111
-	-	-	15,292
1,100,605	710,451	453,772	4,114,403
-	-	-	1,124
$ 1,094,251	$ 725,458	$ 439,356	$ 3,919,584

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

Net change in fund balances - total governmental funds		$ (195,943)
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):		
Capital outlay	$ 406,953	
Depreciation expense and amortization	(211,774)	195,179
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.		(5,393)
Inventories of governmental funds are recorded as expenditures when purchased. However, in the Statement of Activities, inventories are expensed when consumed.		(8,000)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		21,301
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.		20,470
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease long-term liabilities reported in the Statement of Net Position. In the current year these amounts consisted of:		
Accrued interest	2,363	
Other liabilities	(1,770)	
Capital lease financing	(184)	
Principal retirement	33,889	34,298
Change in net position - governmental activities		$ 61,912

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

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STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 295,623	$ 6,699	$ 95,028	$ 397,350	$ 107,594
Receivables (net)	4,502	12,880	27,341	44,723	5,771
Interfund loans receivable (Note 12)	-	-	-	-	211
Due from other governments	38	-	134	172	1
Due from other funds (Note 12)	-	2,517	-	2,517	32
Due from component units	-	2,866	-	2,866	-
Inventories	-	-	5,488	5,488	2,958
Short-term investments (Note 3)	-	9,491	-	9,491	-
Securities lending collateral (Note 3)	-	-	2,049	2,049	3,983
Other current assets	-	-	129	129	1,810
Total current assets	300,163	34,453	130,169	464,785	122,360
Noncurrent assets:					
Advances to other funds (Note 12)	-	10,546	-	10,546	-
Advances to component units	-	22,660	-	22,660	-
Long-term investments (Note 3)	-	2,137	16,424	18,561	39,957
Long-term notes/loans receivable	842	44,119	53	45,014	-
Other long-term assets	-	-	1,320	1,320	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	10,123	10,123	6,059
Equipment	-	4	9,371	9,375	234,094
Infrastructure	-	-	1,175	1,175	-
Construction work in progress	-	-	4,615	4,615	6,962
Intangible assets	-	-	194	194	2,572
Other capital assets	-	-	4,309	4,309	-
Less accumulated depreciation	-	(3)	(15,018)	(15,021)	(138,678)
Total capital assets	-	1	19,399	19,400	111,340
Total noncurrent assets	842	79,463	37,196	117,501	151,297
Total assets	301,005	113,916	167,365	582,286	273,657
DEFERRED OUTFLOWS OF RESOURCES	-	65	3,055	3,120	9,088

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 2,299	$ 457	$ 16,039	$ 18,795	$ 19,174
Lottery prizes payable	-	-	2,618	2,618	-
Interfund loans payable (Note 12)	75	-	-	75	3
Due to other governments	-	-	74	74	-
Due to other funds (Note 12)	-	-	13,544	13,544	1,832
Unearned revenue	-	-	2,000	2,000	1,624
Lease/installment purchase payable (Note 10)	-	-	195	195	1,456
Short-term debt (Note 11)	-	107,880	-	107,880	-
Bonds/notes payable - net (Note 11)	-	-	-	-	1,305
Amounts held in custody for others	-	-	30	30	1
Securities lending liability (Note 3)	-	-	2,049	2,049	3,983
Estimated insurance claims (Note 8)	-	-	13,658	13,658	21,585
Compensated absences payable (Note 11)	-	33	1,011	1,044	3,873
Arbitrage rebate tax payable (Note 11)	-	3	-	3	-
Total current liabilities	2,374	108,373	51,218	161,965	54,836
Noncurrent liabilities:					
Lottery prizes payable	-	-	952	952	-
Advances from other funds (Note 12)	-	-	-	-	5,897
Lease/installment purchase payable (Note 10)	-	-	220	220	4,457
Bonds/notes payable - net (Note 11)	-	-	-	-	494
Estimated insurance claims (Note 8)	-	-	6,584	6,584	12,164
Compensated absences payable (Note 11)	-	30	973	1,003	3,590
Arbitrage rebate tax payable (Note 11)	-	20	-	20	-
Net pension liability (Note 6)	-	385	13,908	14,293	55,582
OPEB implicit rate subsidy (Note 7)	-	88	5,044	5,132	16,367
Total noncurrent liabilities	-	523	27,681	28,204	98,551
Total liabilities	2,374	108,896	78,899	190,169	153,387
DEFERRED INFLOWS OF RESOURCES	-	1	228	229	573
NET POSITION					
Net investment in capital assets	-	1	18,985	18,986	97,732
Restricted for:					
Unemployment compensation	298,631	-	-	298,631	-
Other purposes	-	1,522	67,581	69,103	-
Unrestricted	-	3,561	4,727	8,288	31,053
Total net position	$ 298,631	$ 5,084	$ 91,293	$ 395,008	$ 128,785

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ 111	$ 37	$ 167,526	$ 167,674	$ 151,601
Investment earnings	6,809	81	669	7,559	418
Securities lending income	-	-	17	17	18
Financing income	-	1,667	-	1,667	-
Contributions/premiums	103,816	-	117,350	221,166	201,857
Grants/contracts/donations	6,894	-	46,736	53,630	2,147
Other operating revenues	-	-	1,543	1,543	5,656
Total operating revenues	117,630	1,785	333,841	453,256	361,697
Operating expenses:					
Personal services	-	387	16,463	16,850	60,665
Contractual services	-	33	20,695	20,728	34,111
Supplies/materials	-	13	85,023	85,036	22,403
Benefits/claims	117,788	50	132,437	250,275	177,091
Depreciation	-	-	1,068	1,068	11,479
Amortization	-	-	122	122	1,133
Utilities/rent	-	50	1,092	1,142	7,791
Communications	-	6	1,456	1,462	13,393
Travel	-	3	368	371	572
Repairs/maintenance	-	-	951	951	18,870
Grants	-	-	-	-	127
Lottery prize payments	-	-	30,595	30,595	-
Securities lending expense	-	-	8	8	11
Arbitrage rebate tax	-	6	-	6	-
Interest expense	-	1,241	32	1,273	327
Other operating expenses	-	62	2,774	2,836	6,416
Total operating expenses	117,788	1,851	293,084	412,723	354,389
Operating income (loss)	(158)	(66)	40,757	40,533	7,308
Nonoperating revenues (expenses):					
Tax revenues	-	-	27,958	27,958	-
Non-employer pension revenue	-	6	238	244	971
Insurance proceeds	-	-	13	13	232
Gain (loss) on sale of capital assets	-	-	(223)	(223)	96
Federal indirect cost recoveries	-	-	-	-	8,642
Increase (decrease) value of livestock	-	-	166	166	-
Total nonoperating revenues (expenses)	-	6	28,152	28,158	9,941
Income (loss) before contributions and transfers	(158)	(60)	68,909	68,691	17,249
Capital contributions	-	-	3,262	3,262	2,441
Transfers in (Note 12)	-	-	351	351	1,786
Transfers out (Note 12)	-	-	(49,168)	(49,168)	(1,005)
Change in net position	(158)	(60)	23,354	23,136	20,471
Total net position - July 1 - as previously reported	298,177	5,177	68,619	371,973	110,532
Adjustments to beginning net position (Note 2)	612	(33)	(680)	(101)	(2,218)
Total net position - July 1 - as adjusted	298,789	5,144	67,939	371,872	108,314
Total net position - June 30	$ 298,631	$ 5,084	$ 91,293	$ 395,008	$ 128,785

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	**ECONOMIC DEVELOPMENT BONDS**	**NONMAJOR**	**TOTAL**	**INTERNAL SERVICE FUNDS**
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 102,333	$ 37	$ 286,004	$ 388,374	$ 350,624
Payments to suppliers for goods and services	(814)	(168)	(114,755)	(115,737)	(91,420)
Payments to employees	-	(381)	(17,758)	(18,139)	(64,913)
Grant receipts (expenses)	6,579	-	46,730	53,309	2,031
Cash payments for claims	(116,093)	-	(130,511)	(246,604)	(169,669)
Cash payments for prizes	-	-	(30,564)	(30,564)	-
Other operating revenues	-	7	1,543	1,550	14,298
Other operating payments	-	-	(2,774)	(2,774)	(6,416)
Net cash provided by (used for) operating activities	(7,995)	(505)	37,915	29,415	34,535
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	27,958	27,958	-
Transfer to other funds	-	-	(49,168)	(49,168)	(1,005)
Transfer from other funds	-	-	351	351	1,785
Proceeds from interfund loans/advances	645	7,272	6	7,923	715
Payment of interfund loans and advances	-	(8,479)	(80)	(8,559)	(210)
Proceeds from bonds and notes	-	20,000	-	20,000	-
Payment of principal and interest on bonds and notes	-	(10,439)	(32)	(10,471)	(1,596)
Pension related payments	-	(33)	-	(33)	-
Proceeds from nonemployer pension contributions	-	-	235	235	972
Net cash provided by (used for) noncapital financing activities	645	8,321	(20,730)	(11,764)	661
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	13	13	233
Acquisition of capital assets	-	-	(1,563)	(1,563)	(17,272)
Proceeds from sale of capital assets	-	-	585	585	308
Net cash provided by (used for) capital and related financing activities	-	-	(965)	(965)	(16,731)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(163,775)	11,126	(152,649)	(2,097)
Proceeds (loss) on sales or maturities of investments	-	161,484	-	161,484	-
Proceeds (loss) from securities lending transactions/investments	-	-	17	17	18
Interest and dividends on investments	6,808	114	669	7,591	418
Payment of securities lending costs	-	-	(8)	(8)	(11)
Collections of principal and interest on loans	-	33,870	-	33,870	-
Cash payment for loans	-	(46,697)	-	(46,697)	-
Net cash provided by (used for) investing activities	6,808	(15,004)	11,804	3,608	(1,672)
Net increase (decrease) in cash and cash equivalents	(542)	(7,188)	28,024	20,294	16,793
Cash and cash equivalents, July 1	296,165	13,887	67,004	377,056	90,801
Cash and cash equivalents, June 30	$ 295,623	$ 6,699	$ 95,028	$ 397,350	$ 107,594

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ (158)	$ (66)	$ 40,757	$ 40,533	$ 7,308
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	-	1	1,068	1,069	11,479
Amortization	-	-	122	122	1,133
Securities lending expense	-	-	8	8	11
Investment earnings	(6,198)	(81)	(669)	(6,948)	(418)
Securities lending income	-	-	(17)	(17)	(18)
Financing income	-	(1,667)	-	(1,667)	-
Interest expense	-	1,241	32	1,273	327
Other revenue	-	7	-	7	8,642
Arbitrage rebate tax	-	6	-	6	-
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	(823)	-	954	131	(2,797)
Decr (Incr) in due from other funds	-	-	-	-	56
Decr (Incr) in due from other governments	(4)	-	(6)	(10)	11
Decr (Incr) in inventories	-	-	(234)	(234)	605
Decr (Incr) in other assets	-	-	172	172	(92)
Incr (Decr) in accounts payable	(812)	-	(5,021)	(5,833)	1,412
Incr (Decr) in due to other funds	-	(1)	672	671	436
Incr (Decr) in due to other governments	-	-	(7)	(7)	-
Incr (Decr) in lottery prizes payable	-	-	31	31	-
Incr (Decr) in unearned revenue	-	-	(348)	(348)	(55)
Incr (Decr) in amounts held in custody for others	-	-	(22)	(22)	-
Incr (Decr) in compensated absences payable	-	3	(31)	(28)	345
Incr (Decr) in OPEB implicit rate subsidy	-	10	472	482	1,573
Incr (Decr) in estimated claims	-	-	(105)	(105)	433
Incr (Decr) in other payables	-	2	(185)	(183)	3,540
Incr (Decr) in net pension liability and related accounts	-	40	272	312	604
Net cash provided by (used for) operating activities	$ (7,995)	$ (505)	$ 37,915	$ 29,415	$ 34,535
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	-	3,262	3,262	2,441
Incr (Decr) in fair value of investments	-	75	480	555	450
Total noncash transactions	$ -	$ 75	$ 3,742	$ 3,817	$ 2,891

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 295,757	$ 98,146	$ 1,033,403	$ 33,484
Receivables (net):				
Accounts receivable	25,916	-	-	609
Interest	268	17	968	-
Due from primary government	34,451	-	-	-
Due from other PERB plans	925	-	-	-
Long-term loans/notes receivable	26	-	-	-
Total receivables	61,586	17	968	609
Investments at fair value:				
Equity in pooled investments (Note 3)	10,637,092	-	12,771	-
Other investments (Note 3)	681,160	154,943	-	-
Total investments	11,318,252	154,943	12,771	-
Securities lending collateral (Note 3)	62,235	-	100	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	186	-	-	-
Equipment	96	-	-	-
Construction work in progress	225	-	-	-
Accumulated depreciation	(231)	-	-	-
Intangible assets	6,795	-	-	-
Total capital assets	7,106	-	-	-
Other assets	-	37,402	-	438
Total assets	11,744,936	290,508	1,047,242	34,531
DEFERRED OUTFLOWS OF RESOURCES	316	-	-	-
LIABILITIES				
Accounts payable	5,032	9	936	466
Due to other PERB plans	924	-	-	-
Unearned revenue	238	-	-	-
Amounts held in custody for others	-	-	-	34,065
Securities lending liability (Note 3)	62,235	-	100	-
Compensated absences payable	705	-	-	-
Net pension liability (Note 6)	1,533	-	-	-
OPEB implicit rate subsidy (Note 7)	1,141	-	-	-
Total liabilities	71,808	9	1,036	34,531
DEFERRED INFLOWS OF RESOURCES	5	-	-	-
NET POSITION				
Held in trust for pension benefits and other purposes	$ 11,673,439	$ 290,499	$ 1,046,206	$ -

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	$ 243,314	$ -	$ -
Employee	234,839	-	-
Other contributions	104,173	15,228	1,214,996
Net investment earnings:			
Investment earnings	1,296,417	13,511	7,667
Administrative investment expense	(56,387)	-	-
Securities lending income	3,141	-	26
Securities lending expense	(1,237)	-	(11)
Charges for services	587	-	-
Other additions	540	5,066	-
Total additions	1,825,387	33,805	1,222,678
DEDUCTIONS			
Benefits	823,355	-	-
Refunds	23,588	-	-
Distributions	-	33,525	1,079,412
Administrative expenses:			
Personal services	5,108	-	-
Contractual services	5,466	841	-
Supplies/materials	160	-	-
Depreciation	25	-	-
Amortization	508	-	-
Utilities/rent	384	-	-
Communications	214	-	-
Travel	60	-	-
Repair/maintenance	19	-	-
Other operating expenses	424	86	-
Local assistance	6	-	-
Transfers to MUS-RP	128	-	-
Transfers to PERS-DCRP	1,420	-	-
Total deductions	860,865	34,452	1,079,412
Change in net position	964,522	(647)	143,266
Net position - July 1 - as previously reported	10,708,919	291,146	902,940
Adjustments to beginning net position (Note 2)	(2)	-	-
Net position - July 1 - as adjusted	10,708,917	291,146	902,940
Net position - June 30	$ 11,673,439	$ 290,499	$ 1,046,206

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

Universities and Colleges
Commissioner of Higher Education
2500 Broadway Street
Helena, MT 59620-3201

Montana Board of Housing (MBOH) – MBOH, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. MBOH issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. MBOH is audited annually by the State's Legislative Audit Division.

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State of Montana may be pledged for the amounts so issued. FFA is attached to the State of Montana, Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Section 39-71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. This Board has full power, authority, and jurisdiction in the administration of MSF. MSF is attached to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State's Legislative Audit Division.

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

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

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

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

Fiduciary Fund Component Units

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

Teachers' Retirement System 1500 East Sixth Avenue PO Box 200139 Helena, MT 59620-0139	Public Employees' Retirement Board 100 North Park, Suite 200 PO Box 200131 Helena, MT 59620-0131

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

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The Public Employees' Retirement Board (PERB) is appointed by the Governor and administers eleven separate plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers';

the Municipal Police Officers'; the Firefighters' Unified Retirement Systems; the Volunteer Firefighters' Compensation Act; and the State of Montana Deferred Compensation Program (457 Plan) retirement plans. The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

accounting. However, debt service expenditures as well as expenditures relating to compensated absences, claims, and judgments are recorded only when payment is due.

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

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

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

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts for activities funded from state resources used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately an $84.2 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $20.4 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

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

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

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

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

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

Private-Purpose Trust Funds –To account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation, and bonds held in trust.

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

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

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

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

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

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

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

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

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act (EDBA) programs and the Municipal Finance Consolidation Act (MFCA) programs. The EDBA programs provide qualifying Montana businesses access to tax-exempt funds through the issuance of conduit (no-commitment) debt. The MFCA programs provide low cost funds to eligible Montana governments to finance capital expenditures. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Restricted Net Position

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

I. Equity in Pooled Investments

To account for the custody of monies, the Montana Board of Investments (BOI) uses one internal investment pool and one external investment pool. The internal investment pool is the Consolidated Asset Pension Pool (CAPP). The external investment pool is the Trust Fund Investment Pool (TFIP). Current State agency participation in the pools is within the enterprise funds, permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The State's nine retirement funds can only participate in CAPP. Other State agencies and qualifying local governments can participate in TFIP. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to cash and cash equivalents and investments is provided in Note 3.

J. Investments

For agencies whose investment needs are not met by BOI's established investment pools, BOI provides separate investments, which are combined and reported as All Other Funds (AOF). AOF participants have direct fixed income, equity and Montana mortgage and loan investments. AOF investments are reported at fair value. Other State agencies, on a limited basis by statute, may administer other long-term investments. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-

backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value on the Statement of Net Position. Further detail related to investments is provided in Note 3.

K. Capital Assets

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

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

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

L. Deferred Outflows, Deferred Inflows, and Unearned Revenue

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

M. Long-term Obligations

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

N. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, on the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. On the governmental fund financial statements no asset or liability is recorded related to assets under capital leases. Rather, on the

governmental fund financial statements, at the inception of a capital lease, capital outlay expenditures and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to capital leases is provided in Note 10.

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2016, was 21,533 hours. For fiscal year 2017, 718 sick leave hours, 157 annual leave hours, and 2,759 excess annual leave hours were contributed to the sick leave pool, and 2,287 hours were withdrawn, leaving a balance of 22,880 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

Q. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $71.4 million as of June 30, 2017. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

R. Fund Balance/Net Position

Fund Balance

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

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State Constitution or external parties, such as the federal government, or through enabling legislation. For the

purpose of determining restricted amounts, enabling legislation does not include commitments resulting from State legislation if these constraints can be removed or changed by a similar legislative action.

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

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. There is not a projected spend down for fiscal year 2018, thus a related assignment of fund balance is not reported at 2017 fiscal year-end.

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

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

Minimum General Fund - Fund Balance

As of June 30, 2017, the State did not maintain a stabilization fund. However, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

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

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

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling

legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $ 3.3 billion.

S. Property Taxes

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

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

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

T. Other Taxes

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

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	$ 22,808	$ 30,761	$ -	$ 19	$ 53,588
Agriculture sales	-	9,099	-	-	9,099
Cigarette/tobacco	36,774	46,543	1,762	-	85,079
Car rental	3,272	1,091	-	-	4,363
Contractors gross receipts	3,078	-	-	-	3,078
Energy tax	7,465	-	-	-	7,465
Fire protection	-	3,597	-	-	3,597
Hospital benefit assessment	4,351	-	-	-	4,351
Insurance premium	75,357	30,426	-	-	105,783
Light vehicle registration	-	4,243	-	-	4,243
Liquor tax	5,432	2,194	-	27,939	35,565
Livestock	-	4,810	-	-	4,810
Other taxes	333	1,557	-	-	1,890
Public service commission	-	4,737	-	-	4,737
Railroad car companies	3,806	-	-	-	3,806
Telephone license	15,517	-	-	-	15,517
Video gaming	59,956	7	-	-	59,963
Total other taxes	$238,149	$139,065	$1,762	$27,958	$406,934

U. Tax Abatements

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

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is $16.7 thousand times the number of full-time jobs created and the minimum loan size is $250.0 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job

creation. The reduction will be reflected in the user fee rate charged the basic sector business upon BOI review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. BOI may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must annually provide payroll documentation to BOI.

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

During the fiscal year ended June 30, 2017, basic sector business entities made total user fee payments of $3.2 million, representing $2.1 million of principal and $1.1 million in interest. During the fiscal year ended June 30, 2017, a total of $3.4 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2017 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed

	Tax Year 2016	Tax Year 2015	Total
Corporate income tax	$229	$ 275	$ 504
Individual income tax	41	2,813	2,854
Total amount claimed	$270	$3,088	$3,358

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2017, the State of Montana implemented the provisions of GASB Statement No. 77, *Tax Abatement Disclosures* (GASB 77). This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

For the year ended June 30, 2017, the State of Montana implemented the provisions of GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

B. Adjustments to Beginning Net Position

For the year ended June 30, 2017, there was an overall increase to the General Fund's beginning fund balance. The most significant adjustments consisted of $10.5 million related to Medicaid grant overmatching and $6.9 million related to abandoned property.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$ 3,414,078
Equity in pooled investments	$ 12,971,407
Investments	$ 3,281,306

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

A. General

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

(1**) BOI** was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Unified Investment Program is comprised of state funds, including pensions, trusts, insurance, and cash. Local government entities can, by statute, only voluntarily invest in the Short Term Investment Pool (STIP). With a qualifying event, local government entities may also, by statute, invest in the long-term investment portion of the program. BOI manages the Unified Investment Program pursuant to the "Prudent Expert Principle" mandated by State law, which requires an investment manager to:

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

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

Currently, only the nine retirement funds through participation in the Consolidated Asset Pension Pool (CAPP) and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and All Other Funds (AOF) participant, which provides BOI staff a broad strategic framework under which the investments are managed. The IPS's also reflect BOI approved asset allocation ranges.

To facilitate management of the Unified Investment Program, BOI uses a combination of investment pools and specific accounts to meet the financial goals and expectations of agencies and entities which entrust these funds to BOI. The investment activity reported within BOI's financial statements is included as part of the governmental, proprietary, and fiduciary fund financial statements within the CAFR.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as AOF. The pools, AOF Investments Managed, and eligible State participants are shown in the following table as of June 30, 2017:

Pool/Investments Managed Name	Creation Date	Eligible Participants
Consolidated Asset Pension Pool (CAPP)	03/31/17	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

Prior to November 2016, the asset allocation for the pension-only funds focused on five pools: The Montana Domestic Equity Pool, Montana International Equity Pool, Retirement Funds Bond Pool, Montana Private Equity Pool, and the Montana Real Estate Pool. The only participants in these pools were the pension systems. In November 2016, upon recommendation of the Chief Investment Officer, BOI's oversight board approved that the pension asset allocation was to focus on 13 asset classes versus the five pension-only pools. On March 31, 2017, BOI converted the five pension-only pools into a single CAPP, with 13 underlying asset classes, to align BOI's accounting and performance structure with the more detailed asset allocation formally approved in November 2016. CAPP's underlying asset classes are as follows:

Asset Classes	
Domestic Equity	Broad Fixed Income
International Equity	Investment Grade
Private Equity	Mortgage Backed Securities
Real Estate	High Yield
Natural Resources	Cash
TIPS (US Treasury Inflation-Protected Securities)	Diversified Strategies (1)
US Treasury/Agency	

(1) Not funded as of June 30, 2017

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

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

BOI's separately issued Unified Investment Program financial statements include the activity for Montana State Fund (MSF) within AOF on a June 30, 2017, basis. MSF, a discretely presented component of the State, by statute, prepared separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents, equity in pooled investments, and investments.

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

Cash deposited with the State Treasurer's pooled cash account is invested by BOI in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled

cash account is reported as a cash equivalent. BOI also manages STIP, which provides individual State agencies and local governments an opportunity to invest excess cash in a pool that is managed to preserve principal while providing 24-hour liquidity. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

STIP investments are investments primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 60 days or less.

(b) Investment securities are reported by investment portfolio and type in Table 2 – Cash Equivalents, Table 3 – Equity in Pooled Investments, and Table 4 – Investments. Included in the pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due to participants, and other miscellaneous payables.

Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made. The managers are not allowed to engage in currency speculation.

The net change in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date. Income due to participants is recorded on the date due to participants.

Investments are reported at fair value on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market prices represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment manager. All investment portfolios presented in the Statement of Net Asset Value are at "fair" value. BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.
Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
Level 3 – Prices are determined using unobservable inputs.

CAPP invests directly in the underlying Pension Asset Classes (PAC) on behalf of the nine retirement systems within the BOI-approved asset allocation ranges. Each PAC has an underlying set of investment objectives and investment guidelines. For liquidity purposes, each PAC and external manager has a limited amount of cash/cash equivalents. With the PAC, it is invested in the State Street Short Term Investment Fund (STIF), which invests in high quality short-term securities. For external managers, it is invested per BOI established guidelines. The 13 underlying CAPP asset classes are described below.

Domestic Equity PAC - Invests primarily in US traded equity securities such as common stock. The type of portfolio structures utilized are separately managed accounts, commingled accounts, and exchange traded funds.

International Equity PAC - Invests primarily in international equity securities that trade on foreign exchanges in developed and emerging markets. The type of portfolio structures utilized are separately managed accounts, commingled accounts, and exchange traded funds.

Private Equity PAC - Invests in the entire capital structure of private companies. Investments are made through limited partnerships managed by a general partner. The limited partnerships typically have well-defined strategies such as buyout, venture, or distressed debt. Private Equity PAC investments are less liquid than other asset classes because the funds require a long holding period. Exchange traded funds are utilized to minimize the cash position.

Real Estate PAC - Invests primarily in real estate properties. Transactions are privately negotiated by a general partner through a limited partnership or an open-end fund. The funds typically have well-defined strategies such as core, value-add, or opportunistic. Private Real Estate PAC investments are less liquid than other asset classes because the funds require a long holding period. Exchange traded funds are utilized to minimize the cash position.

Natural Resource PAC - Invests primarily in energy and timber investments, but could include agriculture, water or commodity related funds. The investments are made through limited partnerships, managed by a general partner, and the funds are less liquid than other asset classes because they require a long holding period. Potential investment vehicles could include open-end funds, master limited partnerships, and exchange traded funds.

Intermediate Treasury Inflation Protected Securities (TIPS) PAC - Invests primarily in intermediate US TIPS or US Treasury securities that are indexed to inflation.

Intermediate US Treasury/Agency PAC - Invests primarily in debt obligations of the US Government including its agencies and instrumentalities.

Broad Fixed Income PAC - Invests primarily in core fixed income securities as represented in the Bloomberg Barclays US Aggregate Bond Index. The type of portfolio structures utilized are separately managed accounts, commingled accounts, and potentially exchange traded funds.

Intermediate Investment Grade PAC - Invests primarily in intermediate investment grade corporate bonds typically found in the Bloomberg Barclays US Corporate Bond Index. It includes US dollar denominated securities publicly issued by US and non-US industrial, utility, and financial users.

Mortgage Backed Securities PAC - Invests primarily in agency mortgage backed securities, asset backed securities, and commercial mortgage backed securities.

High Yield PAC - Invests primarily in US dollar denominated corporate bonds that are classified as high yield according to the major ratings agencies such as S&P, Moody's, or Fitch. The type of portfolio structures utilized are separately managed accounts and potentially commingled accounts or exchange traded funds.

Cash PAC - Invests primarily in highly liquid, money-market type securities through STIP.

Diversified Strategies PAC – Has not been funded as of June 30, 2017. Prior to future funding, BOI's Chief Investment Officer will propose the PAC Investment Objectives and Guidelines for approval by BOI.

TFIP - Invests primarily in investment grade, US dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

(c) Security Lending - BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the Bank split the earnings, 80/20 respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period. The Bank indemnifies BOI's credit risk exposure to the borrowers.

During fiscal year 2017, the Bank lent BOI's public securities and received as collateral: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2017. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2017 resulting from a borrower default. As of June 30, 2017, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Pension funds participated in the Quality D Short Term Investment Fund and the non-pension entities participated in the Securities Lending Quality Trust. During March 2017, participation in both funds was transitioned into the Navigator Securities Lending Government Money Market portfolio.

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 8 days and the average weighted final maturity was 49 days within the Navigator portfolio.

As of October 2016, STIP was no longer participating in the security lending program. STIP did not have securities on loan as of June 30, 2017. Security lending income and expense entries were recorded through October 2016.

(d) Investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

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

The US government guarantees US government securities directly or indirectly. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Custodial Credit Risk

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

Cash

Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits at the custodial bank or sub-custodial bank, they are held in the name of BOI or its accounts. As of June 30, 2017, BOI recorded cash of $2.0 million.

Investments

As of June 30, 2017, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for BOI and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI.

Concentration of Credit Risk

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

CAPP
The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by BOI. BOI will formally affirm or revise the asset allocation ranges for the retirement plans annually. The CAPP IPS contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Within the objective and guidelines for each underlying asset class, limits are placed on the allowable types of investments and the allowable ranges.

TFIP
The TFIP IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency mortgage pass-through (MBS) securities.

STIP
The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution.

AOF
Concentration of credit risk is contemplated by investment staff for each portfolio. Exposure to individual securities are limited with the exception of debt obligations of the US government, including its agencies and instrumentalities.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. CAPP is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class, and High Yield Asset Class sections have maximum restrictions that can be held. As of June 30, 2017, there were no receivable or payable balances pertaining to foreign currency forward contracts.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses effective duration as a measure of interest rate risk for all fixed income portfolios. BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the TIPS PAC, US Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage Backed PAC average duration will be maintained in a range within 20% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for AOF is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows. According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by:

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

CAPP, TFIP, AOF, and STIP may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate (e.g. LIBOR).

CAPP, TFIP, and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2017. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. The Standard & Poor (S&P) rating service provides the credit ratings presented in the later tables. If an S&P rating is not available, an equivalent NRSRO rating is used.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2017. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services, are presented. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months or years) weighted to reflect the dollar size of the individual investments within an investment type. The WAM is calculated in days.

Other

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp remain in conservatorship from September 7, 2008.

In August 2011, S&P downgraded the US AAA bond rating to AA+.

Derivative Instruments

A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of CAPP derivative instruments outstanding as of June 30, 2017, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2017, are as follows (in thousands):

	Fair Value at June 30, 2017			Change in Fair Value	
Investment Derivatives (1)	Classification	Fair Value Amount	Notional	Classification	Amount
Credit default swaps	Swaps	$ -	$ -	Investment Revenue	$ 198
Currency forward contracts	LT debt/equity	-	-	Investment Revenue	7
Index futures long	Futures	-	3	Investment Revenue	892
Rights	Equity	31	39	Investment Revenue	62
Total Derivatives		$31			$1,159

(1) A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. BOI was not subject to counterparty credit risk as of June 30, 2017.

STIP Reserve

In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to STIP participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. The STIP reserve for the year ending June 30, 2017, is detailed as follows:

	STIP Reserve (in thousands)
Beginning STIP Reserve	$ 13,143
STIP reserve expense	
Other income	
Recovery from SIV related assets	7,774
Realized gains on sale of any STIP asset	19
Accrued interest	15
Daily reserve accrual	3,283
Total reserve expense	$ 11,091
Ending STIP reserve	$ 24,234

In the fiscal year ended June 30, 2007, BOI purchased four Structured Investment Vehicle (SIV) securities held in the STIP portfolio with a combined amortized cost of $140.0 million, representing 5.02% of the total portfolio. These securities were purchased from two different issuers. Both issuers received the highest investment grade rating by two rating agencies at the time purchased and as of June 30, 2007. Both issuers of these SIV securities declared insolvency events in fiscal year 2008. In June and December 2009, BOI applied $21.0 million, in total, from the STIP reserve to the outstanding debt principal balances. In May 2016, BOI wrote off the entire remaining outstanding SIV balance of $23.6 million against STIP reserve. BOI does not make any assumptions on recovery related to the SIV assets. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve.

(2) The EDB deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The EDB's US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The EDB does not have a formal investment policy addressing credit risk for permitted investments as provided in the indenture or investment in the STIP. Permitted investments, as described in the indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

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

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

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by US Bank's Trust Department in the name of BOI.

Investments - As of June 30, 2017, EDB securities were recorded in book entry form in the name of US Bank National Association as Trustee for BOI by specific account. The EDB does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. As of June 30, 2017, STIP concentration risk was within the policy as set by BOI.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The EDB does not have a formal investment policy addressing interest risk for permitted investments as provided in the Indenture or the cash equivalent investment in the STIP. STIP interest rate risk is determined using the WAM method. In accordance with GASB Statement No. 40, BOI has selected the effective duration method to disclose interest rate risk. According to the STIP IPS "the STIP portfolio will minimize interest rate risk by:

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

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2017. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations. There were no derivative transactions during the 2017 fiscal year for investments held by the trustee.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$99,122
Uninsured and uncollateralized cash	5,599
Undeposited cash	444
Cash in US Treasury	295,621
Cash in MSU component units	10,963
Cash in UM component units	19,973
Less: outstanding warrants	(38,864)
	$392,858

As of June 30, 2017, the carrying amount of deposits for component units was $180.3 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of BOI or other agencies, as allowed by law. The STIP portfolio is shown at fair value.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating(1)	WAM in Days(1)
Treasuries	$ 194,673	A1+	80
Asset backed commercial paper	1,089,830	A1	25
Corporate commercial paper	356,122	A1	63
Corporate notes	369,751	A1+	78
Certificate of deposit	484,113	A1+	35
US government agency	419,778	A1+	24
Money market fund unrated	125,116	NR	1
Money market fund rated	148,000	A1+	1
Less: Cash in transit for STIP purchase	(9,031)	NR	NA
Less: STIP included in pooled investment balance	(157,132)	NR	NA
Total cash equivalents	$3,021,220	A1	39

(1) Represents the STIP investments portion of cash equivalents only.

As of June 30, 2017, local governments had invested $1.0 billion and component units of the State of Montana had invested $427.7 million in STIP.

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	Book Value (1)	Fair Value (1)	Units Outstanding	Unit Value (2)
CAPP:				
Consolidated asset pension pool	$ 9,665,249	$10,667,096	$103,214	$103.058787
TFIP:				
Trust funds investment pool	2,217,207	2,327,039	21,812	107.016814
Total pooled investments	11,882,456	12,994,135		
Pool adjustments (net)	(22,728)	(22,728)		
Total equity in pooled investments	$11,859,728	$12,971,407		

(1) Includes cash/cash equivalents and investments.
(2) Amounts not in thousands.

As of June 30, 2017, the fair value of the underlying securities on loan was $615.4 million. Collateral provided for the securities on loan totaled $628.7 million consisting of $80.6 million in cash and $548.2 million in securities.

As of June 30, 2017, component units, both discretely presented and fiduciary funds, of the State had equity in pooled investments with a book value of $10.4 billion and a fair value of $10.7 billion as included in Table 3. The increase in book value was due to transitioning the plan participants out of the original five investment pools and into CAPP. As part of this transition, the investments were given a new book value which was their combined ending market value of their holdings of the five pools as of March 31, 2017.

As of June 30, 2017, local governments invested $12.8 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2017, as required for applicable pools.

CAPP
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Treasuries	$ 1,060,925	AA+	4.55
Agency/Government Related	125,562	AAA	5.01
Asset Backed Securities	41,968	AA+	2.20
Mortgage Backed Securities	458,851	AAA	4.09
Commercial Mortgage Backed Securities	87,168	AAA	3.76
Financial – Corporate	271,663	BBB+	3.71
Industrial – Corporate	478,729	BBB	4.45
Utility – Corporate	20,663	BBB	3.43
Short Term Investment Pool (STIP)	116,583	NR	0.11
State Street Short Term Investment Fund (STIF)	239,879	NR	0.07
Total fixed-income investments at fair value	$ 2,901,991	AA-	3.99
Other investments not requiring credit quality ratings			
Montana Mortgages	4,935		
Domestic Equity Asset Class	3,884,160		
International Equity Asset Class	1,844,346		
Private Equity Asset Class	1,140,205		
Natural Resources Asset Class	221,211		
Real Estate Asset Class	823,538		
Other – Cash in Portfolios	68		
Less STIF in above Asset Classes	(153,358)		
Total investments not requiring credit quality ratings	$ 7,765,105		
Total investments managed (2)	$10,667,096		
Securities lending collateral investment pool	$62,235	NR	0.02

(1) Credit Quality Rating and Effective Duration are weighted.
(2) Includes $241.7 thousand of Cash and Cash Equivalents at cost.

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Treasuries	$ 526,628	AA+	7.74
Agency/Government Related	153,351	AA+	6.24
Asset Backed Securities	76,743	AAA	1.88
Mortgage Backed Securities	439,241	AAA	4.45
Commercial Mortgage Backed Securities	130,417	AAA	4.95
Financial – Corporate	205,010	BBB+	4.54
Industrial – Corporate	419,642	A	6.25
Utility – Corporate	28,313	BBB	6.99
Short Term Investment Pool (STIP)	40,549	NR	0.11
High Yield Bond Fund	105,639	B+	3.69
Total fixed-income investments at fair value	$2,125,533	AA-	5.82

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Other investments not requiring credit quality ratings			
Core Real Estate	200,691		
Cash/Cash Equivalents (2)	814		
Total investments not requiring credit quality ratings	201,505		
Total investments managed	$2,327,038		
Securities lending collateral investment pool	$ 18,321	NR	0.02

(1) Credit Quality Rating and Effective Duration are weighted.
(2) Reported at cost.

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	WAM in Days
Treasuries	$ 124,774	A-1+	80
Asset Backed Commercial Paper	1,089,830	A-1	25
Corporate Commercial Paper	356,122	A-1	63
Corporate Notes	369,751	A-1+	78
Certificates of Deposit	484,113	A-1+	35
US Government Agency	389,807	A-1+	24
Money Market Funds (Unrated) (2)	24,219	NR	1
Money Market Funds (Rated) (2)	148,000	A-1+	1
Total investments managed	$2,986,616	A-1	39

(1) Credit Quality Rating is weighted.
(2) Reported at cost.

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – Fair Value Measurement and Application, as defined below. Each of the investment pools has the following recurring fair value measurements as of June 30, 2017.

CAPP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 1,060,925	$1,060,925	$ -	$ -
Agency/Government Related	125,562	-	125,562	-
Asset Backed Securities	41,968	-	41,968	-
Mortgage Backed Securities	458,851	-	458,851	-
Commercial Mortgage Backed Securities	87,168	-	87,168	-

CAPP Investments Measured at Fair Value
(in thousands)

	June 30, 2017	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Financial-Corporate	271,663	-	271,663	-
Industrial-Corporate	478,729	-	478,729	-
Utility-Corporate	20,663	-	20,663	-
Equity investments:				
Consumer Discretionary	195,457	195,457	-	-
Consumer Staples	78,128	78,128	-	-
Energy	82,867	82,867	-	-
Financials	225,847	225,847	-	-
Health Care	184,845	184,845	-	-
Industrials	193,938	193,938	-	-
Information Technology	318,511	318,511	-	-
Materials	82,833	82,833	-	-
Mutual Funds	2,436,876	2,436,876	-	-
Real Estate	37,882	37,882	-	-
Telecommunication Services	13,736	13,736	-	-
Utilities	22,152	22,152	-	-
International equity investments:				
Consumer Discretionary	87,888	87,888	-	-
Consumer Staples	59,542	59,542	-	-
Energy	33,460	33,460	-	-
Financials	115,773	115,773	-	-
Health Care	48,134	48,134	-	-
Industrials	85,118	85,118	-	-
Information Technology	91,345	91,345	-	-
Materials	26,821	26,821	-	-
Mutual Funds	229,551	229,551	-	-
Private Placement	1,722	1,722	-	-
Real Estate	11,923	11,923	-	-
Rights/Warrants	31	31	-	-
Telecommunication Services	10,695	10,695	-	-
Utilities	4,128	4,128	-	-
Direct Real Estate	18,723	-	-	18,723
Montana Mortgages	4,935	-	-	4,935
Total fixed income investments	$ 7,248,390	$5,740,128	$1,484,604	$23,658
Investments measured at the net asset value (NAV)				
Commingled Equity Index Funds	$ 1,009,736			
Private Equity – Private Equity Partnerships	1,209,376			
Core Real Estate	341,077			
Opportunistic	92,882			
Timber	104,714			
Value Added	302,629			
Short Term Investment Pool (STIP)	116,583			
Total investments measured at NAV	3,176,997			
Total investments at fair value	$10,425,387			
Investments measured at cost				
Cash/Cash Equivalents	241,709			
Total investments managed	$10,667,096			

TFIP Investments Measured at Fair Value
(in thousands)

	June 30, 2017	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 526,628	$526,628	$ -	$ -
Agency/Government Related	153,351	-	153,351	-
Asset Backed Securities	76,743	-	76,743	-
Mortgage Backed Securities	439,241	-	439,241	-
Commercial Mortgage Backed Securities	130,417	-	130,417	-
Financial-Corporate	205,010	-	205,010	-
Industrial-Corporate	419,642	-	419,642	-
Utility-Corporate	28,313	-	28,313	-
Total fixed income investments	$1,979,345	$526,628	$1,452,717	$ -
Investments measured at the net asset value (NAV)				
Core Real Estate	200,691			
High Yield Bond Fund	105,639			
Short Term Investment Pool (STIP)	40,549			
Total investments measured at NAV	346,879			
Total investments at fair value	$2,326,224			
Investments measured at cost				
Cash/Cash Equivalents	814			
Total investments managed	$2,327,038			

STIP Investments Measured at Fair Value
(in thousands)

	June 30, 2017	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 124,774	$124,774	$ -	$ -
Asset Backed Commercial Paper	1,089,830	-	1,089,830	-
Corporate Commercial Paper	356,122	-	356,122	-
Corporate Notes	369,751	-	369,751	-
Certificates of Deposit	484,113	-	484,113	-
US Government Agency	389,807	-	389,807	-
Total investments by fair value level (1)	$2,814,397	$124,774	$2,689,623	$ -
Investments measured at cost				
Money Market Funds (Unrated)	24,219			
Money Market Funds (Rated)	148,000			
Total investments measured at cost	172,219			
Total investments managed	$2,986,616			

(1) STIP is reported in Table 2 – Cash Equivalents

AOF data is presented below and in section D – Investments.

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

CAPP – Montana Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy for the fiscal year ended June 30, 2017.

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

The investments measured at NAV for the year ended June 30, 2017 are detailed below.

		Investments Measured at NAV (in thousands)		
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
CAPP				
Commingled Equity Index Funds	$1,009,736	-	Daily	1 day
Private Equity – Private Equity Partnerships	1,209,376	$735,280		
Core Real Estate	341,077	-	Monthly, quarterly	45-90 days
Opportunistic	92,882	54,963		
Timber	104,714	30,670		
Value Added	302,629	102,272		
Short Term Investment Pool (STIP)	116,583	-	Daily	1 day
Total investments measured at the NAV	$3,176,997	$923,185		
TFIP				
Core Real Estate	$200,691	-	Monthly, quarterly	45-90 days
High Yield Bond Fund	105,639	-	Monthly	30 days
Short Term Investment Pool (STIP)	40,549	-	Daily	1 day
Total investments measured at NAV	$346,879	-		
AOF				
Core Real Estate	$107,000	-	Monthly, quarterly	45-90 days
Commingled Equity Index Funds	185,615	-	Daily	1 day
Total investments measured at NAV	$292,615	-		

Commingled Equity Index Funds – This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

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

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

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

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

STIP – This investment program is managed and administered under the direction of BOI as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment. STIP, as presented in this table, represents a direct holding for CAPP and TFIP. Refer to the STIP Investments Measured at Fair Value table for the underlying investments within the fair value hierarchy.

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

As of the June 30, 2017, exchange date, BOI's foreign currency exposure by deposits and investment type are reported, in US dollars, at fair value in the table below. Excluded are the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Australian Dollar	$ 1	$ 18,122	$ -	$ -
Brazilian Real	39	14,682	-	-
Canadian Dollar	54	38,382	-	-
Danish Krone	1	11,684	-	-
EMU – Euro	37	117,307	26,700	4,513
Hong Kong Dollar	6	23,646	-	-
Indonesian Rupiah	2	551	-	-
Japanese Yen	289	81,919	-	-
Malaysian Ringgit	28	1,720	-	-
Mexican Peso	-	1,256	-	-
New Zealand Dollar	2	831	-	-
New Israeli Sheqel	19	3,896	-	-
Norwegian Krone	7	7,503	-	-
Philippine Peso	12	1,504	-	-
Polish Zloty	21	2,625	-	-
Singapore Dollar	21	8,014	-	-
South African Rand	30	10,892	-	-
South Korean Won	69	21,941	-	-
Swedish Krona	5	21,275	-	-

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Swiss Franc	1	27,137	-	-
New Taiwan Dollar	-	12,359	-	-
Thailand Baht	3	5,168	-	-
Turkish Lira	14	8,632	-	-
UK Pound Sterling	134	75,014	-	-
Yuan Renminbi	-	2,508	-	-
Total cash and securities	$795	$518,568	$26,700	$4,513

Investments in alternative equity are usually made through Limited Partnership Agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to CAPP alternative equity managers by pension class. Further details on the balances as of June 30, 2017, as shown below, can be found in BOI's separately issued external investment pool financial statements.

Commitments to Fund Managers
(in thousands)

Pool	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
Private Equity PAC	$2,185,722	$671,170	$ 891,879	$ 986,638
Real Estate PAC	668,666	157,235	290,610	309,092
Natural Resource PAC	325,000	94,780	180,098	213,117
Total	$3,179,388	$923,185	$1,362,587	$1,508,847

D. Investments

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

Long-term Investments

Department	Percent Administered
Board of Investments	52.56%
Universities	16.94
MPERA (Montana Public Employee Retirement Administration)	20.76
College Savings Plan	4.43
Montana Board of Housing	2.53
Other (1)	2.78
Total	100.00%

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

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

The PERS Defined Contribution Retirement Plan and the Deferred Compensation Plan's fixed assets were administered on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). The third party record keeper, Empower ™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a fixed rate of return. All money invested in the Montana Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any GIC. Variable investments are held and managed in a selection of retail and institutional mutual funds, which cover all standard asset classes and categories.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
Investments by fair value level				
Treasuries (1)	$ 31,025	$ 31,025	$ -	$ -
Agency/Government Related (1)	54,900	-	54,900	-
Asset Backed Securities (1)	500	-	500	-
Financial-Corporate (1)	6,820	-	6,820	-
Industrial-Corporate (1)	4,752	-	4,752	-
Government Securities	12,661	8,100	4,561	-
Stocks	6,515	6,515	-	-
Other	53,250	-	53,250	-
Total investments at fair value	$ 170,423	$ 45,640	$ 124,783	$ -
Investments at cost				
Montana Mortgages and Loans (3)	$ 148,403			
Total investments at cost	$ 148,403			
Total primary government	$ 318,826			
Component units/fiduciary funds				
Investments by fair value level				
Treasuries (1)	$ 221,691	$ 221,691	$ -	$ -
Agency/Government Related (1)	251,106	-	251,106	-
Asset Backed Securities (1)	54,462	-	54,462	-
Mortgage Backed Securities (1)	15,900	-	15,900	-
Commercial Mortgage Backed Securities (1)	15,204	-	15,204	-
Financial-Corporate (1)	301,108	-	301,108	-
Industrial-Corporate (1)	314,940	-	314,940	-
Utility-Corporate (1)	32,626	-	32,626	-
529 College Savings Plan	143,507	-	143,507	-
VEBA	5,971	-	5,971	-
State Auditor	11,437	-	11,437	-
MSU Component Unit Investments (2)	217,707	122,131	2,767	92,809
UM Component Unit Investments (2)	189,381	117,767	55,681	15,933
Board of Housing (2)	55,027	16,516	38,511	-
Total investments at fair value	$1,830,067	$ 478,105	$1,243,220	$ 108,742
Investments at net asset value (NAV)				
Core Real Estate	$ 107,000			
Commingled Equity Index Funds	185,615			
Deferred Compensation (2)	479,575			
Defined Contribution (2)	192,153			
UM Component Unit Investments (2)	81,578			
Total investments at NAV	$1,045,921			

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at cost				
MSU Component Unit Investments (2)	$ 59,686			
Board of Housing (2)	26,806			
Total Investments at Cost	$ 86,492			
Total component unit/fiduciary investments	$2,962,480			
Total investments	$3,281,306			
Securities lending investment pool	$ 39,256			

(1) The credit quality rating and duration are included below for the rated investments.
(2) For more detail, refer to component unit separately issued financial statements.
(3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included on AOF financial statements. This amount of $11.9 million is considered advances to other funds/component units and amounts due from component units in the Coal Tax Severance column of the governmental fund financial statements.

As of June 30, 2017, the fair value of the investments on loan was $143.3 million. Collateral provided for the investments on loan totaled $146.3 million consisting of $39.3 million in cash and $107.0 million in securities.

All Other Funds – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Security Investment Type (2)			
Treasuries	$ 322,615	AA+	3.72
Agency/Government Related	335,978	AAA	3.21
Asset Backed Securities	54,962	AAA	1.87
Mortgage Backed Securities	15,900	AAA	6.62
Commercial Mortgage Backed Securities	15,204	AAA	5.11
Financial – Corporate	307,928	A-	2.80
Industrial – Corporate	319,693	A	4.47
Utility – Corporate	32,626	BBB+	2.90
Total fixed income investments	$1,404,906	AA-	3.52
Direct Investments			
Equity Index Fund – Domestic	$ 146,666		
Equity Index Fund – International	37,766		
Equity Index Fund – US Debt	1,183		
Total Equity Index Funds	$ 185,615		
Core Real Estate	107,000		
Montana Mortgages and Loans (3)	160,623		
Total direct investments	$453,238		
Total investments	$1,858,144		
Securities lending collateral investment pool	$ 39,256	NR	0.02

(1) Credit Quality Rating and Effective Duration are weighted.
(2) These rated securities are reported on both Table 2–Cash Equivalents and Table 4–Investments.
(3) Reported at cost.

EDB – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2017
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating (1)	Effective Duration (1)
First American Government Obligation Fund (2) (3)	$ 755	AAA	0.09
US Treasuries (2)	5,862	AAA	0.07
Short Term Investment Pool (STIP) (2)	63	NR	0.11
US Government Indirect Obligations	11,628	AAA	0.75
Total investments	$18,308	AAA	0.50

(1) Credit Quality Rating and Effective Duration are weighted.
(2) Security types are cash equivalents.
(3) Reported at cost.

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

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2017, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	$ -	$ 7,242	$ 30	$ 849	$ 4,683	$ 451	$ 8,132
Contributions/premiums	-	-	-	4,773	-	-	8,501
Grants/contracts/donations	-	2	-	-	-	-	223
Investment income	3,018	-	614	168	1,756	3,948	3,112
License and permits	-	-	4	-	-	-	8,378
Other receivables	-	33,190	7,942	-	-	-	113
Reimbursements/overpayments	-	762	12,500	-	-	-	14,156
Taxes	5,101	-	353,985	-	-	1,900	62,880
Total receivables	8,119	41,196	375,075	5,790	6,439	6,299	105,495
Less: allowance for doubtful accounts	-	(1,949)	(128,102)	(18)	-	-	(20,363)
Receivables, net	$8,119	$39,247	$246,973	$5,772	$6,439	$6,299	$85,132

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	$ -	$ 27,430	$ -
Contributions/premiums	-	137	6,130
Loans/investment income	12,880	108	-
Other receivables	-	82	-
Reimbursements/overpayments	-	-	1,672
Total receivables	12,880	27,757	7,802
Less: allowance for doubtful accounts	-	(416)	(3,300)
Receivables, net	$ 12,880	$ 27,341	$ 4,502

B. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued Interest	$ 5	$ 354	$ 61	$2,537	$ 52
Payroll	8,203	22,489	3,696	38	20,403
Tax refunds	-	157,421	-	-	-
Vendors/individual	337,605	76,518	15,415	3,263	112,772
Payables, net	$345,813	$256,782	$19,172	$5,838	$133,227

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued Interest	$432	$ 4	$ -
Payroll	23	989	-
Vendors/individuals	2	15,046	2,299
Payables, net	$457	$16,039	$2,299

C. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred outflows (1)	$18	$329,358	$9,088	$ -	$70
Refunding deferred outflows	-	-	-	3,836	-
Total deferred outflows	$18	$329,358	$9,088	$3,836	$70

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Pension deferred outflows (1)	$65	$3,055
Total deferred outflows	$65	$3,055

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

D. Deferred Inflows of Resources

	Governmental Activities			
	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred inflows (1)	$54,005	$573	$ -	$24
Refunding deferred inflows	-	-	834	-
Total deferred inflows	$54,005	$573	$ 834	$24

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Other deferred inflows	$ -	$ 1
Pension deferred inflows (1)	1	227
Total deferred inflows	$ 1	$228

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

NOTE 5. CAPITAL ASSETS

On August 15, 2016, the Land Board approved, by vote of 5-0, a like-kind property exchange. Through the Department of Administration, the State acquired the land and existing building at 1698 A Street as part of a three-parcel land and building exchange between the State and a non-governmental entity. All three properties are located in Helena. The state-owned assets located at 1100 North Last Chance Gulch and 920 Front Street were exchanged for the 1698 A Street Property. This exchange removed two obsolete and costly buildings from the State's portfolio and replaced them with one updated building. The assets are accounted for in a governmental fund.

Changes in capital asset balances for the fiscal year ended June 30, 2017, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 670,784	$ 24,036	$ (784)	$ 694,036
Construction work in progress	941,329	750,920	(856,258)	835,991
Easements	167,599	13,418	-	181,017
Museum and art	65,498	34,325	-	99,823
Other	12,452	1,195	-	13,647
Total capital assets not being depreciated	1,857,662	823,894	(857,042)	1,824,514
Capital assets being depreciated:				
Infrastructure	5,008,793	428,542	(163,756)	5,273,579
Land improvements	60,543	1,806	(77)	62,272
Buildings/improvements	587,216	19,993	(6,270)	600,939
Equipment	366,149	35,681	(22,812)	379,018
Easements - amortized	1,596	-	(73)	1,523
Other	6,950	247	-	7,197
Total capital assets being depreciated	6,031,247	486,269	(192,988)	6,324,528
Less accumulated depreciation for:				
Infrastructure	(1,547,395)	(164,766)	165,663	(1,546,498)
Land improvements	(24,935)	(2,732)	44	(27,623)
Buildings/improvements	(357,553)	(24,007)	6,960	(374,600)
Equipment	(237,532)	(16,851)	15,058	(239,325)
Other	(5,573)	(252)	-	(5,825)
Total accumulated depreciation	(2,172,988)	(208,608)	187,725	(2,193,871)
Total capital assets being depreciated, net	3,858,259	277,661	(5,263)	4,130,657
Intangible assets	37,700	13,662	(14,569)	36,793
Governmental activities capital assets, net	$5,753,621	$1,115,217	$(876,874)	$5,991,964

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

Business-type Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	3,090	5,896	(4,371)	4,615
Other	4,293	28	(12)	4,309
Total capital assets not being depreciated	8,183	5,924	(4,383)	9,724
Capital assets being depreciated:				
Infrastructure	1,170	224	(219)	1,175
Land improvements	3,830	-	-	3,830
Buildings/improvements	7,594	4,426	(1,897)	10,123
Equipment	9,538	241	(404)	9,375
Total capital assets being depreciated	22,132	4,891	(2,520)	24,503
Less accumulated depreciation for:				
Infrastructure	(694)	(14)	-	(708)
Land improvements	(1,617)	(149)	-	(1,766)
Buildings/improvements	(5,802)	(569)	186	(6,185)
Equipment	(6,155)	(336)	129	(6,362)
Total accumulated depreciation	(14,268)	(1,068)	315	(15,021)
Total capital assets being depreciated, net	7,864	3,823	(2,205)	9,482
Intangible assets	316	-	(122)	194
Business-type activities capital assets, net	$16,363	$9,747	$(6,710)	$19,400

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

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

	Depreciation (2)
General government	$ 8,986
Public safety	8,103
Transportation, including depreciation of the highway system maintained by the State	166,109
Health and human services	2,497
Education	340
Natural resources, including depreciation of the state's dams	11,094
Depreciation on capital assets held by the internal service funds	11,479
Total depreciation expense – Governmental Activities	$208,608

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

	Depreciation (2)
Liquor Stores	$ 165
State Lottery	47
Prison Funds	602
West Yellowstone Airport	199
Other Enterprise Funds	55
Total depreciation expense – Business-type Activities	$1,068

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

Public Employees' Retirement Board

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

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

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability OPEB Plan provides a defined benefit for disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6. Related disclosures for the PERS-DCRP Disability Plan can be found within Note 7 of this report.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and

experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at https://trs.mt.gov/.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB members are appointed from the public at large. TRB members serve staggered five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2017, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	539	300	57	33	27	244	369
Nonemployer contributing entity	-	1	-	-	1	1	1	1
Total Participants	7	540	300	57	34	28	245	370

There are approximately 700 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position, the items have been determined on the same accrual basis as they are reported by the MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

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

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

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2017, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	JRS	HPORS[1]	GWPORS	PERS-DBRP[2]	SRS	MPORS[1]	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	56	238	1,012	29,395	1,415	775	678	1,957	18,917	2,541	4,898
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	16	114	3,677	108	75	39	824	1,779	475	4,341
Nonvested	1	17	304	16,659	465	143	54	-	13,712	653	-
Inactive members and beneficiaries currently receiving benefits:											
Service retirements[3]	62	313	262	21,181	595	731	604	1,435	13,630	58	-
Disability retirements	1	6	3	161	29	30	6	1	203	3	-
Survivor benefits[4]	5	12	11	463	24	30	20	2	1,733	3	-
Total Membership	127	602	1,706	71,536	2,636	1,784	1,401	4,219	49,974	3,733	9,239

[1]Includes DROP in the Active count.

[2]The Inactive Nonvested count includes dormant accounts that were previously not counted.

[3]Includes "Alternate Payees" and "Death After Retirement" benefit payments.

[4]Includes "Death Before Retirement" benefit payments.

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2017, based on a June 30, 2016, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	$ 53,953	$ 87,805	$ (33,852)	$ (2,114)	$ 4,607	$ 1,522
HPORS	200,752	128,973	71,779	6,987	9,938	-
GWPORS	187,534	154,685	32,850	5,890	12,446	177
PERS-DBRP	3,586,402	2,679,522	906,880	79,198	160,734	18,642
SRS	25,899	16,317	9,582	1,214	5,072	1,638
FURS	10,535	7,952	2,583	419	1,046	24
TRS	171,146	114,130	57,016	10,530	33,941	1,652
Totals	$4,236,221	$3,189,384	$1,046,838	$102,124	$227,784	$23,655

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]

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

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

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

Eligibility for benefit

Age 60, 5 years of membership service;

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

Vesting

5 years of membership service.

Monthly benefit formula

3⅓% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum benefit adjustment (non-GABA)

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

Contributions to the Plan

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

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

Employer contributions to the system – As the employer, the State is required to contribute 25.81% of a member's compensation.

Actuarial Assumptions

The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.15%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases None

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
    - 3% for members electing GABA or hired on or after July 1, 1997
    - Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

The discount rate used to measure the total pension asset was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of 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 JRS's target asset allocation as of June 30, 2016, is summarized in the table that follows:

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

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of 7.75%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
JRS Net Pension (Asset)	($29,753)	($33,852)	($39,015)

Net Pension Asset

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

	(dollars presented in thousands)		
	Net Pension Liability (Asset) as of 6/30/15	Net Pension Liability (Asset) as of 6/30/16	Percent of Collective NPA
Employer's Proportionate Share	($33,961)	($33,852)	100%

At June 30, 2017, the employer reported a net pension asset of $33.9 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the JRS participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other 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 asset and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension asset.

Other Items Related to and Changes in Net Pension Asset

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2015	$53,146	$87,107	($33,961)
Service Costs	1,578	-	1,578
Interest	3,986	-	3,986
Difference between Expected and Actual Experience	(1,341)	-	(1,341)
Contributions – employer	-	1,806	(1,806)
Contributions – member	-	729	(729)
Net Investment Income	-	1,779	(1,779)
Benefit Payments	(3,416)	(3,416)	-
Administrative Expense	-	(197)	197
Other Changes	-	(3)	3
Net Changes	807	698	109
Balances at 6/30/2016	$53,953	$87,805	($33,852)

Pension Expense

At June 30, 2017, the employer recognized pension expense/(income) of ($2.1) million for the JRS.

Deferred Outflows and Inflows

At June 30, 2017, the employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $1.8 million.

As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$1,522
Earnings on pension plan investments	$2,807	-
Contributions paid to JRS subsequent to the measurement date – FY 2017 Contributions	1,800	-
Totals	$4,607	$1,522

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

	(in thousands)
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$(441)
2019	(441)
2020	1,181
2021	986
2022	-
Thereafter	-

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

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

Deferred Retirement Option Plan (DROP)

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

account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2017, was approximately $680.0 thousand.

Summary of Benefits

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

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.
Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Vesting
Hired prior to July 1, 2013 – 5 years of membership service.
Hired on or after July 1, 2013 – 10 years of membership service.

Monthly benefit formula
Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.
Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

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

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

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

Contributions to the Plan

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

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.
Hired prior to July 1, 1997, and not electing GABA – Plan members are required to contribute 13.00%.
Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 13.05%.
Effective July 1, 2013, and ending July 1, 2016, all HPORS member contributions, regardless of hired date, increased 1.0% annually.

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

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.23%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - If electing GABA or hired on or after July 1, 1997 – 3.00%
    - Hired on or after July 1, 2013 – 1.50%
    - Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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
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 and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the HPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as utilization of 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 an 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 HPORS's target asset allocation as of June 30, 2016, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
HPORS Net Pension Liability	$99,166	$71,779	$50,127

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
Employer's Proportionate Share	$63,899	$71,779	100%

At June 30, 2017, the employer reported a liability of $71.8 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the HPORS participating employers.

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

Changes in benefit terms: Effective October 1, 2015, a member who retires with at least 20 years of service will be allowed to participate in the Deferred Retirement Option Program (DROP). While the member is participating in the DROP, they will continue to work while accumulating their retirement benefit with interest. The interest rate that the balance is accumulated at is the assumed rate of return which is 7.75% per year. Once the member terminates from active service they will begin to receive their monthly pension in addition to the accumulated DROP account. The maximum period a member can participate in the DROP is 60 months.

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

Other Items Related to and Changes in Net Pension Liability

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2015	$192,966	$129,067	$63,899
Service Costs	3,799	-	3,799
Interest	14,545	-	14,545

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Difference Expected and Actual Experience	18	-	18
Contributions – employer	-	5,916	(5,916)
Contributions – non-employer	-	243	(243)
Contributions – member	-	1,917	(1,917)
Net Investment Income	-	2,605	(2,605)
Refund of Contributions	(94)	(94)	-
Benefit Payments	(10,482)	(10,482)	-
Administrative Expense	-	(197)	197
Other Changes	-	(2)	2
Net Changes	7,786	(94)	7,880
Balances at 6/30/2016	$200,752	$128,973	$71,779

Pension Expense
At June 30, 2017, the employer recognized pension expense of $7.0 million for the HPORS.

Deferred Outflows and Inflows
At June 30, 2017, the employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $6.1 million.

As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources related to the HPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 147	-
Difference between projected and actual earnings on pension plan investments	4,084	-
Contributions paid to HPORS subsequent to the measurement date – FY 2017 Contributions	5,707	-
Totals	$9,938	-

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$ 262
2019	262
2020	2,249
2021	1,458
2022	-
Thereafter	-

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

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

Summary of Benefits

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

Eligibility for benefit
Service Retirement
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting
5 years of membership service.

Monthly benefit formula
2.5% of HAC per year of service credit.

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

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

Contributions to the Plan

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

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study,

dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - 3.00% for members hired prior to July 1, 2007
    - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of 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 an 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 GWPORS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Primary Government GWPORS Net Pension Liability	$57,479	$31,055	$9,089
Discretely Presented Component Units GWPORS Net Pension Liability	3,322	1,795	525
Total Employer GWPORS Net Pension Liability	$60,801	$32,850	$9,614

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
Primary Government Employer Proportionate Share	$19,849	$31,055	94.536685%
Discretely Presented Component Unit Share	1,162	1,795	5.463315%
Total Employer GWPORS Proportionate Share	$21,011	32,850	100%

At June 30, 2017, the employer reported a total liability of $32.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of GWPORS participating employers.

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

Changes in benefit terms:
2015 Legislative Changes

- If a PERS member transfers employment to a GWPORS covered position and fails to elect GWPORS membership within 90 days, the default is PERS membership
- If a GWPORS member dies before retirement with more than 25 years of service credit, the survivor benefit is 2.5% of the highest average compensation.

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

Other Items Related to and Changes in Net Pension Liability

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

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2015	$160,039	$140,211	$19,828
Service Costs	7,944	-	7,944
Interest	12,205	-	12,205

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Difference between Expected and Actual Experience	2,557	-	2,557
Contributions – employer	-	4,045	(4,045)
Contributions – member	-	4,760	(4,760)
Net Investment Income	-	2,994	(2,994)
Benefit Payments	(4,791)	(4,791)	-
Administrative Expense		(255)	255
Refunds of Contributions	(1,007)	(1,007)	-
Other	-	(29)	29
Net Changes	16,908	5,717	11,191
Balances at 6/30/2016	$176,947	$145,928	$31,019

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

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2015	$ 9,610	$8,427	$1,183
Service Costs	459	-	459
Interest	705	-	705
Difference between Expected and Actual Experience	148	-	148
Contributions - employer	-	234	(234)
Contributions - member	-	275	(275)
Net Investment Income	-	173	(173)
Benefit Payments	(277)	(277)	-
Administrative Expense	-	(15)	15
Refunds of Contributions	(58)	(58)	-
Other	-	(2)	2
Net Changes	977	330	647
Balances at 6/30/2016	$10,587	$8,757	$1,830

Pension Expense

At June 30, 2017, the employer recognized a total pension expense of $5.9 million for its proportionate share of the GWPORS pension expense: $5.6 million related to the primary government and $314.1 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2017, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $4.0 million. As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,625	-
Difference between projected and actual earnings on pension plan investments	4,770	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	159	$120

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid to GWPORS subsequent to the measurement date – FY 2017 Contributions	4,216	-
Totals	$11,770	$120

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$ 889
2019	889
2020	2,966
2021	2,125
2022	526
Thereafter	-

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $231.6 thousand.

As of the fiscal year ended June 30, 2017, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$152	-
Difference between projected and actual earnings on pension plan investments	276	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	18	$57
Contributions paid to GWPORS subsequent to the measurement date – FY 2017 Contributions	230	-
Totals	$676	$57

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$ 51
2019	51
2020	171
2021	124

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2022	31
Thereafter	-

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

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

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

Effective July 1, 2013, PERS-DBRP received other contributions including 1% employer contributions for DCRP and MUS-RP participants and additional Plan Choice Rate contributions. As per the law of the 2015 Legislative Session and effective July 1, 2015, with the first fiscal year 2016 payroll pay date, the additional 1% employer contribution was directed to the Plan Choice Rate Unfunded Actuarial Liability rather than the Defined Benefit Unfunded Actuarial Liability. As of March 2016, the Plan Choice Rate Unfunded Actuarial Liability was paid in full and the additional employer contribution is now being directed to defined contribution members' accounts.

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

Summary of Benefits

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

Eligibility for benefit
Service retirement:

Hired prior to July 1, 2011 –
Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011 –
Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 –
Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

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

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

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

- A refund of member's contributions from second employment plus regular interest (.25%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

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

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

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

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

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011 –

Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 –

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

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

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

Contributions to the Plan

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

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

Employer contributions to the system
State and University System employers are required to contribute 8.47% of member compensation.
Local government entities are required to contribution 8.37% of member compensation.
School district employers contributed 8.10% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. On January 1, 2018, the additional contributions will not be terminated.

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

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

Non-Employer Entity Contributions
Special Funding
The State contributes 0.1% of member compensation on behalf of local government entities.
The State contributes 0.37% of member compensation on behalf of school district entities.

Not Special Funding
The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with Section 15-35-108, MCA.

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.27%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 6.00%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member's benefit:
    - 3.00% for members hired prior to July 1, 2007
    - 1.50% for members hired between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
        - 1.50% for each year PERS is funded at or above 90%
        - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
        - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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
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 nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of 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-DBRP's target asset allocation as of June 30, 2016, is summarized in the table below:

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

Sensitivity Analysis
In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in PERS-DBRP – Net Pension Liability	1,315,950	$906,880	$554,507
State as a Nonemployer Contributing Entity to PERS-DBRP – Net Pension Liability	23,633	16,287	9,959

Net Pension Liability
In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net

pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

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

The State also has a funding situation that is not considered a special funding situation whereby the General Fund provides contributions received from the Coal Severance Tax collections and interest accrued on the Coal Tax Permanent Trust Fund. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as a grant revenue.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$749,414	$906,880	53.241100%
State's Proportionate Share as a Nonemployer Contributing Entity	13,365	16,287	0.956169%
State of Montana Totals	$762,779	$923,167	54.197269%

At June 30, 2017, the State reported a liability of $923.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2015, through June 30, 2016, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

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

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

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

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

At June 30, 2017, the State as an employer recognized a pension expense of $79.2 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of $1.4 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2017, were $80.6 million.

Support Revenue

As of the fiscal year ended June 30, 2017, the State as an employer recognized grant revenue of $15.9 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows

At June 30, 2017, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $59.1 million.

As of the fiscal year ended June 30, 2017, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 4,893	$ 3,002
Difference between projected and actual earnings on pension plan investments	85,319	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,996	15,640
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2017 Contributions	55,526	-
Totals	$160,734	$18,642

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	4,131
2019	4,131
2020	48,485
2021	30,467
2022	-
Thereafter	-

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $30.8 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 88	$ 54
Difference between projected and actual earnings on pension plan investments	1,532	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	97
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2017 Contributions	28,763	-
Totals	$30,383	$151

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	74
2019	74
2020	871
2021	547
2022	-
Thereafter	-

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

Summary of Benefits

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

Eligibility for benefit
Service Retirement: 20 years of membership service, regardless of age.
Early Retirement: Age 50, 5 years of membership service, actuarially reduced.

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

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

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

Contributions to the Plan

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

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 9.245% of member's compensation.

Employer contributions to the system – The employers are required to contribute 10.115% of member compensation. Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
    - 3.00% for members hired prior to July 1, 2007
    - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

The discount rate used to measure the total pension liability was 5.93%, which is a blend of the assumed long-term expected rate of return of 7.75% on SRS's investments and a municipal bond index rate of 3.01%. The basis for this is the June 30, 2016 Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the SRS's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after June 30, 2056. Therefore, the portion of future projected benefit payments after June 30, 2056, are discounted at the municipal bond index rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of 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 SRS's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 5.93%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (4.93%) or 1.00% higher (6.93%) than the current rate.

	(in thousands)		
	1.0% Decrease (4.93%)	Current Discount Rate	1.0% Increase (6.93%)
Employer's SRS Net Pension Liability	$13,647	$9,582	$6,274

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
Employer Proportionate Share	$5,434	$9,582	5.454386%

At June 30, 2017, the State as an employer reported a liability of $9.6 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of SRS participating employers.

Changes in actuarial assumptions and methods: There were no changes in demographic assumptions that affected the measurement of the total pension liability. There was an adjustment in the discount rate during the measurement period.

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

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

Pension Expense

At June 30, 2017, the employer recognized a pension expense of $1.2 million for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2017, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $389 thousand.

As of the fiscal year ended June 30, 2017, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 34	$ 7
Difference between projected and actual earnings on pension plan investments	523	-
Changes of Assumptions	4,147	1,544
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	87
Contributions paid to SRS subsequent to the measurement date – FY 2017 contributions	368	-
Totals	$5,072	$1,638

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$557
2019	557
2020	807
2021	709
2022	523
Thereafter	-

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

Deferred Retirement Option Plan (DROP)

Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2017, there are 60 DROP participants. Since program inception, a total of 149 members have participated in the DROP. The balance held by MPERA for DROP participants as of June 30, 2017, was approximately $9.0 million.

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

Summary of Benefits

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

Eligibility for benefit
Service Retirement: 20 years of membership service, regardless of age.
Second Retirement: Age 50, reemployed in a MPORS position
Early Retirement: Age 50, 5 years of membership service.

Vesting
Death and disability rights are vested immediately
5 years of membership service.

Monthly benefit formula
2.5% of FAC per year of service credit.

Second retirement benefit formula
Recalculated using specific criteria:
Less than 20 years of membership service, based on total MPORS service
More than 20 years of membership service, upon reemployment, receives initial benefit plus a new retirement benefit based on additional service credit and FAC

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

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

Contributions to the Plan

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

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2017:

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

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin expense as a % of Payroll 0.20%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases
  - GABA
    Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit
  - Minimum benefit adjustment (non-GABA)
    If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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 nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of 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 MPORS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$161,181	$119,708	$74,469

Net Pension Liability

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

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State as a Nonemployer Contributing Entity – Proportionate Share	$110,756	$119,708	66.499650%

At June 30, 2017, the State as a nonemployer contributing entity reported a liability of $119.7 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2015, through June 30, 2016, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

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

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

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

Grant Expense Related to Special Funding

The State recognized grant expense of $12.8 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $13.8 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	-	$2,439
Difference between projected and actual earnings on pension plan investments	$ 7,762	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	532
Contributions paid to MPORS subsequent to the measurement date – FY 2017 Contributions	13,215	-
Totals	$20,977	$2,971

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

	(in thousands)
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	$ (245)
2019	(245)
2020	3,298
2021	2,515
2022	-
Thereafter	-

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

Summary of Benefits

Member's compensation

Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);
Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit

Service retirement: 20 years of membership service, regardless of age.
Early Retirement: Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately
5 years of membership service.

Monthly benefit formula

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

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

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed firefighter employed by the city that last employed the member, provided the member has at least 10 years of membership service.

Contributions to the Plan

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

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

Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;
Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.19%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases
  - GABA
    Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
  - Minimum Benefit Adjustment (non-GABA)
    Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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 nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of 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 an 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 FURS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in FURS – Net Pension Liability	$ 4,067	$ 2,583	$ 1,363
State as a Nonemployer Contributing Entity to FURS – Net Pension Liability	121,948	77,448	40,858

Net Pension Liability

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

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 2,454	$ 2,583	2.261523%
State's Proportionate Share as a Nonemployer Contributing Entity	68,892	77,448	67.809541%
State of Montana Totals	$71,346	$80,031	70.071064%

At June 30, 2017, the State reported a liability of $80.0 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2015, through June 30, 2016, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity.

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

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

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

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense
At June 30, 2017, the State as an employer recognized pension expense of $418.5 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of $10.0 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2017, was $10.5 million.

Deferred Outflows and Inflows
At June 30, 2017, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $475.0 thousand.

As of the fiscal year ended June 30, 2017, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	-	$24
Difference between projected and actual earnings on pension plan investments	$ 270	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	304	-
Contributions paid to FURS subsequent to the measurement date – FY 2017 Contributions	472	-
Totals	$1,046	$24

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

	(in thousands)
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	20
2019	20
2020	129
2021	83
2022	(4)
Thereafter	-

At June 30, 2017, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2016 contributions of $13.6 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	-	$729
Difference between projected and actual earnings on pension plan investments	$ 8,108	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	96

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid to FURS subsequent to the measurement date – FY 2017 Contributions	14,042	-
Totals	$22,150	$825

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	588
2019	588
2020	3,875
2021	2,457
2022	(131)
Thereafter	-

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

Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

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

Vesting
10 years of credited service.

Monthly benefit formula (effective January 1, 2016)
$8.75 per year of credited service up to 20 years;
$7.50 per year of credited service after 20 years

Contributions to the Plan

The State, as a nonemployer contributing entity, is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. This requires the plan to be treated as a special funding

situation in accordance with GASB 68. The State Auditor makes annual payments from the General Fund to the VFCA fund. Rates are specified by state law for contributions to the VFCA plan. The State legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Inflation at 3.00%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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.

For VFCA the average dollar amount of recurring expense over the last three years was $63,440, adjusted for the inflation assumption. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the VFCA. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of 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 VFCA's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$14,818	$10,599	$7,004

Net Pension Liability

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

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State as a Nonemployer Proportionate Share	$10,504	$10,599	100%

At June 30, 2017, the State reported a liability of $10.6 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2015, through June 30, 2016, relative to total contributions received.

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

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

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

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of $688.6 thousand for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $2.0 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	$761
Difference between projected and actual earnings on pension plan investments	$1,201	-
Contributions paid to VFCA subsequent to the measurement date – FY 2017 Contributions	2,054	-
Totals	$3,255	$761

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

	(in thousands)
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	(285)
2019	(285)
2020	613
2021	397
2022	-
Thereafter	-

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

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

Summary of Benefits

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

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

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

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

Contributions to the System

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

All State and University employers are required to contribute 11.15% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.77% of an active, nonreemployed, member's compensation to the System.

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

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

Actuarial Assumptions

The total pension liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016, 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 (includes 4% general wage increase assumption) — 4.00% to 8.51% for non-university members; 5.00% for university members
- Investment Return — 7.75%
- Price Inflation — 3.25%
- Postretirement Benefit Increases (starting three years after retirement)
  - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.
  - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.

- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute $25 million annually to the TRS payable July 1 of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS – Net Pension Liability	$76,500	$57,016	$40,613
State as a Nonemployer Contributing Entity to TRS – Net Pension Liability	949,304	707,527	503,977

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/15	Net Pension Liability as of 6/30/16	Percent of Collective NPL
State's as an Employer Entity	$ 56,230	$ 57,016	3.121008%
State's as a Nonemployer Entity	647,092	707,527	38.729473%
State of Montana Totals	$703,322	764,543	41.850481%

At June 30, 2017, the State reported a liability of $764.5 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2015, through June 30, 2016, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: Since the previous measurement date the normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal costs rate reflects the most appropriate allocation of plan costs over future compensation.

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 net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2017, the State as an employer recognized a pension expense of $10.5 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of $41.7 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension related expenses for fiscal year 2017 was $52.2 million.

Deferred Outflows and Inflows

At June 30, 2017, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $16.9 million.

As of the fiscal year ended June 30, 2017, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 305	$ 121
Difference between projected and actual earnings on pension plan investments	3,672	-
Change of assumptions	363	358
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,205	1,173
Contributions paid to TRS subsequent to the measurement date – FY 2017 Contributions	17,396	-
Totals	$33,941	$1,652

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$6,706
2019	3,525
2020	3,344
2021	1,318
2022	-
Thereafter	-

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $42.4 million.

As of the fiscal year ended June 30, 2017, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,783	$ 1,504

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	45,561	-
Changes of assumptions	4,503	4,447
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,529	32,074
Contributions paid to TRS subsequent to the measurement date – FY 2017 Contributions	43,028	-
Totals	$103,404	$38,025

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2016, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	$(5,756)
2019	(7,726)
2020	19,478
2021	16,355
2022	-
Thereafter	-

D. Legal Actuarial Status of Plans

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

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2017, the Game Warden & Peace Officers' Retirement System (GWPORS) and the Highway Patrol Officers' Retirement System (HPORS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should

they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2017, is $6.3 million and contribution forfeitures were $230.7 thousand.

Local government entities contribute 8.37% of member compensation. School district employers contributed 8.10% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.47% of member compensation.

The total contribution rate of 8.47%, referenced in the preceding paragraph, is allocated as follows: 8.13% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. See Note 7 for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 43 non-state entity employers participate in the 457-Plan.

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

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.47% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA-CREF. Total contributions made to the plan by the employer were $15.8 million and the total employee contributions were $18.7 million for the fiscal year ended June 30, 2017.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of direct real estate investments is based on appraised value. Investments that do

not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. In fiscal year 2017, there were 245 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2017 totaled $70.3 thousand. The outstanding balance at June 30, 2017, totaled $25.6 thousand.

I. Litigation

***Tadman, et al. v. State*.** A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson & Williams PC, in Great Falls, Montana and MPERA legal counsel. The State responded and filed an amended answer to the complaint before filing a motion and brief to change venue and/or to dismiss the matter for lack of subject matter jurisdiction. Following a hearing on June 1, 2017, the State's motions were denied. Discovery requests and responses have been served by both parties. The plaintiff's motion for class certification was filed October 31, 2017.

J. Subsequent Events

The PERB approved a reduction in the assumed rate of return, effective July 1, 2017, from 7.75% to 7.65%.

During the Legislative Special Session, held November 13 through 16, 2017, Senate Bill 1 was passed and signed into law. The change in statute terminated employer contributions to the Judges' Retirement System as of the first full pay period which begins after January 1, 2018. On the first full pay period commencing after June 30, 2019, employer contributions will return to their prior amount. The dollar effect is included in the total amount of reduced spending disclosed in Note 17.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan. Further detail on Retirement Plans is provided in Note 6.

In accordance with Section 2-18-704, MCA, the MUS provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System (TRS), the Public Employees' Retirement System (PERS), or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

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

B. Plan Descriptions

Both healthcare OPEB plans for the State of Montana and MUS are agent multiple employer plans. In addition to the primary government, the participating employers under the State Plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Office of Commissioner on Higher Education (OCHE), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Helena College UM, University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and note disclosures. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (http://mpera.mt.gov) or by contacting the following:

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

Further details on the funding policies are provided in Section D of this note.

C. Basis of Accounting

OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. OPEB is not reported on the governmental fund financial statements, as OPEB liability is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The healthcare OPEB plan document states "an employee enrolled in the State Plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the State Plan on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2017.

The number of State Plan participants as of December 31, 2016, follows:

	State Plan Participants						
Enrollment	State	Facility Finance Authority	Montana Board of Housing	Public Employee Retirement Board	Montana State Fund	Teachers Retirement System	Total
Active employees	11,393	3	32	41	297	16	11,782
Retired employees, spouses, and surviving spouses (1)	3,100	-	3	1	17	7	3,128
Total	14,493	3	35	42	314	23	14,910

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retires are listed as State regardless of their last place of employment. Since we are unable to account for all retired employees last place of employment cumulatively, an allocation method was used based on the accrued liability and ARC for active employees by entity for the determination of the inactive liability by entity.

The number of MUS Plan participants as of June 30, 2017, follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-UM	UM-Missoula	UM-MT Tech	UM-Western	Other	Total
Active employees	454	2,964	121	120	72	98	2,425	448	193	345	7,240
Retired employees, spouses, and surviving spouses	102	381	7	30	15	10	385	69	47	47	1,093
Total	556	3,345	128	150	87	108	2,810	517	240	392	8,333

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Section 19-3-2141, MCA. There have been no significant changes in the number of participants or the type of coverage as of June 30, 2017.

The number of PERS-DCRP Disability Plan participants as of June 30, 2017, follows:

PERS-DCRP Disability Plan Participants

Enrollment	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total
Participant counts used for valuation	2,541	3	-	-	-	2,544

D. Funding Policies

The State of Montana and MUS pay for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan.

As of June 2017, the State Plan's administratively established retiree medical contributions vary between $439 and $1,633 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $41.10 and $70 and vision hardware contributions vary between $7.64 and $22.26 depending on the coverage selected.

As of June 2017, the MUS plan's administratively established retiree medical premiums vary between $394 and $2,244 per month. Retiree dental premiums vary between $52 and $156 per month while vision premiums vary from $8.05 to $23.45 depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

The PERS-DCRP Disability plan is funded through a portion of the statutorily required employer contributions in Section 19-3-2117, MCA. An amount equal to 0.3% of a PERS-DCRP members' compensation is contributed to this trust fund by each participating employer.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 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 over a period not to exceed 30 years. The current State's ARC of $34.1 million is 5.46% of annual covered payroll. The State's annual covered payroll is $624.4

million. The current MUS's ARC of $9.7 million is 2.26% of annual covered payroll. The MUS's annual covered payroll is $429.5 million.

There are no long-term contracts for contributions to either plan. Contributions refer to payments made in relation to the ARC. Since the State and MUS do not fund their plans, contributions disclosed as being made herein are an implicit rate subsidy provided through the difference of retiree payments provided to the healthcare plan and claims paid by the plan on a retiree's behalf.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2017 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	$ 34,107	$ 9,526
Interest on net OPEB obligation	11,605	4,892
Amortization factor	(9,102)	(3,837)
Annual OPEB cost	36,610	10,581
Retiree claims paid	(9,007)	(3,532)
Increase in net OPEB obligation	27,603	7,049
Net OPEB obligation – beginning of year	273,047	115,096
Net OPEB obligation – end of year	$300,650	$122,145

Note that the amounts in the State and MUS Annual OPEB Cost table above include component unit and community college portions and therefore, they will not match the Statement of Net Position.

The State and MUS annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2017 through 2014 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2017	$36,610	24.6%	$300,650
	6/30/2016	36,221	24.8%	273,047
	6/30/2015	37,205	28.2%	246,643
	6/30/2014	36,823	19.1%	219,109
MUS	6/30/2017	$10,581	33.4%	$122,145
	6/30/2016	10,654	28.7%	115,096
	6/30/2015	10,624	31.3%	107,498
	6/30/2014	10,671	15.9%	99,891

The disability OPEB plan administered for defined contribution pension plan participants has an annual covered payroll, statutorily required contribution amount, and percentage of required contributions paid into the plan for fiscal years 2017 through 2014 as follows for the State and University system plan participants (in thousands):

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2017	$70,896	$213	100%
	6/30/2016	66,224	199	100%
	6/30/2015	55,339	166	100%
	6/30/2014	50,083	150	100%
MUS	6/30/2017	$4,801	$14	100%
	6/30/2016	4,612	14	100%
	6/30/2015	4,057	12	100%
	6/30/2014	4,115	12	100%

F. Actuarial Methods and Assumptions

As of January 1, 2015, the State's actuarially accrued liability (AAL) for benefits was $347.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $347.9 million, and the ratio of the UAAL to the covered payroll was 53.87%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2015, actuarial valuation, the projected unit cost 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 initially 3.4% for medical and 10.8% for prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years.

As of July 1, 2015, the MUS actuarially accrued liability (AAL) for benefits was $110.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $110.5 million, and the ratio of the UAAL to the covered payroll was 26.5%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2016, actuarial valuation, the projected unit cost funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 20.6% for both medical and prescription drugs, initially. The increase to medical and prescriptions drug cost trend rates in plan year 2015 is based on groups cumulative rate increase instead of estimate trend rates. Both medical costs and prescriptions drugs are reduced by decrements to a rate of 4.5% after eight years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial 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*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The 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.

Additional information as of the latest actuarial valuation for the State Plan follows:

Other Postemployment Benefits
State Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$11,172	$4,267
After Medicare eligibility	4,454	3,545
Actuarial valuation date	1/1/2015 (ARC calculated through December 31, 2015)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

Additional information as of the latest actuarial valuation for MUS Plan follows:

Other Postemployment Benefits
MUS Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$8,392	$3,866
After Medicare eligibility	3,624	2,753
Actuarial valuation date	7/1/2015 (ARC Calculated through June 30, 2016)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	50.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

G. Termination Benefits

During the year ended June 30, 2017, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for seven employees provided for up to twelve months, one-time lump-sum incentive payments for thirty-two employees, and paid administrative leave for four employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2017, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for twenty employees.

During the year ended June 30, 2017, the cost of termination benefits for the fiscal year was $533.4 thousand and $637.2 thousand for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 654 policies during the 2017 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2017 growing season, with a 90% share of premiums and losses allotted to the Reinsurer and a 10% share of each allotted to the State Hail Insurance. The fund recorded a liability of $2.3 thousand which is 10% of the estimated claims ($19.1 thousand) plus adjustment expenses through June 30, 2017. The amount deducted from the estimated claims as of June 30, 2017, for reinsurance was $17.2 thousand (90% of estimated claims). The premiums ceded to the reinsurer through June 30, 2017, were $1.1 million which was 90% of total premiums of $1.2 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan –This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be $10.0 million as of June 30, 2017, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750.0 thousand per occurrence ($500.0 thousand for claims occurring prior to July 1, 2013) and $1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1.0 million above the self-insured amount of $750.0 thousand ($500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2017, the program ceded $314.3 thousand in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers' Compensation Program Committee based on actuarial calculations of premium need and composite premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $7.3 million for estimated claims at June 30, 2017. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The assessment and surcharge rates are set by the Employment Relations Division of the Department of Labor and Industry annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Employers covered by Plans 1, 2 and 3 share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers in the preceding calendar year.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. The benefit to an insured employer is that the insurer's liability is limited to 104 weeks on the claim. This can favorably impact the employer's modification factor, which in turn can keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2017, the amount of this liability was estimated to be $2.9 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2017	2016	2017	2016	2017	2016
Unpaid claims and claim adjustment expenses at beginning of year	$ 134	$ 17	$ 9,100	$ 7,300	$ 7,764	$ 8,289
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	819	324	84,186	90,131	3,096	3,157
Less excess insurance reimbursement	-	-	-	-	-	(62)
Increase (decrease) in provision for insured events of prior years	434	79	-	-	(1,368)	(1,655)
Total incurred claims and claim adjustment expenses	1,253	403	84,186	90,131	1,728	1,440
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(817)	(189)	(83,286)	(88,331)	(940)	(598)
Claims and claim adjustment expenses attributable to insured events of prior years	(568)	(97)	-	-	(1,254)	(1,367)
Total payments	(1,385)	(286)	(83,286)	(88,331)	(2,194)	(1,965)
Total unpaid claims and claim adjustment expenses at end of year	$ 2	$ 134	$ 10,000	$ 9,100	$ 7,298	$ 7,764

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below $2.0 million of value, with state agencies paying the first $1.0 thousand. Commercial property insurance protects approximately $5.4 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2.0 million for earthquake and $2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2007, through June 30, 2017, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2017, estimated claims liability was $16.1 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. MedImpact was the administrator for the pharmacy program for the first six months of the fiscal year. The plan operates on a calendar year and the contract expired on December 31, 2016. Navitus replaced MedImpact as the administrator on January 1, 2017. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2017, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $17.7 million as provided by

Actuaries Northwest, a consulting actuarial firm. In fiscal year 2018, $17.5 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Towers Watson, as of June 30, 2017, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2017, $32.2 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2017	2016	2017	2016	2017	2016
Amount of claims liabilities at the beginning of each fiscal year	$ 15,444	$ 16,953	$ 17,873	$ 18,028	$ 38,410	$ 41,597
Incurred claims:						
Provision for insured events of the current year	4,786	5,343	159,835	163,115	-	-
Increase (decrease) in provision for insured events of prior years	17,592	(167)	518	(4,035)	1,554	5,707
Total incurred claims	22,378	5,176	160,353	159,080	1,554	5,707
Payments:						
Claims attributable to insured events of the current year	(1,681)	(1,737)	(142,173)	(145,572)	-	-
Claims attributable to insured events of prior years	(20,087)	(4,948)	(18,357)	(13,663)	(7,752)	(8,894)
Total payments	(21,768)	(6,685)	(160,530)	(159,235)	(7,752)	(8,894)
Total claims liability at end of each fiscal year	$ 16,054	$ 15,444	$ 17,696	$ 17,873	$ 32,212	$ 38,410

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2017, the Department of Transportation had contractual commitments of approximately $204.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2017, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $45.3 million for capital projects construction. The primary government will fund $9.9 million of these projects, with the remaining $35.4 million funding coming from the Montana University System.

At June 30, 2017, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately $1.8 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2017, BOI had committed, but not yet purchased, $33.2 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $828.0 thousand for loans as of June 30, 2017. As of June 30, 2017, $656.0 thousand represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2017, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). MBOH does not differentiate between a mortgage reservation and a funding commitment.

BOI makes firm commitments to fund loans from the INTERCAP loan program. BOI's outstanding commitments to eligible Montana governments, as of June 30, 2017, totaled $30.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2017, the outstanding tax-exempt bonds issued by the Facility Finance Authority were issued in the amount of $17.5 million of which $2.3 million in principal payments are scheduled to be paid by June 30, 2018. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds.

E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

Enterprise Funds	Amount
Liquor Warehouse	$ 99
Prison Industries	58
West Yellowstone Air	144
Subtotal – Enterprise funds	$301

Internal Service Funds	
Buildings & Grounds	$ 2
Information Technology Services	50
Labor Central Services	228
Prison Industries	274
Subtotal – Internal Service funds	$554

F. Encumbrances

As of June 30, 2017, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	Federal Special Revenue Fund	General Fund	Nonmajor Governmental Funds	State Special Revenue Fund	Total
Encumbrances	$28,579	$11,355	$272	$59,635	$99,841

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2017, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2018	$1,901	$209
2019	1,622	208
2020	1,382	18
2021	1,019	-
2022	512	-
2023-2027	446	-
Total minimum payments	6,882	435
Less: interest	(345)	(20)
Present value of minimum payments	$6,537	$415

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	$ 1,596
Equipment	11,524
Less: Accum Depreciation	(4,771)
Net Book Value	$ 8,349

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2017 totaled $28.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2018	$ 26,428	$ 936
2019	22,763	937
2020	18,049	588
2021	13,208	338
2022	12,402	319
2023-2027	40,827	1,389
2028-2032	18,866	-
Thereafter	11,196	-
Total future rental payments	$163,739	$4,507

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2017, the State issued one bond anticipation note. The proceeds of Coal Severance Tax - 2016E will be used to fund water and wastewater system improvements and rehabilitation. As of June 30, 2017, three bond anticipation notes; Drinking Water - 2016D, Water/Wastewater - 2017B, and Drinking Water - 2017C have been authorized, but not issued and no funds have been drawn. The State issued two bond anticipation notes during fiscal year 2015, and one bond anticipation note during fiscal year 2016, all of which were paid off during fiscal year 2017. Three bond anticipation notes that were issued in fiscal year 2016 are still active at the end of fiscal year 2017. The following schedule summarizes the activity for the year ended June 30, 2017 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Coal Severance Tax – 2014A (1)	$ 300	$ -	$ 300	$ -
Drinking Water – 2014A	1,065	-	1,065	-
Coal Severance Tax – 2015A (2)	2,605	495	1,850	1,250
Drinking Water – 2015B	900	1,100	460	1,540
Water/Wastewater – 2016C (3)	-	2,000	1,175	825
Coal Severance Tax – 2016E (3)	-	1,034	-	1,034
Coal Tax Trust Fund – 2016	1,207	7,272	8,479	-

(1) Listed as Water / Wastewater – 2014A in prior fiscal year.

(2) Listed as Water / Wastewater – 2015A in prior fiscal year.

(3) These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2017, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2017
1998	12,500	$ 2,600
2000	15,000	14,255
2003	15,000	14,330
2004	18,500	18,000
2007	15,000	14,725
2010	12,000	11,975
2013	12,000	11,995
2017	20,000	20,000
		$107,880

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2017 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$97,340	$20,000	$9,460	$107,880

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2017, were as follows (in thousands):

				Principal Payments		
Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Fiscal Year 2018	In Year of Maturity (2)	Balance June 30, 2017
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 150	200 (2023)	$ 1,050
CERCLA Program (6)	2005D	2,000	3.25-4.3	105	140 (2026)	1,085
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	655	165 (2019)	820
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	280	330 (2022)	1,530
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,465	2,465 (2018)	2,465
Long-Range Bldg Program	2008D	3,100	3.375-4.35	140	220 (2028)	1,930
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	640	710 (2021)	2,690
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	475	110 (2026)	2,720
Trust Land (Taxable)	2010F	21,000	1.55-4.9	915	1,450 (2031)	16,090
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	235
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	105	70 (2021)	395
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	610	720 (2023)	3,970
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	610	115 (2025)	4,925
Water Pollution Control Revolving Fund (Taxable)(3)	2013D	1,035	0.4-3.7	100	120 (2024)	755
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	490	575 (2024)	3,700
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,510	820 (2028)	24,040
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,890	1,260 (2020)	6,530
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	805	1,860 (2036)	23,695
Total general obligation bonds		$ 161,220		$ 14,000		$ 98,625
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,495	1,820 (2022)	$ 8,270
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	165	215 (2024)	1,320
Broadwater Power Project Refunding (8)	2010A	10,180	3.0-4.0	1,605	1,605 (2018)	1,605
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	75	115 (2031)	1,300
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	365	170 (2031)	4,680
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	10,155	11,040 (2020)	31,785
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	135	185 (2029)	1,870
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	195	290 (2029)	2,815
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	2,925	3,740 (2023)	19,905
Total special revenue bonds		$ 126,645		$ 17,115		$ 73,550

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2018	Principal Payments In Year of Maturity (2)	Balance June 30, 2017
Notes Payable					
Middle Creek Dam Project (10)	$ 3,272	8.125	$ 85	226 (2034)	$ 2,119
Tongue River Dam Project (11)	11,300	-	290	290 (2038)	6,085
ITSD Software Licenses	1,004	3.44	335	335 (2018)	335
ITSD Software Licenses	2,890	2.41	971	494 (2019)	1,465
Total notes payable	$ 18,466		$ 1,681		$ 10,004
Subtotal governmental activities, before unamortized balances					182,179
Unamortized discount					(9)
Unamortized premium					11,202
Total governmental activities	$ 306,331		$ 32,796		$193,372

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.

(11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2017, were as follows (in thousands):

	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 14,000	$ 3,783	$ 17,115	$ 2,875	$ 1,681	$ 79
2019	10,145	3,367	16,195	2,234	872	45
2020	9,170	3,034	16,915	1,595	382	41
2021	8,120	2,735	6,160	947	385	41
2022	7,320	2,424	6,445	738	389	41
2023-2027	29,475	7,975	8,735	1,199	2,016	205
2028-2032	13,465	3,196	1,985	145	2,155	205
2033-2037	6,930	714	-	-	1,834	82
2038-2042	-	-	-	-	290	-
Total	$ 98,625	$ 27,228	$ 73,550	$ 9,733	$ 10,004	$ 739

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2017, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$ 115,500	$ -	$ 16,875	$ 98,625	$ 14,000	$ 84,625
Special revenue bonds	89,840	-	16,290	73,550	17,115	56,435
Notes payable	11,643	-	1,639	10,004	1,681	8,323
	216,983	-	34,804	182,179	32,796	149,383
Unamortized discount	(11)	2	-	(9)	-	(9)
Unamortized premium	13,645	-	2,443	11,202	-	11,202
Total bonds/notes payable (3)	230,617	2	37,247	193,372	32,796	160,576
Other liabilities						
Lease/installment purchase payable	3,170	5,206	1,839	6,537	1,767	4,770
Operating lease rent holiday	46	-	19	27	9	18
Pension benefits payable	4	-	-	4	2	2
Compensated absences payable (1)	102,568	57,206	56,209	103,565	55,899	47,666
Arbitrage rebate tax payable (1)	83	-	-	83	-	83
Estimated insurance claims (1)	71,727	184,285	190,050	65,962	29,044	36,918
Pollution remediation	242,989	-	34,208	208,781	23,859	184,922
Net pension liability	1,558,463	231,520	173	1,789,810	-	1,789,810
OPEB implicit rate subsidy (2)	262,599	35,215	8,639	289,175	-	289,175
Total other liabilities	2,241,649	513,432	291,137	2,463,944	110,580	2,353,364
Total governmental activities long-term liabilities	$2,472,266	$ 513,434	$ 328,384	$2,657,316	$ 143,376	$2,513,940
Business-type activities						
Lease/installment purchase payable	600	1	186	415	195	220
Compensated absences payable	2,075	1,021	1,049	2,047	1,044	1,003
Arbitrage rebate tax payable	17	6	-	23	3	20
Estimated insurance claims	20,347	87,167	87,272	20,242	13,658	6,584
Net pension liability	10,750	3,556	13	14,293	-	14,293
OPEB implicit rate subsidy (2)	4,650	641	159	5,132	-	5,132
Total business-type activities long-term liabilities	$ 38,439	$ 92,392	$ 88,679	$ 42,152	$ 14,900	$ 27,252

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy on the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. The OPEB beginning balance was restated due to correction of an error.

(3) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

F. Refunded and Early Retired Debt

Prepayments
The Department of Natural Resources and Conservation (DNRC) used current available resources to make three prepayments: $155.0 thousand on Series 2006D resulting in a payoff, $900.0 thousand on Series 2010C resulting in a payoff, and $45.0 thousand on Series 2010H general obligation bonds.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)
BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2017, QZAB debt outstanding aggregated $6.4 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2017, QSCB debt outstanding aggregated $5.6 million.

Beginning Farm Loan Program
The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2017, was as follows: Hershberger Project, outstanding $38.4 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2017, was $208.8 million. Of this liability, $13.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $188.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $71.4 million as of June 30, 2017. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term

of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2017 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$79,875	$32,905	$41,364	$71,416

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2017, consisted of the following (in thousands):

	Due to Other Funds							
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds								
Coal Severance Tax	$ -	$ -	$ -	$ -	$ -	$ 13	$ -	$ 13
Economic Development Bonds	-	-	-	1,806	-	103	608	2,517
Federal Special Revenue	-	-	3	-	-	-	72	75
General Fund	-	2,613	-	23	13,230	-	12,889	28,755
Internal Service Funds	32	-	-	-	-	-	-	32
Nonmajor Governmental (1)	-	-	190	-	-	-	88	278
State Special Revenue (2)	-	11,805	76	3	-	486	-	12,370
Total	$ 32	$14,418	$ 269	$1,832	$13,230	$ 602	$13,657	$44,040

(1) Total due from other funds to the non-major governmental funds on the financial statements is reported as $1.8 million. The difference of $1.5 million between the amount reported above of $278 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as $20.9 million. The difference of $8.5 million between the amount reported above of $12.4 million and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as $13.5 million. The difference of $313.3 thousand between the amount reported above of $13.2 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2017, consisted of the following (in thousands):

	Interfund Loans Payable						
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Interfund Loans Receivable							
General Fund	$1,677	$109,466	$ -	$277	$11,624	$ -	$123,044
Internal Service Funds	-	211	-	-	-	-	211
State Special Revenue	-	54,695	3	-	-	75	54,773
Total	$1,677	$164,372	$ 3	$277	$11,624	$75	$178,028

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2017, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax	$ -	$ -	$ 3,996	$ -	$ 3,996
Economic Development Bonds	-	5,897	4,649	-	10,546
General Fund	275	-	-	251	526
Nonmajor Governmental Funds	-	-	-	9,767	9,767
State Special Revenue	17,536	-	5,231	-	22,767
Total	$17,811	$5,897	$13,876	$10,018	$47,602

Additional detail for certain advance balances at June 30, 2017, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	$ 4,649
Transportation	5,897
Total	$10,546

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2017, consisted of the following (in thousands):

	Transfers In								
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out									
Coal Severance Tax	$ -	$ -	$19,799	$ -	$-	$ -	$ 1,164	$ 22,050	$ 43,013
Federal Special Revenue	-	-	157	-	-	-	15,684	13,088	28,929
General Fund	-	22	-	1,053	-	-	12,621	31,641	45,337
Internal Service Funds (1)	-	-	-	296	-	65	160	22	543
Land Grant	-	-	6	-	-	-	1,504	60,168	61,678
Nonmajor Enterprise Funds (2)	-	1	42,497	-	-	-	-	6,664	49,162
Nonmajor Governmental Funds	10	-	67	-	-	-	5,907	23,442	29,426
State Special Revenue	-	1,656	11,361	437	8	286	13,306	-	27,054
Total	$10	$1,679	$73,887	$1,786	$8	$351	$50,346	$157,075	$285,142

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $1.0 million. The difference of $463.2 thousand between the amount reported above of $543.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as $49.2 million. The difference of $6.4 thousand between the amount reported above of $49.2 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2017, as follows (in thousands):

Fund Type/Fund	Deficit (1)
Internal Service Funds	
Information Tech Services	$(12,527)
Admin Insurance	(1,890)
Print & Mail Services	(452)
Building and Grounds	(582)
Admin Central Services	(1,792)
Labor Central Services	(6,457)
Commerce Central Services	(1,648)
OPI Central Services	(1,790)
DEQ Indirect Cost Pool	(4,239)
Payroll Processing	(2,293)
Investment Division	(2,186)
Aircraft Operation	(1,150)
Justice Legal Services	(503)
Personnel Training	(285)
Debt Collection	(61)
Other Internal Services	(389)
Enterprise Fund	
State Lottery	$ (2,390)
Subsequent Injury	(1,605)
Secretary of State Business Services	(482)
Local Government Audits	(37)

(1) The allocation of net pension and OPEB liabilities is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7 respectively.

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2017.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 67,136	$30,997	$ 21,363	$ 1,363	$ 166	$ 78,961	$ 199,986
Taxes	204,878	4,250	231,301	-	(13)	17,505	457,921
Charges for services	24,222	31,657	6,136	36,462	2,003	22,665	123,145
Investment earnings	462	1,858	85	169	198	6,586	9,358
Securities lending income	1	66	-	1	5	128	201
Sale of documents/merchandise/property	479	2,684	123	116	5	1,533	4,940
Rentals/leases/royalties	343	11	456	52	3	348	1,213
Contributions/premiums	26,406	-	-	-	-	-	26,406
Grants/contracts/donations	2,226	667	708	14,283	1,110	4,454	23,448
Federal	6,044	19	-	266	1	2	6,332
Federal indirect cost recoveries	-	-	41,330	83	-	4,250	45,663
Other revenues	2,114	535	315	246	253	204	3,667
Transfers in	43,554	4,036	1,564	7,105	1,120	99,696	157,075
Total State Special Revenue	$377,865	$76,780	$303,381	$60,146	$4,851	$236,332	$1,059,355

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 938	$ 17	$ -	$ 3,982	$ 30,564	$ (7)	$ 35,494
Investment earnings	222	8	-	-	101	53	384
Securities lending income	-	-	-	-	-	2	2
Sale of documents/merchandise/property	3	-	-	-	-	-	3
Grants/contracts/donations	-	-	-	-	-	108	108
Federal	102,855	11,996	424,052	1,870,032	183,524	101,668	2,694,127
Federal indirect cost recoveries	3	-	-	79,303	51	536	79,893
Other revenues	8	6	-	268	4	4	290
Transfers in	22	1,360	-	296	1	-	1,679
Total Federal Special Revenue	$104,051	$13,387	$424,052	$1,953,881	$214,245	$102,364	$2,811,980

Governmental Fund Balance By Function, June 30, 2017
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 3,065	$ 20,195	$ -	$ -	$ -	$ -	$ 23,260
Permanent fund principal	-	500	-	540,477	725,458	323,588	1,590,023
Long-term notes/receivables	525	-	-	-	-	-	525
Prepaid expense	4,106	381	47	-	-	-	4,534
Total nonspendable	7,696	21,076	47	540,477	725,458	323,588	1,618,342
Restricted							
General government	-	1,671	-	-	-	4,778	6,449
Transportation	-	52,636	37	-	-	-	52,673
Health and human services	-	2,266	1,469	-	-	13,045	16,780
Natural resources	-	692,113	-	-	-	10,286	702,399
Public safety	-	235,145	-	-	-	615	235,760
Education	-	8,733	10,525	-	-	24	19,282
Total restricted	-	992,564	12,031	-	-	28,748	1,033,343
Committed							
General government	-	113,813	-	553,774	-	50,084	717,671
Transportation	-	6,201	-	-	-	-	6,201
Health and human services	-	34,173	-	-	-	-	34,173
Natural resources	-	350,189	-	-	-	35,535	385,724
Public safety	-	46,352	-	-	-	-	46,352
Education	-	16,306	-	-	-	-	16,306
Total committed	-	567,034	-	553,774	-	85,619	1,206,427
Assigned							
General government	-	783	-	-	-	509	1,292
Public safety	-	-	-	-	-	892	892
Encumbrance	11,355	-	-	-	-	-	11,355
Total assigned	11,355	783	-	-	-	1,401	13,539
Unassigned	47,933	-	-	-	-	-	47,933
Total fund balance	$66,984	$1,581,457	$12,078	$1,094,251	$725,458	$439,356	$3,919,584

(1) The 2017 Legislature projected $112.0 million of unassigned fund balance for fiscal year 2017.

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation (SAF). Approximately 68.36%, or $745.5 million of MGSLP's outstanding loan volume is held by MHESAC. A Board of Regents board member is also on the board of MHESAC.

The Department of Administration transitioned from a full member to an associate member of the Montana Association of Health Care Purchasers (MAHCP) effective January 1, 2016. This membership expired on December 31, 2016. Associate membership does not require a membership fee, but no longer provides a seat on the board. DOA also paid $0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program, for the period July 1, 2016, through December 31, 2016. The relationship with MAHCP was terminated as of January 1, 2017.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT from Mineral Plaza, LLC, in which one of the owners is Johnette Watkins, a local job service manager. The term of the lease is four years beginning July 1, 2013, and ending June 30, 2017. The annual lease amount is currently set at $21,330.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a base settlement amount of $832 million payable over 26 years. The base amount was augmented by $90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017.

The settlement provides that the cigarette manufacturers may offset, against their payment in any year, certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their national market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question. The First Judicial District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically

articulated that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2004-2017, for which years the OPMs have already received a determination that MSA terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

Factual arguments exist to show that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect and diligently enforced during 2004-2016 and thereafter to date. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2004-2017, which would be recouped through an offset of payments due to Montana in future years. The OPMs will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and certain tobacco product manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration. Montana filed a Declaratory Judgement action in March 2017, in the same docket in the First Judicial District, to determine the State's diligent enforcement for calendar year 2004. Trial is currently set for June 2018.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost $41 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the $41 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1.2 million for PPL's costs relating to the appellate proceedings. All but approximately $31,000 relate to premiums that PPL paid for a supersedeas bond in support of staying the $41 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31,263. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The

parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgement. Several procedural motions have taken place since the prior fiscal year-end, but none that require the State to revise its earlier held opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately $1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision is expected to be issued in early 2018.

As of June 30, 2017, the State paid Plaintiffs $1.4 million in base payments plus interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Kohoutek, Inc. v. Montana involves a class action constitutional challenge to the state's statute governing compensation for mandatory case-lot sales of liquor. Agency liquor stores are required by statute to provide an 8% discount to liquor licensees for sales of unbroken case-lots. Section 16-2-101(2)(b)(ii)(B), MCA, provides for a weighted average discount ratio to offset for some or all of this mandatory case lot discount. The weighted average discount ratio is based on fiscal year 1994 sales. Plaintiffs contend that this provision, rooted in 1994 rather than based on actual sales, violates their rights to substantive due process and equal protection, and constitutes a taking.

Plaintiffs filed a Complaint for Declaratory, Injunctive, and Class Relief on March 25, 2014, before the Eighth Judicial District Court, ADV-14-181. The District Court for the Eighth Judicial District granted class certification by Order dated August 21, 2014. The case has been bifurcated into two parts: constitutionality and damages. The Court heard oral argument on the Plaintiffs' Motion for Partial Summary Judgment, addressing its constitutional claims, on January 20, 2015, and will decide on that issue in the near future.

On May 28, 2015, the District Court determined that Section 16-2-101(2)(b)(ii)(B), MCA, violated the plaintiffs' rights to substantive due process and to equal protection of the law because the state has continued to use 1994 sales information to reimburse agency liquor stores for the mandatory case lot discounts.

On August 2, 2016, District Judge Greg Pinski ruled the damages due to the class is $14.7 million. Further proceedings were held on December 2, 2016, to determine whether interest and attorney fees are due to the plaintiffs; as of this action, it was determined that $8.7 million would be awarded in attorney's fees and $2.8 million in interest. Total judgement against the State is $26.2 million, but this amount has been stayed pending appeal to the Montana Supreme Court.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. Currently, the parties reached a Class Action Settlement signed February 14, 2017, which includes the Department's agreement to pay attorney's fees. During settlement negotiations, the Class attorneys indicated they would be seeking in the neighborhood of $1.1 million in attorney's fees for a period spanning from 2008 until close. The Department will contest that amount before the Court. That projected sum does not include the anticipated two-year monitoring period as well. At this time, the department cannot specify an anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at MSP. The district court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The department has exchanged settlement proposals and has met with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff's chances of success are fair, given the current political climate. Plaintiffs have made a number of unreasonable demands that would cost the Department millions of dollars and at least $800.0 thousand in attorney's fees and undisclosed expert witness fees. At this time the department cannot specify an anticipated amount of financial obligation.

Fisk v. Montana Department of Corrections, (Cause # ADV-2016-962): An employment case filed by a current employee at Montana State Prison, alleging discrimination by gender and military status. This matter is currently set for trial to begin January 19, 2018. The plaintiff is seeking over $800.0 thousand in monetary damages; if successful, a court would likely order an award of attorneys' fees as well. The plaintiff s chances of success are: poor to fair.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Sheriffs' Retirement System (SRS). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has two items of litigation in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2017, the State distributed $1.2 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $10.6 million in commodities in fiscal year 2017. The value at June 30, 2017, of commodities stored at the State's warehouse is $1.7 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2017, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling $179.3 million. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $107.9 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $71.4 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2017, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	$37,071

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2017. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2017, these include $6.5 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2017. As of June 30, 2017, these include $3.6 million of protested property taxes recorded in the General Fund and $4.1 million recorded in the State Special Revenue Fund. In addition, certain companies have appealed an additional $5.6 million in regular property taxes recorded in the General Fund on the State's financial statements.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

During fiscal year 2017, Board of Investments (BOI) requested a 100% redemption in the amount of $174.0 million from one manager, pertaining to investments from Consolidated Asset Pension Pool (CAPP), Trust Funds Investment Pool (TFIP), and All Other Funds (AOF). Since June 30, 2017, redemptions in the amount of $67.6 million have been received. BOI is confident and it is understood that the full redemption would be received over a reasonable time period.

Since June 30, 2017, BOI made additional commitments to fund loans from the INTERCAP loan program in the amount of $10.0 million.

Since June 30, 2017, BOI has received recovery payments associated with the Structured Investment Vehicle (SIV) related assets in the amount of $1.7 million, representing $1.1 million of principal and $600.0 thousand of interest.

Since June 30, 2017, BOI has committed an additional $490.0 million to alternative equity partnerships within CAPP, with allocations of $145.0 million within the Private Equity Asset Class, $145.0 million within the Natural Resource Asset Class and $200.0 million within the Real Estate Asset Class of CAPP.

On August 1, 2017, BOI reallocated assets held within a small cap domestic equity fund to four of BOI's existing small cap domestic equity managers. The transfer of securities and cash occurred within the Domestic Equity Asset Class of the CAPP. The approximate market value of the transition was $120.0 million.

On August 22, 2017, BOI approved two Qualified Zone Academy Bonds (QZAB) loans in the amount of $1.4 million.

As of August 22, 2017, BOI had approved an additional loan guarantees from the Coal Severance Tax Fund to Facility Finance Authority (FFA) totaling $15.0 million. BOI also approved an increase of $4.0 million to a previously approved $10.0 million commercial loan commitment. Since June 30, 2017, the BOI has received an additional $28.8 million in loan reservations from Montana lenders.

On August 30, 2017, BOI terminated one manager in the Domestic Equity Asset Class with the CAPP. A transition manager was hired to liquidate the portfolio and cash was transferred to BOI's Cash Asset Class within the CAPP, which in turn purchased STIP. The approximate market value of the transition was $179.0 million.

In November 2017, BOI reallocated assets held within an international small cap fund to three of BOI's existing international small cap equity managers. The transfer of securities and cash occurred within the International Equity Pension Asset Class of CAPP. The approximate market value of the transition was $150.0 million.

In November 2017, the Governor called the Montana legislature into special session to address a significant budget shortfall in the State's General Fund. Senate Bill 4 was passed into law and directs BOI to apply a 3% charge against the average total investments of the State Fund in excess of $1.0 billion providing certain conditions are met. BOI is directed to transfer money from this charge on or before April 1, 2018, and April 1, 2019, to the State's Fire Suppression Fund. BOI is not providing additional investment services in making the transfer as required by the Act. Additional information about the special session is provided below.

In December 2017, two new managers were hired in the High Yield Pension Asset Class. Each manager was funded with $50.0 million.

Other Subsequent Events

On July 23, 2017 and August 11, 2017, Governor Bullock declared a fire emergency in the state. The governor issued an executive order announcing Montana to be in a state of disaster on September 1, 2017. As of October 26, 2017, State's estimated fire costs for the calendar year fire season was approximately $71.7 million.

Senate Bill 261 (SB 261), passed during the 2017 Legislative Session, contained requirements for the Department of Administration to determine, by August 15, 2017, the unaudited revenue for the General Fund and compare this to estimates approved by the Legislature. The bill also cut spending authority for fiscal year 2018 should the unaudited revenue balance fall below $2.216 billion at five different intervals. As General Fund revenue was less than any threshold provided within the legislation, cuts and transfers to the General Fund totaling $97.0 million were implemented. Additionally, SB 261 created the Budget Stabilization Reserve Fund, Montana's first formal "Rainy Day" fund. Although, due to actual revenues being less than estimated by the 65th Legislature, for the fiscal year ended June 30, 2017, no deposits were made to the Budget Stabilization Reserve Fund.

On September 18, 2017, the Board of Examiners approved the issuance of a $1.0 million General Obligation Renewable Resource Program Bond, Taxable Series 2017A, $3.4 million General Obligation Bond Anticipation Notes, Taxable Series 2018B, for the Drinking Water Revolving Fund Program, and $3.1 million in General Obligation Bond Anticipation Notes, Taxable Series 2018C, for the Water Pollution Control State Revolving Fund Program.

Effective October 1, 2017 the loan servicing portion of the Montana Guaranteed Student Loan Program (MGSLP) was transferred to a federally approved national education loan servicing provider. This transfer was approved by the Montana Board of Regents in May 2017. The program will continue to offer other student financial aid-related activities for the benefit of Montana students as determined by the Montana Board of Regents. After the transfer of the loan servicing portion, MGSLP will be required to return the Federal Student Loan Reserve Fund to the US Department of Education. As of September 30, 2017, the amount of the return was $6.6 million.

On October 24, 2017, Galen Hollenbaugh was appointed as the new Commissioner of the Department of Labor and Industry.

On November 6, 2017, Governor Bullock called for a special session of the Legislature to address an anticipated $228.2 million General Fund deficit balance for the budget period ended June 30, 2019. The session was held from November 13 through 16, 2017. The Legislature approved revenue proposals estimated to generate an additional $44.7 million in revenue and $95.2 million in fund transfers and other legislation. In coordination with this, on November 14, 2017, the Governor enacted $76.7 million in expenditure cuts under the authority granted by 17-7-140, MCA.

On January 22, 2018, a group of Montana State Fund (MSF) policyholders filed suit against the State, MSF and the Board of Investments (BOI), in Lake County District Court, in an effort to prevent BOI from charging a 3% management fee on any single investor whose average portfolio balance held by BOI is greater than $1.0 billion. This fee was implemented as part of the revenue enhancements passed during the Legislative Special Session disclosed above.

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2017 (in thousands):

Condensed Statement of Net Position
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$609,471	$5,582	$1,650,567	$614,260	$504,086	$3,383,966
Due from primary government	-	-	-	640	1,042	1,682
Due from component units	-	-	-	49	222	271
Capital assets (net) (Note 18C)	2	-	27,687	478,466	381,392	887,547
Total assets	609,473	5,582	1,678,254	1,093,415	886,742	4,273,466
Deferred Outflows of Resources	752	43	3,407	35,478	27,283	66,963
Liabilities:						
Accounts payable and other liabilities	6,937	12	126,100	69,431	54,638	257,118
Due to primary government	-		-	2,221	1,930	4,151
Due to component units	-	-	-	222	49	271
Advances from primary government	-	-	-	18,573	20,617	39,190
Long-term liabilities (Note 18I)	449,953	342	1,030,179	373,602	275,378	2,129,454
Total liabilities	456,890	354	1,156,279	464,049	352,612	2,430,184
Deferred Inflows of Resources	7	1	78	1,229	1,162	2,477
Net Position:						
Net investment in capital assets	2	-	27,687	305,890	264,065	597,644
Restricted	153,326	-	-	310,969	337,255	801,550
Unrestricted	-	5,270	497,617	46,756	(41,069)	508,574
Total net position	$153,328	$5,270	$525,304	$663,615	$560,251	$1,907,768

(1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2016.

Condensed Statement of Activities
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (2)	Montana State University	University of Montana	Total Component Units
Expenses	$ 20,822	$ 462	$210,763	$573,551	$458,117	$1,263,715
Program Revenues:						
Charges for services	1,541	783	169,677	272,972	191,932	636,905
Operating grants and contributions	19,047	75	-	181,074	161,079	361,275
Capital grants and contributions	-	-	-	5,005	14,118	19,123
Total program revenues	20,588	858	169,677	459,051	367,129	1,017,303
Net (expense) program revenues	(234)	396	(41,086)	(114,500)	(90,988)	(246,412)
General Revenues:						
Unrestricted grants and contributions	-	-	-	107	-	107
Unrestricted investment earnings	-	-	50,239	5,099	24,332	79,670
Transfer from primary government (1)	-	-	-	136,645	103,522	240,167
Gain (loss) on sale of capital assets	-	-	-	594	-	594
Miscellaneous	-	-	1,237	-	-	1,237
Contributions to term and permanent endowments	-	-	-	21,724	30,494	52,218
Total general revenues and contributions	-	-	51,476	164,169	158,348	373,993
Change in net position	(234)	396	10,390	49,669	67,360	127,581
Total net position – July 1 – as previously reported	153,871	4,963	514,961	613,946	491,240	1,778,981
Adjustments to beginning net position	(309)	(89)	(47)	-	1,651	1,206
Total net position – July 1 – as restated	153,562	4,874	514,914	613,946	492,891	1,780,187
Total net position – June 30	$ 153,328	$ 5,270	$525,304	$663,615	$560,251	$1,907,768

(1) Includes non-employer pension revenue and payments for services provided.
(2) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2016.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 8,650	$ 8,226	$ 1,139	$ 18,015
Construction work in progress	38,638	10,548	-	49,186
Capitalized collections	9,783	18,300	-	28,083
Livestock for educational purposes	3,858	-	-	3,858
Total capital assets not being depreciated	60,929	37,074	1,139	99,142
Capital assets being depreciated:				
Infrastructure	44,820	9,904	-	54,724
Land improvements	25,033	15,893	-	40,926
Buildings/Improvements	653,517	602,472	27,941	1,283,930
Equipment	162,401	92,215	7,395	262,011
Livestock	-	255	-	255
Library books	66,776	61,867	-	128,643
Leasehold improvements	3,246	-	-	3,246
Total capital assets being depreciated	955,793	782,606	35,336	1,773,735
Total accumulated depreciation	(546,220)	(448,092)	(9,016)	(1,003,328)
Total capital assets being depreciated, net	409,573	334,514	26,320	770,407
Intangible assets	1,589	1,360	230	3,179
MSU Component Unit capital assets, net	6,375	-	-	6,375
UM Component Unit capital assets, net	-	8,444	-	8,444
Discretely Presented Component Units capital assets, net	$478,466	$381,392	$27,689	$887,547

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2016, approximately 24,200 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2016, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2016, $921.5 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2016, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to $100.0 million in which MSF retains the first $5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5.0 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2014 through December 31, 2016. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $10.4 million during the year ended December 31, 2016.

Estimated claim reserves were reduced by $5.1 million as of December 31, 2016, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional $13.1 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2016
Unpaid claims and claim adjustments expenses at beginning of year	$ 900,296
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	147,194
Increase (decrease) in provision for insured events of prior years	(64)
Total incurred claims and claim adjustment expenses	147,130
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(31,040)
Claims and claim adjustment expenses attributable to insured events of prior years	(94,854)
Total payments	(125,894)
Total unpaid claims and claim adjustment expenses at end of year	$ 921,532

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2017, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2018	$216
2019	142
2020	93
2021	45
2022	9
Total minimum payments	505
Less: interest	(49)
Present value of minimum payments	$456

G. Operating Leases

Future rental payments under operating leases at June 30, 2017, are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2018	$ 4,324
2019	2,870
2020	2,450
2021	1,457
2022	1,066
2023-2027	2,297
Total future rental payments	$14,464

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2017, were as follows (in thousands):

	Montana Board of Housing		Montana State University		University of Montana	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 14,860	$ 14,842	$ 10,354	$ 5,965	$ 8,506	$ 3,293
2019	15,355	14,544	11,841	5,721	8,825	2,964
2020	15,745	14,194	9,349	5,401	9,220	2,611
2021	16,240	13,798	9,372	5,086	9,565	2,227
2022	16,655	13,350	9,727	4,761	10,031	1,828
2023-2027	94,515	58,314	32,564	19,488	34,939	4,122
2028-2032	101,360	40,781	24,935	13,251	8,585	911
2033-2037	87,080	22,603	23,213	8,063	960	38
2038-2042	61,759	8,873	16,747	4,026	-	-
2043-2047	17,350	1,219	8,799	462	-	-
2048-2052	130	3	-	-	-	-
Total	$ 441,049	$ 202,521	$ 156,901	$ 72,224	$ 90,631	$ 17,994

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2017, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	$ 477,014	$ 42,643	$ 73,040	$ 446,617	$ 14,860	$ 431,757
Montana State University (MSU)	163,939	7,253	11,025	160,167	10,328	149,839
University of Montana (UM)	100,386	-	8,340	92,046	8,540	83,506
Total bonds/notes payable (1)	741,339	49,896	92,405	698,830	33,728	665,102
Other liabilities						
Lease/installment purchase payable	550	156	250	456	192	264
Compensated absences payable	61,764	32,297	30,193	63,868	31,969	31,899
Arbitrage rebate tax payable	761	217	417	561	304	257
Estimated insurance claims	900,296	147,129	125,894	921,531	128,265	793,266
Due to federal government	32,501	318	310	32,509	-	32,509
Derivative instrument liability	6,097	-	1,909	4,188	-	4,188
Reinsurance funds withheld	89,571	-	13,832	75,739	-	75,739
Unearned compensation	391	-	-	391	-	391
Net pension liability	178,700	42,099	14,153	206,646	-	206,646
OPEB implicit rate subsidy (2)	114,894	10,899	3,548	122,245	-	122,245
Total other liabilities	1,385,525	233,115	190,506	1,428,134	160,730	1,267,404
	$2,126,864	$283,011	$282,911	$2,126,964	194,458	1,932,506
Long-term liabilities of Montana University System component units (4)					(105)	2,595
Total discretely presented component units' long-term liabilities					$194,353	$1,935,101

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

(3) Beginning balances are taken from component unit financial statements.

(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2017, $98.3 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2017, revenue bonds and notes outstanding aggregated $947.0 million.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)
MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2017, bonds outstanding aggregated $36.6 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $71.4 million as of June 30, 2017. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2017 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$79,875	$32,905	$41,364	$71,416

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2017. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2017, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods

described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option's value included intrinsic value and time value. The option's intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2017, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2017, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2017 (in thousands):

		Activity During 2017		Fair Values at June 30, 2017	
Cash flow hedges:	Notional	Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	$20,475	Interest expense	$ 18	Loan receivable	$ 250
		Investment income	-	Derivative liability	4,189
		Deferred outflow	(1,909)		
Investment derivative –					
Basis swap	$20,475	Investment loss	$808	Investment (excluding interest accrued)	$ 463

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2017, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$20,475	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk
It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2017, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk
Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk
The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk
MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2017, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the years ended June 30, 2017, $283.2 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space

and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $988.9 thousand during 2017 and Friends of KEMC Public Radio provided $802.6 thousand during 2017 in support of MSU's television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers' Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of $2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson vs. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

P. Subsequent Events

Subsequent to Montana State Fund's (MSF) fiscal year ended December 31, 2016, the Board of Investments (BOI) decided to divest its investment in the TIAA-CREF US Cities Fund LP. Sales of the investments took place throughout calendar year 2017 and proceeds from the sales were used to repurchase similar investments. No value impairment is considered to have happened and therefore, adjustments to the investment values are not considered necessary.

In response to declining enrollment, the University of Montana's (UM) Missoula campus implemented voluntary termination plans to reduce the percentage of its budget spent on personnel costs.

Voluntary Employment Retirement Incentive Program (VERIP)
The first of two VERIP offerings was announced in May 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- Be full-time tenured faculty,
- Be age 65 years of age or older as of May 12, 2017, and,
- Be eligible to retire under Montana Teacher's Retirement System or the Montana University System-Retirement Plan (MUS-RP) as of May 12, 2017.

Eligible faculty members who accepted the offer by July 17, 2017, received a lump sum payment equal to 50% of their FY2016-2017 general fund contract base salary.

The second VERIP offering was announced in June 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- Be full-time tenured faculty,
- Be age 60-64 years of age as of May 12, 2017, and,
- Be eligible to retire under Montana Teacher's Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 28, 2017, could elect to receive either of the following:

- A lump sum payment equal to 50% of their fiscal year 2016 through fiscal year 2017 general fund contract base salary, or,
- The lump sum payment outlined above, less any deductions for premiums paid for coverage in the UM retiree health insurance plan until their 65th birthday.

Faculty members who accepted the May or June 2017 VERIP offering were terminated on July 17, 2017, or July 28, 2017, respectively. The total cost to the UM for the 14-tenured faculty who accepted the VERIP was approximately $1.6 million.

Voluntary Severance Option (VSO)
UM announced the VSO in October 2017, which was extended to currently employed, full-time (1.0 FTE) classified staff, contract professionals, and contract administrators, whose positions are funded by the General Fund and had an initial employment date no later than October 17, 2015. The offer extended to December 6, 2017, and employees who accepted the VSO were terminated on December 31, 2017. The VSO provided for the employee to be paid an equivalent of six months of wages, at their stated salary level as of December 6, 2017, as severance in January 2018.

In addition:

- The employee retains medical and dental coverage until December 31, 2018; or,
- The employee may elect to receive a lump sum payment of $12.6 thousand (the value of 12 months of health insurance), plus their severance payment, in lieu of remaining on the health insurance plan.

The VSO offer was accepted by 84 employees and the UM expects the cost of the plan to be approximately $3.8 million, to be paid primarily in fiscal year 2018.

In July 2017, the Montana State University (MSU) received authorization to enter into a long-term space lease at a cost of up to $1.7 million per year for ten years. The lessor is the MSU Innovation Campus, a subsidiary of the Montana State University Alumni Foundation. The leased facility is not yet constructed, and will be designed to meet requirements necessary to conduct classified research on the Bozeman campus. The capacity to perform classified research will qualify MSU to perform additional types of research funded by governmental grants. At the expiration of the lease term MSU will have the right of first refusal to purchase or continue leasing the property at no cost (other than operations and maintenance).

On July 12, 2017, Montana State University (MSU) issued $21.0 million in Series 2017D bonds to refund all of the Series 2006 bonds with stated maturities in the years 2017 and thereafter and to refund all of the Series 2011M bonds with stated maturities in the years 2022 and thereafter. The refunded principal amount for Series 2006K and Series 2011M is $8.5 million and $12.9 million respectively. The refunding resulted in an economic gain to MSU of $1.3 million.

On July 24, 2017, the University of Montana (UM) issued $14.1 million of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provide funds to construct a Living Learning Center (LLC) on the UM Tech campus in Butte.
UM will record $14.1 million of the Series O bonds payable in fiscal year 2018. The interest rate on the revenue bonds is 3.390% over the 20-Year Term of the bonds.

The LLC is a three-story new construction building. The first two floors make up a new residential hall for Montana Tech student residents. The third floor of the new space is known as the Student Success Center. This new space will service all students on the Butte campus. Additional operation and maintenance costs for the residential hall living space are forecasted at $320.8 thousand annually; beginning Fall 2019. All O&M costs for the residential hall and dining space will be paid from Auxiliary funds.

The $14.1 million Series O revenue bond will be re-paid from new net revenue (both residence life and dining) generated by the LLC. Debt Service payments for the new facility are estimated at $1.0 million per year for 20 years. Revenue committed toward the payment of debt are currently generating funds in excess of recurring operating and debt service requirements. This situation allows for the re-direction of these funds to the new Series O debt. The existing debt is fully paid in fiscal year 2024 providing additional revenues to commit to the $14.1 million debt.

On August 29, 2017, approximately $21.5 million in Master Loan Program Revenue Refunding Bonds, Series 2017, were issued by the Facility Finance Authority (FFA) for the benefit of Glendive Medical Center to advance refund bonds issued in 2008.

In August 2017, MSU entered into an off-campus lease for space to accommodate university support functions, which will make available approximately 35,000 square feet in the core of the Bozeman campus for academic and student support services. The lessor is a subsidiary of the MSU Alumni Foundation. The lease terms began September 1, 2017, and is for an initial ten-year period, with up to four renewals of five years each. Discounted rent is charged while MSU performs leasehold improvements and transitions its staff into the building, and full rent of $25.0 thousand per month begins in May 2018. Annual escalators of 2% are included for the initial ten-year lease term.

On August 31, 2017, a Direct Loan for $141.6 thousand Direct Loan was made by the FFA to Northern Rockies Medical Center to finance the purchase of a new telemetry unit.

On September 7, 2017, the Board of Housing issued a contract for the purchase, sale, and delivery of $42.6 million in bonds closing on October 18, 2017. Of this, $11.9 million of the funds will be used to refund previous issues, $30.3 million will be used to purchase eligible Montana home loans, and the remaining $400.0 thousand will be used to pay issuance costs.

On September 15, 2017, MSF's board declared a dividend of $40.0 million to be distributed to approximately 23,000 employers.

Effective October 1, 2017, a space lease for property near the MSU Bozeman campus was renewed at a cost of $104.0 thousand per year for an initial three-year term, with two one-year renewal options.

On October 5, 2017, a Direct Loan for $300.0 thousand was made by the FFA to Intermountain Children's Services to finance the purchase of a new electronic health records system.

In November 2017, the Board of Regents approved the issuance of bonds to construct a new residence hall on the MSU Bozeman campus. Construction proceeds of $50.0 million, plus costs of issuance, a debt service reserve fund, and capitalized interest (if needed), were authorized for a borrowing term of up to 30 years.

In November 2017, the Board of Regents authorized the issuance of up to $4.5 million in Intercap debt to fund the construction of a student activity complex on the MSU Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt.

Subsequent to June 30, 2017, MSU drew the remaining $6.0 million on its Series C bonds, bringing the total outstanding as of January 8, 2018, to $16.5 million. No further draws will be made.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2017, the Game Warden & Peace Officers' Retirement System (GWPORS), and the Highway Patrol Officers' Retirement System (HPORS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2017.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 125,616	$ 125,616	$ 125,737	$ 121
Taxes:				
Natural resource	90,220	90,220	71,042	(19,178)
Individual income	1,307,356	1,307,356	1,161,730	(145,626)
Corporate income	156,751	156,751	133,247	(23,504)
Property	262,709	262,709	258,698	(4,011)
Fuel	-	-	-	-
Other	244,043	244,043	237,589	(6,454)
Charges for services/fines/forfeits/settlements	39,846	39,846	35,035	(4,811)
Investment earnings	-	-	7,400	7,400
Sale of documents/merchandise/property	387	387	369	(18)
Rentals/leases/royalties	8	8	8	-
Contributions/premiums	180	180	4,727	4,547
Grants/contracts/donations	4,130	4,130	10,116	5,986
Federal	25,254	25,254	18,416	(6,838)
Federal indirect cost recoveries	177	177	244	67
Other revenues	5,979	5,979	957	(5,022)
Total revenues	2,262,656	2,262,656	2,065,315	(197,341)
EXPENDITURES				
Current:				
General government	384,521	384,521	353,582	30,939
Public safety	333,667	333,667	318,926	14,741
Transportation	-	-	-	-
Health and human services	541,407	541,407	538,738	2,669
Education	1,064,745	1,064,745	1,058,596	6,149
Natural resources	41,767	41,767	37,738	4,029
Debt service (Note RSI-1):				
Principal retirement	-	-	56	(56)
Interest/fiscal charges	-	-	197	(197)
Capital outlay (Note RSI-1)	-	-	7,270	(7,270)
Total expenditures	2,366,107	2,366,107	2,315,103	51,004
Excess of revenue over (under) expenditures	(103,451)	(103,451)	(249,788)	(146,337)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	196	196	252	56
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	73,415	73,415	73,886	471
Transfers out (Note 12)	(260,064)	(260,064)	(45,336)	214,728
Total other financing sources (uses)	(186,453)	(186,453)	28,802	215,255
Net change in fund balances (Budgetary basis)	(289,904)	(289,904)	(220,986)	68,918
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	55	55
2. Securities lending costs	-	-	(19)	(19)
3. Inception of lease/installment contract	-	-	-	-
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances (GAAP basis)	(289,904)	(289,904)	(220,950)	68,954
Fund balance - July 1	-	-	271,310	271,310
Prior period adjustments	-	-	16,370	16,370
Increase (decrease) in inventories	-	-	254	254
Fund balances - June 30	$ (289,904)	$ (289,904)	$ 66,984	$ 356,888

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 201,515	$ 201,515	$ 199,980	$ (1,535)	$ -	$ -	$ -	$ -
122,532	122,532	69,683	(52,849)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
16,845	16,845	16,729	(116)	-	-	-	-
222,433	222,433	231,296	8,863	-	-	-	-
140,295	140,295	138,386	(1,909)	1	1	-	(1)
108,609	108,609	106,465	(2,144)	48,618	48,618	35,496	(13,122)
-	-	5,739	5,739	-	-	384	384
4,717	4,717	4,817	100	3	3	3	-
849	849	980	131	-	-	-	-
27,180	27,180	26,296	(884)	-	-	-	-
10,259	10,259	11,822	1,563	108	108	108	-
9,316	9,316	7,116	(2,200)	2,375,117	2,375,117	2,694,127	319,010
51,280	51,280	45,583	(5,697)	67,012	67,012	79,893	12,881
5,116	5,116	3,175	(1,941)	412	412	289	(123)
920,946	920,946	868,067	(52,879)	2,491,271	2,491,271	2,810,300	319,029
346,613	346,613	189,652	156,961	251,983	251,983	105,148	146,835
89,980	89,980	71,863	18,117	36,960	36,960	13,475	23,485
320,219	320,219	217,582	102,637	539,009	539,009	111,680	427,329
173,112	173,112	159,348	13,764	2,128,873	2,128,873	1,947,967	180,906
103,089	103,089	71,575	31,514	302,496	302,496	214,285	88,211
350,957	350,957	189,675	161,282	154,468	154,468	68,119	86,349
						-	
-	-	638	(638)	-	-	30	(30)
-	-	359	(359)	-	-	6	(6)
-	-	49,864	(49,864)	-	-	319,171	(319,171)
1,383,970	1,383,970	950,556	433,414	3,413,789	3,413,789	2,779,881	633,908
(463,024)	(463,024)	(82,489)	380,535	(922,518)	(922,518)	30,419	952,937
545	545	43	(502)	-	-	-	-
134	134	325	191	-	-	42	42
-	-	1,770	1,770	-	-	-	-
282,711	282,711	155,783	(126,928)	14,838	14,838	1,679	(13,159)
(92,606)	(92,606)	(25,442)	67,164	(59,375)	(59,375)	(28,927)	30,448
190,784	190,784	132,479	(58,305)	(44,537)	(44,537)	(27,206)	17,331
(272,240)	(272,240)	49,990	322,230	(967,055)	(967,055)	3,213	970,268
-	-	201	201	-	-	2	2
-	-	(90)	(90)	-	-	(1)	(1)
-	-	184	184	-	-	-	-
-	-	(22,730)	(22,730)	-	-	-	-
(272,240)	(272,240)	27,555	299,795	(967,055)	(967,055)	3,214	970,269
-	-	1,554,015	1,554,015	-	-	8,958	8,958
-	-	(984)	(984)	-	-	(94)	(94)
-	-	870	870	-	-	-	-
$ (272,240)	$ (272,240)	$ 1,581,456	$ 1,853,696	$ (967,055)	$ (967,055)	$ 12,078	$ 979,133

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2017, reverted governmental fund appropriations were as follows: General Fund - $25.2 million, State Special Revenue Fund - $242.6 million, and Federal Special Revenue Fund - $354.0 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	$ 1,578	$ 1,653	$ 1,594
Interest	3,986	3,934	3,824
Differences between expected and actual experience	(1,341)	(1,032)	-
Benefit payments	(3,416)	(3,041)	(3,023)
Net change in total pension liability	$ 807	$ 1,514	$ 2,395
Total pension liability – beginning	53,146	51,632	49,237
Total pension liability – ending	$ 53,953	$ 53,146	$ 51,632
Plan Fiduciary Net Position			
Contributions – employer	$ 1,806	$ 1,684	$ 1,651
Contributions – member	729	534	481
Net investment income	1,779	3,843	12,421
Benefit payments	(3,416)	(3,041)	(3,023)
Administrative expense	(197)	(136)	(100)
Other	(3)	-	-
Net change in plan fiduciary net position	$ 698	$ 2,884	$ 11,430
Plan fiduciary net position - beginning	87,107	84,223	72,793
Plan fiduciary net position - ending	$ 87,805	$ 87,107	$ 84,223
Net Pension (Asset) – Beginning	$(33,961)	$(32,591)	$(23,556)
Net Pension (Asset) – Ending	$(33,852)	$(33,961)	$(32,591)
Plan fiduciary net position as a percentage of TPL	162.74%	163.90%	163.12%
Covered payroll	$6,920	$6,525	$6,355
Net pension (asset) as a percentage of covered payroll	(489)%	(521)%	(513)%

Judges' Retirement System
Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2017	2016	2015
Contractually required contributions	$1,800	$1,786	$1,684
Contributions made in relation to the contractually required contributions	1,800	1,786	1,684
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$6,974	$6,920	$6,525
Contributions as a percentage of covered payroll	26%	26%	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	0 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00%
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	$ 3,799	$ 3,598	$ 3,464
Interest	14,545	14,113	13,518
Changes in benefits	-	1,856	-
Difference between expected and actual experience	18	267	-
Benefit payments	(10,482)	(10,001)	(9,443)
Refunds of contributions	(94)	-	-
Net change in total pension liability	$ 7,786	$9,833	$ 7,539
Total pension liability – beginning	192,966	183,133	175,594
Total pension liability – ending	$200,752	$192,966	$183,133
Plan Fiduciary Net Position			
Contributions – employer	$ 5,916	$ 5,840	$ 5,736
Contributions – non-employer	243	-	-
Contributions – member	1,917	1,624	1,458
Net investment income	2,605	5,738	18,677
Benefit payments	(10,482)	(10,001)	(9,443)
Administrative expense	(197)	(144)	(109)
Refunds of Contributions	(94)	-	-
Other	(2)	-	-
Net change in plan fiduciary net position	$ (94)	$ 3,057	$ 16,319
Plan fiduciary net position – beginning	129,067	126,010	109,691
Plan fiduciary net position – ending	$128,973	$129,067	$126,010
Net Pension Liability – Beginning	$ 63,899	$ 57,123	$ 65,903
Net Pension Liability – Ending	$ 71,779	$ 63,899	$ 57,123
Plan fiduciary net position as a percentage of TPL	64%	67%	69%
Covered payroll	15,276	$14,549	$14,149
Net pension liability as a percentage of covered payroll	470%	439%	404%

Highway Patrol Officers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$5,706	$6,161	$5,782
Contributions in relation to the contractually required contributions	5,706	6,161	5,782
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$14,779	$15,276	$14,549
Contributions as a percentage of covered payroll	39%	40%	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	29 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Inflation	3.00%
Salary increases	4.00% to 11.30%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: The following changes to the assumptions were made as identified:

2015

DROP accounts are assumed to earn the actuarial rate of return

An additional 15% of active members are assumed to elect DROP for each of the first six years following DROP eligibility. These members are assumed to elect to participate in the DROP for five years or until age 60 if earlier.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	$ 8,403	$8,008	$7,850
Interest	12,911	12,398	11,258
Actual experience	2,705	731	-
Benefit payments	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,066)	-	-
Net change in total pension liability	$ 17,885	$15,785	$13,879
Total pension liability – beginning	169,649	153,864	139,985
Total pension liability – ending	$187,534	$169,649	$153,864
Plan Fiduciary Net Position			
Contributions - employer	$ 4,278	$4,088	$3,762
Contributions - member	5,036	4,924	4,462
Net investment income	3,167	6,435	20,069
Benefit payments	(5,068)	(5,352)	(5,229)
Administrative expense	(269)	(200)	(162)
Refunds of contributions	(1,066)	-	-
Other	(31)	-	-
Net change in plan fiduciary net position	$ 6,047	$9,895	$22,902
Plan fiduciary net position – beginning	148,638	138,743	115,841
Plan fiduciary net position – ending	$154,685	$148,638	$138,743
Net Pension Liability – Beginning	$ 21,011	$15,121	$24,144
Net Pension Liability – Ending	$ 32,849	$21,011	$15,121
Plan fiduciary net position as a percentage of TPL	82%	87%	90%
Covered payroll	$47,108	$44,885	$41,637
Net pension liability as a percentage of covered payroll	70%	47%	36%

Game Wardens' and Peace Officers' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$4,447	$4,240	$4,040
Contributions in relation to the contractually required contributions	4,447	4,240	4,040
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$49,381	$47,108	$44,885
Contributions as a percentage of covered payroll	9%	9%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00% to 11.30%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	$906,880	$749,414	$663,174
Employer's covered payroll	$621,755	$620,286	$597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	146%	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$56,256	$59,073	$58,575
Contributions in relation to the contractually required contributions	56,256	59,073	58,575
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$648,671	$621,755	$620,286
Contributions as a percentage of covered payroll	9%	10%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	27.2 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00% to 10.00%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: The following changes have been made to the actuarial assumptions and methods:

2015 Assumptions related to the Guaranteed Annual Benefit Adjustment (GABA) for members hired on or after July 1, 2013, have been added.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	$16,287	$13,365	$11,978
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$28,763	$30,800	$32,397
Contributions in relation to the contractually required contributions	28,763	30,800	32,397
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	5.454386%	5.637055%	5.535%
Employer's proportionate share of the net pension liability	$9,582	$5,434	$2,304
Employer's covered payroll	$3,850	$3,836	$3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	249%	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	63%	75%	87%

Sheriffs' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$368	$389	$388
Contributions in relation to the contractually required contributions	368	389	388
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$3,634	$3,850	$3,836
Contributions as a percentage of covered payroll	10%	10%	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Sheriffs' Retirement System
Notes to Required Supplementary Information
For the Year ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Wage Inflation	4.00%
Salary increases	4.00% to 11.30%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	$119,708	$110,756	$105,106
Plan fiduciary net position as a percentage of the total pension liability	66%	67%	67%

Municipal Peace Officers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$13,215	$13,752	$13,433
Contributions in relation to the contractually required contributions	13,215	13,752	13,433
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Municipal Peace Officers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

> The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	$2,583	$2,454	$1,806
Employer's covered payroll	$974	$986	$735
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	265%	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	75%	77%	77%

Firefighters' Unified Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$472	$475	$142
Contributions in relation to the contractually required contributions	472	475	142
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$1,022	$974	$986
Contributions as a percentage of covered payroll	46%	49%	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	10 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Inflation	3.00%
Salary increases	4.00% to 11.30%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	$77,448	$68,892	$66,384
Plan fiduciary net position as a percentage of the total pension liability	75%	77%	77%

Firefighters' Unified Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$14,042	$13,635	$13,573
Contributions in relation to the contractually required contributions	14,042	13,635	13,573
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	$10,599	$10,504	$5,089
Plan fiduciary net position as a percentage of the total pension liability	76%	76%	87%

Volunteer Firefighters' Compensation Act
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$2,054	$2,024	$1,913
Contributions in relation to the contractually required contributions	2,054	2,024	1,913
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Volunteer Firefighters' Compensation Act
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	$57,016	$56,230	$72,168
Employer's covered payroll	$28,915	$31,252	$32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	197%	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

Teachers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$17,396	$16,946	$16,234
Contributions in relation to the contractually required contributions	17,396	16,946	16,234
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$26,944	$28,915	$31,252
Contributions as a percentage of covered payroll	65%	58%	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

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

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	$707,527	$647,092	$596,724
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

Teachers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$43,028	$42,400	$42,806
Contributions in relation to the contractually required contributions	43,028	42,400	42,806
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a $25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of 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 State or any of its component units.

In accordance with GASB Statement No. 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
			State Agent Multiple Employer Plan			
1/1/2011	$ -	$337,274	$337,274	0.00%	$521,881	64.63%
1/1/2013	$ -	$366,739	$366,739	0.00%	$616,158	59.52%
1/1/2015	$ -	$347,935	$347,935	0.00%	$645,888	53.87%
			MUS Agent Multiple Employer Plan			
7/1/2011	$ -	$191,017	$191,017	0.00%	$371,802	51.38%
7/1/2013	$ -	$114,498	$114,498	0.00%	$400,017	28.62%
7/1/2015	$ -	$110,494	$110,494	0.00%	$416,565	26.53%

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

State of Montana Hail Insurance Program
Claims Development Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1. **Premiums and investment revenue**										
Earned	$5,918	$7,446	$8,309	$ 8,029	$7,101	$7,034	$6,710	$6,866	$6,846	$7,718
Ceded	4,771	6,346	2,049	-	-	-	-	-	-	-
Net earned	$1,147	$1,100	$6,260	$ 8,029	$7,101	$7,034	$6,710	$6,866	$6,846	$7,718
2. **Unallocated expenses including overhead**	$ 455	$ 424	$1,124	$ 1,033	$3,562	$2,308	$1,545	$2,637	$3,593	$1,485
3. **Estimated losses and expenses end of accident year**	$ 819	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435
4. **Net paid (cumulative) as of:**										
End of policy year	$ 817	$ 189	$6,643	$13,285	$1,881	$3,857	$6,144	$3,723	$2,248	$1,960
One year later			-	-	-	-	-	-	-	-
Two years later				-	-	-	-	-	-	-
Three years later					-	-	-	-	-	-
Four years later						-	-	-	-	-
Five years later							-	-	-	-
Six years later								-	-	-
Seven years later									-	-
Eight years later										-
Nine years later										
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 819	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435
One year later			-	-	-	-	-	-	-	-
Two years later				-	-	-	-	-	-	-
Three years later					-	-	-	-	-	-
Four years later						-	-	-	-	-
Five years later							-	-	-	-
Six years later								-	-	-
Seven years later									-	-
Eight years later										-
Nine years later										
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1. **Premiums and investment Revenue**	$100,693	$84,297	$80,764	$79,257	$76,505	$75,911	$73,078	$62,851	$59,573	$62,497
2. **Unallocated expenses including overhead**	$ 5,196	$ 5,129	$ 5,198	$ 4,787	$ 3,938	$ 4,063	$ 4,663	$ 3,629	$ 3,123	$ 2,904
3. **Estimated losses and expenses end of accident year**	$ 85,802	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474
4. **Net paid (cumulative) as of:**										
End of policy year	$ 68,432	$68,968	$72,065	$57,257	$56,383	$51,640	$51,606	$52,860	$48,459	$44,117
One year later		79,441	82,602	63,914	63,200	58,286	58,713	62,116	55,438	51,143
Two years later			82,920	63,915	63,236	58,316	58,756	62,148	55,494	51,199
Three years later				63,915	63,236	58,324	58,756	62,166	55,495	51,212
Four years later					63,236	58,324	58,756	62,167	55,495	51,213
Five years later						58,324	58,756	62,168	55,495	51,213
Six years later							58,756	62,168	55,495	51,213
Seven years later								62,168	55,495	51,213
Eight years later									55,495	51,213
Nine years later										51,213
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 85,802	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474
One year later		89,418	71,718	69,106	63,446	63,941	67,006	60,208	55,319	53,660
Two years later			82,921	63,915	63,236	58,316	58,756	62,148	55,494	51,199
Three years later				63,915	63,236	58,324	58,756	62,166	55,495	51,212
Four years later					63,236	58,324	58,756	62,167	55,495	51,213
Five years later						58,324	58,756	62,168	55,495	51,213
Six years later							58,756	62,168	55,495	51,213
Seven years later								62,168	55,495	51,213
Eight years later									55,495	51,213
Nine years later										51,213
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ 2,185	($ 4,432)	($ 7,962)	($ 6,089)	($ 6,008)	($ 6,163)	($ 3,407)	($ 5,433)	($ 4,261)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.003	State Commissions		$233,501
94.006	AmeriCorps	$3,231,497	$3,501,613
94.009	Training and Technical Assistance		$66,018
94.013	Volunteers in Service to America		$601,605
		TOTAL	**$4,402,737**
		CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	**$4,402,737**
DEPARTMENT OF AGRICULTURE			
10.001	Agricultural Research_Basic and Applied Research		
	South Dakota State University 3TG612		$713
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$45,000	$1,067,991
10.093	Voluntary Public Access and Habitat Incentive Program		$72,570
10.162	Inspection Grading and Standardization		$22,767
10.163	Market Protection and Promotion		$156,347
10.170	Specialty Crop Block Grant Program - Farm Bill	$370,549	$1,064,553
10.227	1994 Institutions Research Program		
	Fort Belknap College 2002-38424-12433		$360
10.310	Agriculture and Food Research Initiative (AFRI)	$36,241	$73,508
10.433	Rural Housing Preservation Grants		$43,822
10.435	State Mediation Grants		$14,939
10.460	Risk Management Education Partnerships		$74,094
10.464	Socially Disadvantaged Farmers and Ranchers Policy Research Center		
	Fort Peck Community College VINCE SMITH		$12,697
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		$828,155
10.500	Cooperative Extension Service	$24,249	$3,160,970
	Kansas State University S17157		$5,545
	Kansas State University S16129		$4,119
	Kansas State University S17115		$21,050
	Kansas State University S16083		$929
	University of Missouri C00051968-6		$3,584
10.547	Professional Standards for School Nutrition Employees		$3,604
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$4,473,173	$14,979,332
10.558	Child and Adult Care Food Program	$672,134	$11,838,556
10.560	State Administrative Expenses for Child Nutrition		$636,753

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
10.567	Food Distribution Program on Indian Reservations	$1,705,046	$5,655,243
10.572	WIC Farmers' Market Nutrition Program (FMNP)	$650	$48,561
10.574	Team Nutrition Grants		$382,014
10.575	Farm to School Grant Program		$18,610
10.576	Senior Farmers Market Nutrition Program	$87,190	$92,242
10.578	WIC Grants To States (WGS)	$303,976	$1,060,150
10.579	Child Nutrition Discretionary Grants Limited Availability	$60,926	$973,315
10.582	Fresh Fruit and Vegetable Program	$1,814,026	$1,894,136
10.601	Market Access Program		
	United States Livestock Genetics Export MT DOA 2017		$33,999
	Western United States Agricultural Trade Association MT 2017		$6,426
10.652	Forestry Research	$30,365	$624,981
10.664	Cooperative Forestry Assistance	$2,330,608	$4,569,039
10.669	Cooperative Landscape Conservation		$2,298
10.674	Wood Utilization Assistance	$5,750	$12,671
10.676	Forest Legacy Program		$6,511,925
10.680	Forest Health Protection	$108,536	$156,362
10.683	National Fish and Wildlife Foundation		
	National Fish and Wildlife Foundation 49786		$27,527
10.699	Partnership Agreements		$90,380
10.902	Soil and Water Conservation	$14,465	$133,838
10.912	Environmental Quality Incentives Program		
	Adams Ranch 2014 MOU		$77,796
	Mark Machler 2014 MOU		$290,456
10.UXX	Miscellaneous Non-Major Grants		$343,894
		TOTAL	**$57,092,821**
Child Nutrition Cluster			
10.553	School Breakfast Program	$9,753,320	$9,843,752
10.555	National School Lunch Program	$32,257,838	$32,457,252
10.556	Special Milk Program for Children	$13,010	$13,010
10.559	Summer Food Service Program for Children	$2,021,651	$2,098,469
		TOTAL	**$44,412,483**
Food Distribution Cluster			
10.565	Commodity Supplemental Food Program		$2,031,185
10.568	Emergency Food Assistance Program (Administrative Costs)	$57,231	$203,892

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
10.569	Emergency Food Assistance Program (Food Commodities)		$1,585,671
		TOTAL	**$3,820,748**
Forest Service Schools and Roads Cluster			
10.665	Schools and Roads - Grants to States	$2,282,242	$2,282,242
		TOTAL	**$2,282,242**
SNAP Cluster			
10.551	Supplemental Nutrition Assistance Program		$171,144,221
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	$168,338	$12,281,473
		TOTAL	**$183,425,694**
		DEPARTMENT OF AGRICULTURE TOTAL	**$291,033,988**
DEPARTMENT OF COMMERCE			
11.303	Economic Development_Technical Assistance		$2,374
11.550	Public Telecommunications Facilities Planning and Construction		
	Corporation for Public Broadcasting 1492		$247,241
11.611	Manufacturing Extension Partnership		$556,399
11.620	Science, Technology, Business and/or Education Outreach		$104,064
		TOTAL	**$910,078**
Economic Development Cluster			
11.307	Economic Adjustment Assistance		$382,846
11.307	Economic Adjustment Assistance		$2,794,264
		TOTAL	**$3,177,110**
		DEPARTMENT OF COMMERCE TOTAL	**$4,087,188**
DEPARTMENT OF DEFENSE			
12.002	Procurement Technical Assistance For Business Firms		
	Big Sky Economic Development Authority SP4800-15-2-1522 OPTION YEAR		$1,132
	Big Sky Economic Development Corporation SP4800-16-2-1622		$61,176
	Big Sky Economic Development Corporation SP4800-15-2-1522		$5,793
12.110	Planning Assistance to States		$399,642
12.112	Payments to States in Lieu of Real Estate Taxes	$6,658	$6,658
12.127	Southern and Eastern KY Environmental Infrastructure (Section 531) - ARRA		$28,709
12.357	ROTC Language and Culture Training Grants		
	Institute of International Education 2603-UMT-5-GO-017-P03		$73,750
	Institute of International Education 2603-UMT-5-GO-051-POS		$200,402

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

			Amount to Subrecipients	Expenditures
12.400	Military Construction, National Guard			$14,838,461
12.401	National Guard Military Operations and Maintenance (O&M) Projects			$21,395,259
12.404	National Guard ChalleNGe Program			$4,050,075
12.579	Language Training Center			
	Institute of International Education	2603-UMT-5-LTC-LT4-PO2		($2,583)
	Institute of International Education	2013-LTC-MONTANA		$1,299
	Institute of International Education	2603-UMT-5-LTC-LT5-PO4		$1,109,000
	Institute of International Education	2603-UMT-5-LTC-052-PO6		$1,468,204
	Institute of International Education	2603-UMT-LTC-LT4-PO2		$244,789
12.620	Troops to Teachers Grant Program			$222,354
12.900	Language Grant Program			$37,447
12.901	Mathematical Sciences Grants Program			
	National Security Agency	H98230-17-1-0299		$1,119
12.UXX	Miscellaneous Non-Major Grants			$303,448
			TOTAL	**$44,446,134**
			DEPARTMENT OF DEFENSE TOTAL	**$44,446,134**
DEPARTMENT OF EDUCATION				
84.002	Adult Education - Basic Grants to States		$958,508	$1,226,993
84.010	Title I Grants to Local Educational Agencies		$42,739,494	$44,106,800
84.011	Migrant Education_State Grant Program		$867,499	$979,938
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth			$123,437
84.031	Higher Education_Institutional Aid			$448,737
84.032	Federal Family Education Loans			$72,030,287
84.048	Career and Technical Education -- Basic Grants to States		$2,941,089	$4,949,053
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States		$31,138	$12,580,107
84.144	Migrant Education_Coordination Program			$45,957
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind			$197,598
84.181	Special Education-Grants for Infants and Families			$2,277,322
84.184	Safe and Drug-Free Schools and Communities_National Programs			$738,189
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities			$260,258
84.196	Education for Homeless Children and Youth		$120,417	$180,045
84.287	Twenty-First Century Community Learning Centers		$5,431,073	$5,724,109
84.299	Indian Education -- Special Programs for Indian Children			
	Blackfeet Community College	S299B160026		$81,905

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
84.323	Special Education - State Personnel Development	$40,639	$837,228
84.324	Research in Special Education		
	University of California, Davis 201500425-03		$8,097
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		$180,616
	University of Florida H325A120003		$25,989
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		$130,137
	California State University, Northridge F-11-2963-3-UMT		$328,417
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)		$19,297
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$1,817,813	$3,677,621
84.335	Child Care Access Means Parents in School		$37,607
84.358	Rural Education	$494,998	$517,769
84.365	English Language Acquisition State Grants	$325,527	$674,783
84.366	Mathematics and Science Partnerships	$394,238	$558,218
	Bozeman Public Schools 16 0350 1513 MSP		$20,210
84.367	Improving Teacher Quality State Grants	$11,193,040	$11,677,331
	National Writing Project U367D150004		$11,780
	University of California National Writing Project 93-MT01-SEED2012		($550)
	University of California National Writing Project 93-MT01-SEED2017-ILI		$15,669
84.369	Grants for State Assessments and Related Activities		$3,893,087
84.371	Striving Readers	$1,924,569	$1,951,847
84.372	Statewide Longitudinal Data Systems		$575,628
84.377	School Improvement Grants		$1,053,707
84.418	Promoting Readiness of Minors in Supplemental Security Income		
	State of Utah Contract REF# 146214		$431,859
	University of Utah 10033712		$81,818
84.419	Preschool Development Grants	$7,518,597	$9,763,020
84.998	American Printing House for the Blind		$6,887
84.UXX	Miscellaneous Non-Major Grants		$107,814
		TOTAL	**$182,536,621**
Special Education Cluster (IDEA)			
84.027	Special Education_Grants to States	$33,578,912	$37,562,216
	Missoula Area Education Cooperative IDEA #9698		$75,745

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
84.173	Special Education_Preschool Grants	$1,178,391	$1,181,367
		TOTAL	**$38,819,328**
Student Financial Assistance Cluster			
84.007	Federal Supplemental Educational Opportunity Grants		$1,350,227
84.033	Federal Work-Study Program		$2,266,664
84.038	Federal Perkins Loan Program - Federal Capital Contributions		$36,718,849
84.063	Federal Pell Grant Program		$46,861,495
84.268	Federal Direct Student Loans		$178,026,666
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		$5,122
		TOTAL	**$265,229,023**
TRIO Cluster			
84.042	TRIO_Student Support Services		$1,911,802
84.044	TRIO_Talent Search		$1,087,412
84.047	TRIO_Upward Bound		$1,301,124
84.066	TRIO_Educational Opportunity Centers		$517,453
84.217	TRIO_McNair Post-Baccalaureate Achievement		$205,290
		TOTAL	**$5,023,081**
		DEPARTMENT OF EDUCATION TOTAL	**$491,608,053**
DEPARTMENT OF ENERGY			
81.041	State Energy Program		$335,245
81.042	Weatherization Assistance for Low-Income Persons		$2,776,037
81.086	Conservation Research and Development		$367,128
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance		$34,972
	Washington State University 121240_G003325		$37,800
81.119	State Energy Program Special Projects		$4,642
81.138	State Heating Oil and Propane Program		$12,515
81.UXX	Miscellaneous Non-Major Grants		($2,169)
	National Fish and Wildlife Foundation 0201.17.053086		$41,261
		TOTAL	**$3,607,431**
		DEPARTMENT OF ENERGY TOTAL	**$3,607,431**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	$14,956	$14,956
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	$63,598	$63,598
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	$78,518	$78,518
93.052	National Family Caregiver Support, Title III, Part E	$707,784	$762,136
93.058	Food and Drug Administration_Research	$180,205	$180,889
93.070	Environmental Public Health and Emergency Response	$114,738	$491,543
93.071	Medicare Enrollment Assistance Program	$164,080	$170,297
93.072	Lifespan Respite Care Program	$54,806	$77,219
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	$2,981,487	$5,583,375
93.090	Guardianship Assistance		$1,313,455
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	$189,650	$279,455
93.103	Food and Drug Administration_Research		$91,888
93.110	Maternal and Child Health Federal Consolidated Programs		$181,371
	Utah State University PO338876-E REV 2		$2,960
	Utah State University P0298694		$1,203
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		$192,044
93.127	Emergency Medical Services for Children	$66,426	$358,457
93.129	Technical and Non-Financial Assistance to Health Centers		
	Montana Primary Care Association MPCA PRIMARY CARE WORKFORCE PR		$31,579
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	$37,090	$202,113
93.136	Injury Prevention and Control Research and State and Community Based Programs		$187,213
93.150	Projects for Assistance in Transition from Homelessness (PATH)	$255,630	$265,602
93.155	Rural Health Research Centers		
	National Rural Health Association 2017 SRHA TECHNICAL ASSISTANCE		$3,839
	National Rural Health Association 2015 SRHA TECH ASSIST AWARD		$4,737
93.157	Centers of Excellence		$482,229
93.165	Grants to States for Loan Repayment Program	$140,049	$140,049
93.184	Disabilities Prevention	$248,110	$299,118
93.217	Family Planning_Services	$1,722,514	$2,128,645
93.236	Grants to States to Support Oral Health Workforce Activities	$315,634	$435,202

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
93.240	State Capacity Building		$4,132
93.241	State Rural Hospital Flexibility Program	$566,224	$726,750
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	$3,716,857	$6,762,854
93.251	Universal Newborn Hearing Screening		$234,279
93.262	Occupational Safety and Health Program	$3,531	$53,797
	Utah State University 200644-00001-291		$20,556
93.268	Immunization Cooperative Agreements	$338,679	$12,174,834
93.270	Adult Viral Hepatitis Prevention and Control		$37,073
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance		$16,671
93.300	National Center for Health Workforce Analysis		$2,278
93.305	National State Based Tobacco Control Programs		$879,195
93.307	Minority Health and Health Disparities Research		$9,799,388
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program		$153,825
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		$1,327,743
93.324	State Health Insurance Assistance Program	$430,949	$618,377
93.336	Behavioral Risk Factor Surveillance System		$275,226
93.358	Advanced Education Nursing Traineeships		$3,665
93.369	ACL Independent Living State Grants		$276,253
93.448	Food Safety and Security Monitoring Project		$114,656
93.449	Ruminant Feed Ban Support Project		$23,254
93.464	ACL Assistive Technology	$60,000	$573,560
93.500	Pregnancy Assistance Fund Program	$867,895	$1,094,164
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	$740,822	$851,996
	TEAM for West Virginia Children		$62,469
93.516	Affordable Care Act (ACA) Public Health Training Centers Program		
	University of Colorado 1000587203		$59,924
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	$50,502	$51,419
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF		$795,210
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project		$13,014
93.556	Promoting Safe and Stable Families	$439,857	$651,119
93.563	Child Support Enforcement		$11,334,694
93.566	Refugee and Entrant Assistance_State Administered Programs	$144,743	$171,253
93.568	Low-Income Home Energy Assistance	$1,022,444	$18,333,694

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
93.569	Community Services Block Grant		$3,532,982
93.586	State Court Improvement Program	$10,900	$217,554
93.590	Community-Based Child Abuse Prevention Grants	$125,722	$204,213
93.597	Grants to States for Access and Visitation Programs	$100,420	$101,728
93.599	Chafee Education and Training Vouchers Program (ETV)	$208,684	$210,488
93.600	Head Start		$133,380
93.603	Adoption and Legal Guardianship Incentive Payments		$80,683
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance		$113
93.630	Developmental Disabilities Basic Support and Advocacy Grants	$687,495	$687,495
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service		$580,184
93.643	Children's Justice Grants to States		$98,208
93.645	Stephanie Tubbs Jones Child Welfare Services Program		$721,319
93.652	Adoption Opportunities	$35,500	$220,773
93.658	Foster Care_Title IV-E	$3,872,627	$18,362,700
93.659	Adoption Assistance		$9,065,233
93.667	Social Services Block Grant		$7,022,359
93.669	Child Abuse and Neglect State Grants		$158,203
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	$812,482	$818,047
93.674	Chafee Foster Care Independence Program	$742,616	$786,611
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)		$319,439
93.747	Elder Abuse Prevention Interventions Program		$4,535
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	$895,518	$2,612,726
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)		$1,240,278
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	$338,794	$891,441
93.767	Children's Health Insurance Program		$100,240,658
93.791	Money Follows the Person Rebalancing Demonstration		$2,245,202
93.800	Organized Approaches to Increase Colorectal Cancer Screening	$529,447	$670,308
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).		$400,520
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	$11,000	$618,212
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	$1,609,351	$1,905,104
93.884	Grants for Primary Care Training and Enhancement	$60,374	$364,494
	University of Pikeville 16-001		$52,529

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients		Expenditures
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	$21,588		$186,198
	Barrett Hospital 1DO6RH27763-01-00			$18,708
	Madison Valley Medical Center 14-01			$2
93.913	Grants to States for Operation of Offices of Rural Health			($69)
93.917	HIV Care Formula Grants	$90,855		$1,806,248
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			$75,354
93.940	HIV Prevention Activities_Health Department Based	$464,846		$780,464
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			$138,378
	Association of University Centers on Disabilities AWARD LETTER			$500
	Association of University Centers on Disabilities AWARD LETTER			$4,557
93.945	Assistance Programs for Chronic Disease Prevention and Control	$699,530		$2,691,021
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			$198,347
93.958	Block Grants for Community Mental Health Services	$714,476		$1,151,936
93.959	Block Grants for Prevention and Treatment of Substance Abuse	$1,684,514		$5,148,305
93.969	PPHF Geriatric Education Centers	$171,937		$785,113
93.970	Health Professions Recruitment Program for Indians			$151,717
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants			$242,260
93.994	Maternal and Child Health Services Block Grant to the States	$1,262,513		$2,564,149
			TOTAL	**$252,031,919**
Aging Cluster				
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	$1,493,912		$1,848,380
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	$2,868,076		$3,314,795
93.053	Nutrition Services Incentive Program	$829,102		$1,281,611
			TOTAL	**$6,444,786**
CCDF Cluster				
93.575	Child Care and Development Block Grant	$7,270,225		$16,605,640
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			$8,820,756
			TOTAL	**$25,426,396**
Medicaid Cluster				
93.775	State Medicaid Fraud Control Units			$570,281
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare			$2,629,435

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
93.778	Medical Assistance Program	$5,127,336	$1,412,833,007
		TOTAL	**$1,416,032,723**
Student Financial Assistance Cluster			
93.264	Nurse Faculty Loan Program (NFLP)		$21,729
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students		$199,042
93.364	Nursing Student Loans		$2,709,657
		TOTAL	**$2,930,428**
TANF Cluster			
93.558	Temporary Assistance for Needy Families	$3,281,235	$35,901,626
		TOTAL	**$35,901,626**
		DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$1,738,767,878**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	$6,171,933	$6,581,457
14.231	Emergency Solutions Grant Program		$690,238
14.235	Supportive Housing Program		$7,972
14.238	Shelter Plus Care		$241,923
14.239	Home Investment Partnerships Program	$7,093,158	$7,348,485
14.241	Housing Opportunities for Persons with AIDS		$861,900
14.251	Economic Development Initiative - Special Project		$279,248
14.326	Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities		$105,962
14.877	Public Housing Family Self-Sufficiency Under Resident Opportunity and Supportive Services		
	Missoula Housing Authority 2012-FSSR-MT033-15191		$11,501
		TOTAL	**$16,128,686**
Housing Voucher Cluster			
14.871	Section 8 Housing Choice Vouchers		$23,592,132
		TOTAL	**$23,592,132**
Section 8 Project-Based Cluster			
14.195	Section 8 Housing Assistance Payments Program		$21,112,537
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation		$1,829,615
		TOTAL	**$22,942,152**
		DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$62,662,970**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	$279,918	$295,091
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	$3,819	$48,105
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	$315,174	$377,756
16.550	State Justice Statistics Program for Statistical Analysis Centers		$235,345
16.554	National Criminal History Improvement Program (NCHIP)		$1,603,626
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		
	Bozeman Public Schools 2014-MU-0017 (UM #1)		$247,320
16.575	Crime Victim Assistance	$3,296,181	$3,520,699
16.576	Crime Victim Compensation		$309,060
16.582	Crime Victim Assistance/Discretionary Grants	$151,390	$598,704
16.585	Drug Court Discretionary Grant Program		$415,885
16.588	Violence Against Women Formula Grants	$785,810	$994,900
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program		
	Missoula County 2015-WR-AX-0013		$11,922
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		$206,556
16.593	Residential Substance Abuse Treatment for State Prisoners	$45,572	$53,315
16.606	State Criminal Alien Assistance Program		$32,845
16.726	Juvenile Mentoring Program		
	National 4-H Council 4-H UNDER OJJDP 2016-JU-FX-002		$38,214
	National 4-H Council 4-H UNDER OJJDP 2015-JU-FX-001		$103,384
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities		$141,595
16.738	Edward Byrne Memorial Justice Assistance Grant Program	$677,056	$920,552
16.741	DNA Backlog Reduction Program		$156,852
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		$19,307
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	$20,955	$20,955
16.751	Edward Byrne Memorial Competitive Grant Program		$44,191
16.754	Harold Rogers Prescription Drug Monitoring Program		$217,920
16.812	Second Chance Act Reentry Initiative		$18,518
16.818	Children Exposed to Violence	$27,118	$135,027
16.833	National Sexual Assault Kit Initiative		$59,345
		TOTAL	**$10,826,989**
		DEPARTMENT OF JUSTICE TOTAL	**$10,826,989**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
DEPARTMENT OF LABOR			
17.002	Labor Force Statistics		$660,772
17.005	Compensation and Working Conditions		$90,030
17.201	Registered Apprenticeship		$82,713
17.225	Unemployment Insurance		$127,705,671
17.235	Senior Community Service Employment Program	$498,428	$520,130
17.245	Trade Adjustment Assistance		$134,357
17.268	H-1B Job Training Grants		
	Northern Wyoming Community College HG-30137-17-60-A-56		$887
17.271	Work Opportunity Tax Credit Program (WOTC)		$66,000
17.273	Temporary Labor Certification for Foreign Workers		$243,394
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants		$1,039,449
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	$614,474	$8,331,857
17.285	Apprenticeship USA Grants		$216,427
17.504	Consultation Agreements		$342,607
17.600	Mine Health and Safety Grants		$205,740
		TOTAL	**$139,640,034**
Employment Service Cluster			
17.207	Employment Service/Wagner-Peyser Funded Activities		$5,186,978
17.801	Disabled Veterans' Outreach Program (DVOP)		$576,304
17.804	Local Veterans' Employment Representative Program		$21,816
		TOTAL	**$5,785,098**
WIA/WIOA Cluster			
17.258	WIA/WIOA Adult Program	$420,371	$2,026,753
17.259	WIA/WIOA Youth Activities	$1,506,542	$2,245,809
17.278	WIA/WIOA Dislocated Worker Formula Grants	$1,088	$1,525,874
		TOTAL	**$5,798,436**
		DEPARTMENT OF LABOR TOTAL	**$151,223,568**
DEPARTMENT OF STATE			
19.009	Academic Exchange Programs - Undergraduate Programs		$471,517
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program		
	Institute of International Education IIE0138-MONTANA-1.1.17		$41,271
	Institute of International Education S-ECAGD-16-CA-1014		$92,960
19.040	Public Diplomacy Programs		$16,971

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
19.401	Academic Exchange Programs - Scholars		$94,806
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	$69,441	$750,523
		TOTAL	**$1,468,048**
		DEPARTMENT OF STATE TOTAL	**$1,468,048**
DEPARTMENT OF THE INTERIOR			
15.022	Tribal Self-Governance		
	Chippewa Cree Tribe PSA AGREEMENT		$9,198
15.025	Services to Indian Children, Elderly and Families		$39,164
15.034	Agriculture on Indian Lands		
	Fort Belknap Community Council A10AV00583		$57,696
15.224	Cultural and Paleontological Resources Management		$57,768
15.225	Recreation Resource Management		$20,325
15.230	Invasive and Noxious Plant Management		$7,156
15.231	Fish, Wildlife and Plant Conservation Resource Management		$109,179
	National Fish and Wildlife Foundation 45527		$85,000
15.236	Environmental Quality and Protection Resource Management		$560,722
15.238	Challenge Cost Share		$22,649
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		$2,554,920
15.252	Abandoned Mine Land Reclamation (AMLR) Program		$4,086,989
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination		$476,119
15.514	Reclamation States Emergency Drought Relief		$39,989
15.517	Fish and Wildlife Coordination Act		$92,019
15.531	Yakima River Basin Water Enhancement Project (YRBWEP)		$198,914
15.554	Cooperative Watershed Management Program		$32,833
15.608	Fish and Wildlife Management Assistance		$110,498
15.615	Cooperative Endangered Species Conservation Fund		$2,111,553
15.634	State Wildlife Grants	$20,000	$954,720
15.657	Endangered Species Conservation - Recovery Implementation Funds		$108,601
15.663	National Fish and Wildlife Foundation		
	National Fish and Wildlife Foundation 45527		$31,802
15.664	Fish and Wildlife Coordination and Assistance Programs		$24,162
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	$96,113	$141,113
15.808	U.S. Geological Survey_ Research and Data Collection		$2,075
15.904	Historic Preservation Fund Grants-In-Aid	$80,000	$902,546

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
15.916	Outdoor Recreation_Acquisition, Development and Planning	$58,414	$58,414
15.944	Natural Resource Stewardship		$11,919
15.945	Cooperative Research and Training Programs - Resources of the National Park System		$22,800
15.954	National Park Service Conservation, Protection, Outreach, and Education		$19,114
15.981	Water Use and Data Research		$9,481
		TOTAL	**$12,959,438**
Fish and Wildlife Cluster			
15.605	Sport Fish Restoration Program		$10,519,621
15.611	Wildlife Restoration and Basic Hunter Education	$6,656	$21,350,723
		TOTAL	**$31,870,344**
		DEPARTMENT OF THE INTERIOR TOTAL	**$44,829,782**
DEPARTMENT OF TRANSPORTATION			
20.106	Airport Improvement Program		$5,870,832
20.200	Highway Research and Development Program	$40,130	$149,828
20.218	National Motor Carrier Safety		$1,776,391
20.232	Commercial Driver's License Program Improvement Grant		$26,476
20.233	Border Enforcement Grants		$692,236
20.237	Commercial Vehicle Information Systems and Networks		$152,412
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	$368,658	$518,371
20.509	Formula Grants for Rural Areas	$8,852,787	$9,958,636
20.515	State Planning and Research	($4,360)	($4,360)
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	$302,167	$1,374,228
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		$75,399
20.700	Pipeline Safety Program State Base Grant		$147,526
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	$55,719	$124,934
		TOTAL	**$20,862,909**
Federal Transit Cluster			
20.526	Bus and Bus Facilities Formula Program	$1,684,441	$1,684,441
		TOTAL	**$1,684,441**
Highway Planning and Construction Cluster			
20.205	Highway Planning and Construction	$8,871,994	$395,644,630
20.219	Recreational Trails Program	$1,103,802	$1,220,161
		TOTAL	**$396,864,791**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
Highway Safety Cluster			
20.600	State and Community Highway Safety	$346,834	$1,939,829
20.616	National Priority Safety Programs	$175,479	$773,290
		TOTAL	**$2,713,119**
Transit Services Programs Cluster			
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	$212,680	$305,890
20.521	New Freedom Program	$9,929	$10,900
		TOTAL	**$316,790**
		DEPARTMENT OF TRANSPORTATION TOTAL	**$422,442,050**
DEPARTMENT OF TREASURY			
21.UXX	Miscellaneous Non-Major Grants		$1,643
		TOTAL	**$1,643**
		DEPARTMENT OF TREASURY TOTAL	**$1,643**
DEPARTMENT OF VETERANS AFFAIRS			
64.014	Veterans State Domiciliary Care		$164,386
64.015	Veterans State Nursing Home Care		$6,686,320
64.124	All-Volunteer Force Educational Assistance		$85,133
		TOTAL	**$6,935,839**
		DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$6,935,839**
ENVIRONMENTAL PROTECTION AGENCY			
66.040	State Clean Diesel Grant Program		$194,251
66.202	Congressionally Mandated Projects		$554
66.204	Multipurpose Grants to States and Tribes		$115,197
66.419	Water Pollution Control State, Interstate, and Tribal Program Support		$5,848
66.433	State Underground Water Source Protection		$105,676
66.454	Water Quality Management Planning		$88,683
66.460	Nonpoint Source Implementation Grants		$1,195,835
	Soil and Water Conservation Districts of Montana C9-99833615		$326
66.461	Regional Wetland Program Development Grants		$125,675
66.514	Science To Achieve Results (STAR) Fellowship Program		$11,925
66.605	Performance Partnership Grants		$6,800,700
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		$211,141

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
66.708	Pollution Prevention Grants Program		$227,077
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		$2,015,584
66.804	Underground Storage Tank Prevention, Detection and Compliance Program		$394,946
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program		$715,037
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements		$176,626
66.817	State and Tribal Response Program Grants		$611,042
66.951	Environmental Education Grants	$30,498	$181,985
		TOTAL	**$13,178,108**
Clean Water State Revolving Fund Cluster			
66.458	Capitalization Grants for Clean Water State Revolving Funds		$275,145,766
		TOTAL	**$275,145,766**
Drinking Water State Revolving Fund Cluster			
66.468	Capitalization Grants for Drinking Water State Revolving Funds		$138,876,660
		TOTAL	**$138,876,660**
		ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$427,200,534**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.001	Employment Discrimination_Title VII of the Civil Rights Act of 1964		$205,461
		TOTAL	**$205,461**
		EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	**$205,461**
EXECUTIVE OFFICE OF THE PRESIDENT			
95.001	High Intensity Drug Trafficking Areas Program		$14,353
		TOTAL	**$14,353**
		EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	**$14,353**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		$154,063
39.011	Election Reform Payments		$88,452
		TOTAL	**$242,515**
		GENERAL SERVICES ADMINISTRATION TOTAL	**$242,515**
DEPARTMENT OF HOMELAND SECURITY			
97.007	Homeland Security Preparedness Technical Assistance Program		$7,561

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
97.012	Boating Safety Financial Assistance		$529,170
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		$247,027
97.029	Flood Mitigation Assistance	$21,500	$164,273
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	$9,320,366	$9,610,576
97.039	Hazard Mitigation Grant	$2,253,589	$2,255,547
97.041	National Dam Safety Program		$222,743
97.042	Emergency Management Performance Grants	$1,869,573	$2,950,685
97.043	State Fire Training Systems Grants		$7,560
97.044	Assistance to Firefighters Grant		$123,691
97.045	Cooperating Technical Partners		$1,248,129
97.047	Pre-Disaster Mitigation	$363,141	$586,887
97.067	Homeland Security Grant Program	$3,190,554	$4,152,634
	Kalispell Police Department 14-SPWSPW-09-003		$7,324
		TOTAL	**$22,113,807**
		DEPARTMENT OF HOMELAND SECURITY TOTAL	**$22,113,807**
LIBRARY OF CONGRESS			
42.UXX	Miscellaneous Non-Major Grants		$11,020
		TOTAL	**$11,020**
		LIBRARY OF CONGRESS TOTAL	**$11,020**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Science		$80,425
	University of Washington UWSC8987		$143,762
43.008	Education		
	Sciencenter 2016-01-UMT/NNX16AM22G		$1,977
		TOTAL	**$226,164**
		NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$226,164**
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION			
89.003	National Historical Publications and Records Grants		$10,803
		TOTAL	**$10,803**
		NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	**$10,803**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.024	Promotion of the Arts_Grants to Organizations and Individuals		$37,828
	Arts Midwest 00018001		$24,711
45.025	Promotion of the Arts_Partnership Agreements	$392,105	$784,970
45.129	Promotion of the Humanities_Federal/State Partnership		
	Humanities Montana 17R025		$517
	Humanities Montana 17R030		$2,584
	Humanities Montana 16R026		$3,439
	Humanities Montana 16R011		($19)
	Humanities Montana 14R022		$5,553
45.149	Promotion of the Humanities_Division of Preservation and Access		$15,460
	Humanities Montana 16R045		$3,273
	Idaho State Historical Society MOU/PJ-50127-13		$183,855
45.160	Promotion of the Humanities_Fellowships and Stipends		$3,245
45.301	Museums for America		$43,464
45.310	Grants to States		$1,033,163
45.312	National Leadership Grants	$59,656	$251,062
45.313	Laura Bush 21st Century Librarian Program		$75,867
45.400	Peace Corps' Global Health and PEPFAR Initiative Program		$9,628
		TOTAL	**$2,478,600**
		NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$2,478,600**
NATIONAL SCIENCE FOUNDATION			
47.076	Education and Human Resources		$322,827
	Salish Kootenai College 1102362		$3,437
		TOTAL	**$326,264**
		NATIONAL SCIENCE FOUNDATION TOTAL	**$326,264**
SMALL BUSINESS ADMINISTRATION			
59.037	Small Business Development Centers		$618,139
59.058	Federal and State Technology Partnership Program		$36,915
59.061	State Trade and Export Promotion Pilot Grant Program		$377,996
		TOTAL	**$1,033,050**
		SMALL BUSINESS ADMINISTRATION TOTAL	**$1,033,050**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

		Amount to Subrecipients	Expenditures
SOCIAL SECURITY ADMINISTRATION			
96.008	Social Security - Work Incentives Planning and Assistance Program	$60,273	$192,264
		TOTAL	**$192,264**
Disability Insurance/SSI Cluster			
96.001	Social Security_Disability Insurance		$6,400,071
		TOTAL	**$6,400,071**
		SOCIAL SECURITY ADMINISTRATION TOTAL	**$6,592,335**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF AGRICULTURE		
Agricultural Research Service		
10.001 Agricultural Research_Basic and Applied Research		$29,665
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		$212,946
Pennsylvania State University 5363-MSU-USDA-0169		$8,206
Economic Research Service		
10.250 Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		$16,422
Cornell Center for Behavioral Economics in Child Nutrition 77867-10660		$611
10.253 Consumer Data and Nutrition Research		
Cornell Center for Behavioral Economics in Child Nutrition 62140-10296		$94
Farm Service Agency		
10.406 Farm Operating Loans		$77,226
Foreign Agricultural Service		
10.610 Export Guarantee Program		$79,155
10.960 Technical Agricultural Assistance		
Rutgers, The State University of New Jersey SA#5566; PO 566945		$45,535
Forest Service		
10.652 Forestry Research	$49,640	$4,182,116
National Wilderness Stewardship Alliance WI2017		$2,199
National Wilderness Stewardship Alliance WI1		$8,355
River Management Society 2017RMS-WSR50		$19,627
10.678 Forest Stewardship Program		
Pennsylvania State University 5518-UM-USDA-004		$19,832
10.680 Forest Health Protection	$10,900	$230,647
Salish Kootenai College 2015-38424-24031		$23,232
10.684 International Forestry Programs		$278,217
Miscellaneous		
10.RD Miscellaneous Research and Development		$340,192
University of Wisconsin PO# 0000000666		$54,989
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		
North Dakota State University FAR0025837		$7,561

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
	University of Idaho BJKP36-SB-001		$456
	University of Washington BPO-9517		$12,495
10.202	Cooperative Forestry Research		$685,965
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act		$2,847,181
10.215	Sustainable Agriculture Research and Education		
	University of Idaho BJKP85-SB-001/PO005053		$15,544
	Utah State University 140867054-135		$20,777
	Utah State University 140867038-346		$62,018
	Utah State University 130676003		($4)
	Utah State University 130676003-66	$8,175	$59,468
	Utah State University 140867026-233	$4,366	$54,498
	Utah State University 150893-00001-174		$36,884
	Utah State University 140867-00001-351		$24,998
	Utah State University 150893-00001-207		$23,864
	Utah State University 130676025-277		$11,867
	Utah State University 120833011-238		$11,020
	Utah State University 200592-395		$9,253
	Utah State University SUBAWARD 120833024-127		$8,475
	Utah State University 200592-00001-311		$7,822
	Utah State University 140867034-367		$7,182
	Utah State University 110892006		$81
	Utah State University 150893-00001-270		$13,953
	Utah State University 200592-390		$3,839
	Western Region SARE Program 120833025		$15,974
10.227	1994 Institutions Research Program		
	Salish Kootenai College 24-171-MSU-91		$2,553
	Salish Kootenai College SAA-16-MSU-001		$49,831
	Salish Kootenai College 2016-38424-2558		$18,653
	Salish Kootenai College 2016-38424-22668		$31,167
10.303	Integrated Programs	$9,125	$276,372
10.304	Homeland Security_Agricultural		
	Kansas State University S17045		$4,775
	Kansas State University S13009		$6,243

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
10.307	Organic Agriculture Research and Extension Initiative	$73,591	$190,086
	National Center for Appropriate Technology BELASCO		$19,173
10.309	Specialty Crop Research Initiative		
	Cornell University 73999-10426		$29,293
10.310	Agriculture and Food Research Initiative (AFRI)	$153,633	$1,049,297
	Colorado State University G-70001-1		$17,174
	Colorado State University G-91600-3		$110,820
	Colorado State University G-91600-2		$209,771
	Kansas State University S15184		$44,540
	North Carolina State University 2015-0097-05		$20,692
	University of California, Davis 201603566-08		$33,737
	University of California, Davis 201015718-18		$111,107
	University of Nebraska-Lincoln 25-6268-0005-004		$200,605
	University of Vermont 29034SUB51751		$45,278
	University of Wyoming 1002178-MSU		$117
	Washington State University 115808 G002983		$44
	Washington State University 115808 G002984		$4,282
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	$6,829	$160,012
	Kansas State University S13098		$17,493
10.329	Crop Protection and Pest Management Competitive Grants Program	$9,749	$218,614
	University of California, Davis SA14-2309-34		$1,566
10.500	Cooperative Extension Service		$581,736
	Utah State University 120834002		$9,124
	Washington State University 108815_G003545		$20,124
Natural Resources Conservation Service			
10.902	Soil and Water Conservation	$1,252	$381,152
	Pheasants Forever, Inc. 68-3A75-16-736		$129,007
10.912	Environmental Quality Incentives Program		$6,822
		DEPARTMENT OF AGRICULTURE TOTAL	**$13,571,697**
DEPARTMENT OF COMMERCE			
Economic Development Administration			
11.307	Economic Adjustment Assistance		$2,007

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
National Institute of Standards and Technology (NIST)		
11.620 Science, Technology, Business and/or Education Outreach		
Stone & Associates, Inc. NIST-MEP-SA-01		$339,657
National Oceanic and Atmospheric Administration (NOAA)		
11.431 Climate and Atmospheric Research		$190,894
11.438 Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program		
Bering Sea Fishermen's Association AC-1609		$29,428
11.440 Environmental Sciences, Applications, Data, and Education		$30,435
National Telecommunications and Information Administration		
11.549 State and Local Implementation Grant Program		$99,663
	DEPARTMENT OF COMMERCE TOTAL	**$692,084**
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development		$8,331
Duke University 12-DARPA-1073		$51,676
North Carolina State University 6016-2896-04		$125,730
Defense Logistics Agency		
12.002 Procurement Technical Assistance For Business Firms		$328,557
Big Sky Economic Development Authority SP4800-16-2-1622		$68,757
Department of the Air Force, Materiel Command		
12.800 Air Force Defense Research Sciences Program	$186,271	$12,222,126
University of Minnesota A001650202		$301
University of Minnesota A005720602		$12,985
Department of the Army, Office of the Chief of Engineers		
12.114 Collaborative Research and Development		$355,163
Department of the Navy, Office of the Chief of Naval Research		
12.300 Basic and Applied Scientific Research		$338,570
Glacigen Materials, Inc.		$386
S2 Corporation S2-5504-15-01UC		$133,352
TPS Associates, Inc. PO MSU-4631/4Y01-01		$39,482
University of Oklahoma 2011-20		$4,776

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
Miscellaneous		
12.RD Miscellaneous Research and Development	$728,170	$4,761,200
Blackmore Sensors and Analytics, Inc. USAF ARZ999		$55,113
Bridger Photonics		$44,441
Leidos PO10169067		$41,769
Northrop Grumman Space Technology 7600020795		$26,968
Northrop Grumman Space Technology 7600020645		$69,290
S2 Corporation S2-14-0006-02		($3)
S2 Corporation S2-17-0003-01		$19,988
S2 Corporation S2-5504-16-01C		$73,907
S2 Corporation S2-1954-16-01		$149,707
Sierra Nevada Corporation PO: S15FNC204		$1,434
Sierra Nevada Corporation S16FNC216		$32,914
Spectral Molecular Imaging AS		$109,671
UES, Inc. S-111-024-001		$19,691
University of Maryland 31236-Z8409102		$7,573
West Point Military Academy		$24,971
Office of the Secretary of Defense		
12.630 Basic, Applied, and Advanced Research in Science and Engineering		
Academy of Applied Science, Inc.		$23,214
U. S. Army Medical Command		
12.420 Military Medical Research and Development	$221,383	$674,716
U.S. Army Materiel Command		
12.431 Basic Scientific Research	$109,981	$3,406,129
	DEPARTMENT OF DEFENSE TOTAL	**$23,232,885**
DEPARTMENT OF EDUCATION		
Institute of Education Sciences		
84.305 Education Research, Development and Dissemination		
SRI International 51-001312		$308,816
Office of Elementary and Secondary Education		
84.299 Indian Education -- Special Programs for Indian Children		$174,475
Little Big Horn College ILEAD		($32)

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
84.367	Improving Teacher Quality State Grants		
	National Writing Project 09-MT02-SEED2017 ILI		$4,469
	University of California, Berkeley 09-MT02-SEED2012		($3,205)
Office of Postsecondary Education			
84.116	Fund for the Improvement of Postsecondary Education		
	Western Interstate Commission for Higher Education		$50,653
		DEPARTMENT OF EDUCATION TOTAL	**$535,176**
DEPARTMENT OF ENERGY			
81.049	Office of Science Financial Assistance Program	$1,101,757	$2,730,356
	Aerodyne Research, Inc. ARI 11129-2		$8,756
	Amethyst Research Inc AMETHYST-MSU		$64,948
	Montana Emergent Technologies Inc MET-MSU		$55,504
	National Securities Technology 145485/DE-AC52-06NA25946		($4,620)
	Sandia National Laboratories PO #1779428		$7,510
	Sandia National Laboratories 1649078		$20,000
	University of Wyoming DE-SC0012671		$199,390
81.086	Conservation Research and Development		$3,189,849
	Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY17		$81,011
	Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY16		$90,538
	Pacific States Marine Fisheries Commission 16-39G		$51,145
	Pacific States Marine Fisheries Commission 17.54		$101,104
81.087	Renewable Energy Research and Development		
	Materia Inc		$6,943
	University of Toledo F-2013-30		$210,758
81.089	Fossil Energy Research and Development	$834,006	$2,346,926
Miscellaneous			
81.RD	Miscellaneous Research and Development		
	Aerodyne Research Incorporated ARI11138-1		$11,838
	Battelle Energy Alliance DE-AC07-05ID14517		$24,126
	Lawrence Berkeley National Laboratory DE-AC02-05CH11231	$46,630	$112,363

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster			Amount to Subrecipients	Expenditures
	Sandia National Laboratories	1340328		($1,254)
	Sandia National Laboratories	1663302		$160,362
			DEPARTMENT OF ENERGY TOTAL	**$9,467,553**
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Administration for Children and Families				
93.670	Child Abuse and Neglect Discretionary Activities			
	Futures Without Violence	2190		$30,780
Administration for Community Living				
93.325	Paralysis Resource Center			
	Christopher and Dana Reeve Foundation	90PR3001-01-00		$69,203
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research		$288,802	$1,649,047
	Institute for Rehabilitation and Research	76-017		$32,841
	Institute for Rehabilitation and Research	8331104-2		$4,724
	Institute for Rehabilitation and Research	90IF0099-02-00		$16,337
	University of Kansas	H133B110006		$64,912
	University of Kansas	FY2017-048		$65,316
Agency for Healthcare Research and Quality				
93.226	Research on Healthcare Costs, Quality and Outcomes			
	University of Washington	15741		$3,760
Agency for Toxic Substances and Disease Registry				
93.161	Health Program for Toxic Substances and Disease Registry			
	Denver Health	E0952Q-1		$4,365
Centers for Disease Control and Prevention				
93.136	Injury Prevention and Control Research and State and Community Based Programs		$147,942	$245,461
93.262	Occupational Safety and Health Program			$104,860
93.424	NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations			
	Association of Maternal & Child Health Programs	1U38OT000140-03		$6,053
93.524	Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations- financed in part by Prevention and Public Health Funds (PPHF)			
	National Association of Chronic Disease Directors	0942016		$9,616

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
Food and Drug Administration			
93.103	Food and Drug Administration_Research		$26,601
Health Resources and Services Administration			
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	$436,955	$640,807
93.178	Nursing Workforce Diversity		$310,355
93.301	Small Rural Hospital Improvement Grant Program	$419,177	$430,259
93.358	Advanced Education Nursing Traineeships		$343,430
93.359	Nurse Education, Practice Quality and Retention Grants	$82,441	$188,787
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		$153,401
93.913	Grants to States for Operation of Offices of Rural Health		$170,921
Indian Health Service			
93.933	Demonstration Projects for Indian Health		
	Blackfeet Community College 2014-01-MSU		$68,534
	Fort Peck Community College FPCC - AIHEC		$18,968
93.970	Health Professions Recruitment Program for Indians		$287,659
Miscellaneous			
93.RD	Miscellaneous Research and Development		$161,876
	National Wilderness Stewardship Alliance K-002052		$13,449
National Institutes of Health			
93.113	Environmental Health	$599,179	$2,379,376
	Scripps Research Institute 5-52774		$131,488
	Scripps Research Institute 5-53234		$8,732
	Scripps Research Institute 5-52250		($4,846)
	University of New Mexico 3RY74		$52,192
93.143	NIEHS Superfund Hazardous Substances_Basic Research and Education		$7,242
93.173	Research Related to Deafness and Communication Disorders		$12,869
93.213	Research and Training in Complementary and Integrative Health		$193,242
93.242	Mental Health Research Grants		$305,234
	Chinglu Pharmaceutical Research LLC CL-002		$43,413
	Indiana University BL--4631228-UM		$6,298
93.273	Alcohol Research Programs		$27,235

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
93.279	Drug Abuse and Addiction Research Programs		$134,768
	Yale University M16A12253 (A10413)		$15,345
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	$138,421	$317,507
93.307	Minority Health and Health Disparities Research	$165,431	$402,364
93.310	Trans-NIH Research Support		$93,851
93.350	National Center for Advancing Translational Sciences		
	University of Washington UWSC922/BPO17748		$25,154
93.351	Research Infrastructure Programs		$483,123
	Meadowlark Science and Education, LLC MSE-001UM01		($20,162)
93.389	National Center for Research Resources		$127,261
93.393	Cancer Cause and Prevention Research		$86,717
93.837	Cardiovascular Diseases Research		$26,622
	Cornell University 69020-10278		$51,459
	Methodist Hospital 15350004-93		$58
	Mount Sinai School of Medicine 0255-7875-4609		$177,046
	University of Maryland SUBAWARD 10015214		$55
93.846	Arthritis, Musculoskeletal and Skin Diseases Research		$2,883
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research		$787,692
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	$507,558	$2,447,850
	The John B Pierce Laboratory SUBAWARD NO. 243-A		$205,492
	Thomas Jefferson University 080-19250-509101		$23
	Yale University M17A12590 (A10930)		$54,987
93.855	Allergy and Infectious Diseases Research	$5,117	$3,080,395
	Corixa Corporation COA #6		$1,456,237
	Corixa Corporation COA #5		$1,364,621
	Indiana University PO1464301		$145,258
	Ohio State University UT18209		$12,039
	Promiliad Biopharma Inc R41AI118104		$53,724
	Sorrento Therapeutics Inc 4R42AI098182-04		$95,310
	University of Connecticut 50074		$115,548
	University of Connecticut KFS #5619100, 49814		$130,375
	University of Kentucky 3048111727-15-011		$5,421
	University of Notre Dame 202953MSU		$108,599

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
93.859	Biomedical Research and Research Training	$1,532,031	$14,567,849
	Mountain West Research Consortium 17-746Q-MSU-PG57-00		$34,206
	Stanford University 60705124-111946		$8,535
	University of Nevada, Las Vegas 16-746Q-UM-PG43-00		$1,826
	University of Nevada, Las Vegas UNLV CTR-IN PA		$566
	University of Nevada, Las Vegas 16-746Q-UM-MG26		$3,953
	University of Nevada, Las Vegas 16-746Q-MSU-PG51-00		$10,410
	University of Nevada, Las Vegas 16-746Q-UMT-BS10-01		$31,874
	University of Nevada, Las Vegas 16-746Q-MSU-BS13-01		$33,858
	University of Nevada, Las Vegas 17-746Q-UM-PG55-00		$57,014
	University of Nevada, Las Vegas 14-747X-C-01		$195,853
	University of Nevada, Las Vegas 16-746Q-UM-GP46-00		$476
	University of Southern California Y82277 38763030		($18,804)
	University of Southern California 74478900		$86,807
	University of Washington 761999		$4,568
	University of Washington UWSC9319		$114,378
93.865	Child Health and Human Development Extramural Research	$6,870	$417,912
	Stanford University 60595107-49686		$133,513
	University of Virginia GB10325 151802		$41,582
93.866	Aging Research	$27,000	$259,003
	Johns Hopkins University 2003050472		$19,078
93.867	Vision Research		$280,030
	American Gene Technologies AGT CONTRACT		($1)
	University of California, Berkeley 00008466		$65,076
Substance Abuse and Mental Health Services Administration			
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance		$469,329
	Community Connections		$39,152
	Communty Impact Coalition		$23,522
	Harrison County Family Resource Network		$23,165
	Potomac Highlands Guild		$23,284
	Prestera Center		$23,335
	Westbrook Health Services		$23,108

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.959 Block Grants for Prevention and Treatment of Substance Abuse		
Oregon Department of Human Services 147702		$659
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		**$37,247,535**
DEPARTMENT OF JUSTICE		
National Institute of Justice		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		$41,049
Office for Victims of Crime		
16.582 Crime Victim Assistance/Discretionary Grants		$82
DEPARTMENT OF JUSTICE TOTAL		**$41,131**
DEPARTMENT OF LABOR		
Employment Training Administration		
17.261 WIA/WIOA Pilots, Demonstrations, and Research Projects		$11
DEPARTMENT OF LABOR TOTAL		**$11**
DEPARTMENT OF STATE		
Bureau of Educational and Cultural Affairs		
19.408 Academic Exchange Programs - Teachers		
International Research and Exchanges Board FY16-TEA-MSU-01		$189,048
Bureau of Near Eastern Affairs		
19.500 Middle East Partnership Initiative		$210,501
Georgetown University MSU-GR205338/S/NEAAC-17-CA1016		$79,765
DEPARTMENT OF STATE TOTAL		**$479,314**
DEPARTMENT OF THE INTERIOR		
Bureau of Indian Affairs		
15.034 Agriculture on Indian Lands	$15,000	$5,754
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management		$125,488
Kautz Environmental Consultants Inc KAUTZ 17-18		$4,175
15.225 Recreation Resource Management		$43,971
University of Alaska Fairbanks UAF 17-0045		$8,939
15.228 BLM Wildland Urban Interface Community Fire Assistance		$11,338

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
15.230	Invasive and Noxious Plant Management	$10,000	$66,781
15.231	Fish, Wildlife and Plant Conservation Resource Management		$180,383
	Western Association of Fish and Wildlife Agencies MOU		$10,000
15.232	Wildland Fire Research and Studies Program		$358,474
	University of California, Riverside S-000770		$15,924
	Utah State University 200588-00001-294		$8,188
15.236	Environmental Quality and Protection Resource Management		$83,319
15.238	Challenge Cost Share		$70,803
Bureau of Reclamation			
15.517	Fish and Wildlife Coordination Act		$127,132
15.531	Yakima River Basin Water Enhancement Project (YRBWEP)		$77,684
Fish and Wildlife Service			
15.605	Sport Fish Restoration Program		
	Wyoming Game and Fish Department 002243		$49,877
15.608	Fish and Wildlife Management Assistance		$27,842
15.611	Wildlife Restoration and Basic Hunter Education		$1,754,536
	Idaho Department of Fish and Game IDFG-MA-2015109-VEG		$25,918
	Idaho Department of Fish and Game IDFG-MA-20151029-POP		$186,362
	Nevada Department of Wildlife MDR-001		$27,401
	South Dakota Game, Fish and Parks 15-0600-012		$553
	State of Colorado 17-IGA-94119		$12,323
	State of Colorado PMAA 2016_12297		$11,906
	University of Missouri C00047758-1		$11,334
15.634	State Wildlife Grants		
	Western Association of Fish and Wildlife Agencies MOU		$82,569
15.637	Migratory Bird Joint Ventures	$16,000	$204,980
	Pheasants Forever 60181BJ653		$12,169
	Pheasants Forever, Inc. PF2013-11		$5,564
15.650	Research Grants (Generic)		$218,203
	University of California, Santa Cruz S0183989		$19,416
15.654	Visitor Facility Enhancements - Refuges and Wildlife		$345,985
15.655	Migratory Bird Monitoring, Assessment and Conservation		$185,731
15.657	Endangered Species Conservation - Recovery Implementation Funds		$377,016

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
15.660	Endangered Species - Candidate Conservation Action Funds		$110,681
	Western Association of Fish and Wildlife Agencies SC-C-13-01		$11,176
15.663	National Fish and Wildlife Foundation		
	National Fish & Wildlife Foundation 0103.13.038862	$24,203	$32,315
15.664	Fish and Wildlife Coordination and Assistance Programs		
	Western Association of Fish and Wildlife Agencies MOU		$98,274
15.670	Adaptive Science	$7,500	$93,613
	Western Association of Fish and Wildlife Agencies MOU		$62,559
15.678	Cooperative Ecosystem Studies Units		$91,057
Miscellaneous			
15.RD	Miscellaneous Research and Development		$150,079
National Park Service			
15.915	Technical Preservation Services		$193,555
15.921	Rivers, Trails and Conservation Assistance		
	River Management Society 2017RMS-WSR50		$4,020
15.945	Cooperative Research and Training Programs - Resources of the National Park System	$3,528	$1,234,237
Office of Surface Mining			
15.255	Science and Technology Projects Related to Coal Mining and Reclamation		$15,205
U.S. Geological Survey			
15.805	Assistance to State Water Resources Research Institutes		$104,662
15.807	Earthquake Hazards Research and Monitoring Assistance		$5,990
15.808	U.S. Geological Survey_ Research and Data Collection		$318,380
15.810	National Cooperative Geologic Mapping Program		$202,067
15.812	Cooperative Research Units Program		$215,257
15.814	National Geological and Geophysical Data Preservation Program		$12,304
15.815	National Land Remote Sensing_Education Outreach and Research		
	America View Inc AV13-MT01		$8,448
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)		$13,083
15.820	National Climate Change and Wildlife Science Center		
	America View Inc AVCSC13-MT01/PO 458357		$1,000
	Colorado State University G-8841-2		$329
	Colorado State University G-8892-1		$61,470
	Colorado State University G-50003-1		$109,928

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
Colorado State University G-06108-1/G14AP00181		$167,079
Oregon State University G5344A-A		$27,648
University of Idaho GNK906-SB-002		$4,497
15.980 National Ground-Water Monitoring Network		$15,744
	DEPARTMENT OF THE INTERIOR TOTAL	**$8,122,695**
DEPARTMENT OF TRANSPORTATION		
Federal Aviation Administration		
20.109 Air Transportation Centers of Excellence		$188,902
Federal Highway Administration		
20.200 Highway Research and Development Program	$934,772	$2,078,824
California Department of Transportation 65A0614		$14,728
California Department of Transportation 65A0606		$24,648
California Department of Transportation 65A0550		$63,489
California Department of Transportation 65A0604		$74,850
California Department of Transportation 65A0501		($1,170)
California State University, Long Beach SG199416100		$30,918
Idaho Department of Transportation 2016-01		$151,264
Minnesota Department of Transportation 1003322 WORK ORDER NO. 1		$19,829
National Academies of Science HR 17-69 SUB0000545		$3,188
Nebraska Department of Roads SPR-1(16) 00730G		$25,829
South Dakota Department of Transportation 311280 SD2016-03		$24,561
Washington State Department of Transportation T6737 TASK 09		$104,550
Washington State Department of Transportation T6737-02		$321
Washington State Department of Transportation T6737 TASK 07		$67,117
Washington State Department of Transportation T6737-05		($5,319)
Washington State Department of Transportation T6737 TASK 10		$17,138
Washington State Department of Transportation T6737 TASK 08		$49,624
20.205 Highway Planning and Construction	$36,054	$1,714,648
Iowa Department of Transportation TPF-5(290) CONTRACT 17997	$9,545	$53,662
Kimley-Horn and Associates, Inc. 191964000.4		$9,997
Minnesota Department of Transportation 1002306	$14,093	$197,168
South Dakota Department of Transportation SD2014-13		$17,556

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster	Amount to Subrecipients	Expenditures
Southern Illinois University 767105-002 PO 120118		$59
Wisconsin Department of Transportation 0092-15-12		$799
Wyoming Department of Transportation RS10216		$39,221
Federal Transit Administration		
20.514 Public Transportation Research, Technical Assistance, and Training		
Aerodyne Research Incorporated ARI 11012-3		($158)
National Highway Traffic Safety Administration		
20.600 State and Community Highway Safety		
Virginia Tech 451388-19060		$21,114
20.616 National Priority Safety Programs		
Washington Traffic Safety Commission		$8,863
Office of the Secretary (OST)		
20.701 University Transportation Centers Program	$497,788	$1,047,177
University of Alaska Fairbanks UAF 14-0098 FP42825		$218,300
Pipeline and Hazardous Materials Safety Administration		
20.724 Pipeline Safety Research Competitive Academic Agreement Program (CAAP)		
Rutgers, The State University of New Jersey 00005805 PO 449646		$17,328
	DEPARTMENT OF TRANSPORTATION TOTAL	**$6,279,025**
DEPARTMENT OF TREASURY		
Community Development Financial Institutions Fund		
21.020 Community Development Financial Institutions Program		$26,339
	DEPARTMENT OF TREASURY TOTAL	**$26,339**
ENVIRONMENTAL PROTECTION AGENCY		
Miscellaneous		
66.RD Miscellaneous Research and Development		$1,857
Clark Fork Coalition 36-3428665		$3,461
Office of Administration		
66.605 Performance Partnership Grants		
Flathead City-County Health Department 515017		$53

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
Office of Air and Radiation			
66.001	Air Pollution Control Program Support		
	Idaho Department of Environmental Quality K124		$39
	Idaho Department of Environmental Quality K169		$17,205
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		$369,800
Office of Chemical Safety and Pollution Prevention			
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		$20,752
Office of Research and Development			
66.509	Science To Achieve Results (STAR) Research Program		
	Little Big Horn College MSU-LBHC		$115,095
	Pennsylvania State University 5375-MSU-EPA-4201		$7,933
	University of New Mexico 3RAW5 / 83615701		$61,031
Office of Water			
66.419	Water Pollution Control State, Interstate, and Tribal Program Support		$91,461
	Clark Fork Coalition 215006		$5,063
66.454	Water Quality Management Planning		
	Clark Fork Coalition 215006		$14,960
66.461	Regional Wetland Program Development Grants		$416,907
		ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$1,125,617**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Science	$826,296	$5,678,709
	Arizona State University NNX16AJ61G		$43,693
	Georgia State University SP00011775-02		$9,963
	Glacigen Materials, Inc.		$1,475
	Johns Hopkins University 970066		$7,884
	Lockheed Martin Corporation 8100002702		$364,753
	Princeton University SUB0000148		$6,401
	Qualtech Systems Inc QSI-DSC-14-004		$89,791
	SETI Institute SC 3118		$51,053
	Smithsonian Astrophysical Observatory SV7-77003		$114,576

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
	South Dakota State University 3TB481		$16,068
	Southwest Research Institute H99053CO		$31,499
	Trustees of Dartmouth College R852		$117,135
	University Corporation For Atmospheric Research Z16-19576		$12,384
	University of California, Berkeley SA1868-26308PG; BB00090555		$19,082
	University of California, Santa Barbara KK1301		$517
	University of Colorado 1552610 / NNA15BB02A		$62,329
	University of Southern California 55747174		$124,146
	University of Washington UWSC8879/BPO13182		$10,783
	University of Washington UWSC8879/BPA13182		$163,238
	USDA Forest Services Rocky Mountain Research Station 15-JV-11221637-051		$36,950
	Wildlife Conservation Society SERDP110515-217		$98,941
43.002	Aeronautics		
	Carnegie Institution of Washington DTM-3250-15 (PHASE E)		($83)
43.008	Education	$10,503	$1,184,312
43.009	Cross Agency Support	$41,454	$262,967
Miscellaneous			
43.RD	Miscellaneous Research and Development		
	California Institute of Technology Jet Propulsion Lab 1422120		$63,236
	Southwest Research Institute E99044MO		$45,024
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		**$8,616,826**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.129	Promotion of the Humanities_Federal/State Partnership		
	Humanities Montana 16R041		$4,000
	Humanities Montana 16R036		$8,096
45.161	Promotion of the Humanities_Research		$61,366
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		**$73,462**
NATIONAL SCIENCE FOUNDATION			
47.041	Engineering Grants	$6,344	$1,651,873
	Advanced Microcavity Sensors LLC		($477)
	Sustainable Bioproducts SUSBIO-MSU-NSF		$6,440

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster		Amount to Subrecipients	Expenditures
47.049	Mathematical and Physical Sciences		$2,009,684
	S2 Corporation S2-1330880-13-03		$13,744
	University of West Georgia 111554AUM		$31,517
	University of Wisconsin-Milwaukee 153405537		$48,343
47.050	Geosciences	$173,169	$2,087,201
	George Washington University 14-S17		$34,099
	University of Hawaii at Manoa MA130029/MA1131		$49,876
	University of Southern California PO 10309251 OCE-0939564		$39,913
47.070	Computer and Information Science and Engineering	$12,357	$523,453
47.074	Biological Sciences	$966,422	$5,476,478
	Cary Institute of Ecosystem Studies 3340-200201873		$1,952
	Indiana University BL-4824219-UM		$12,144
	Noble Research Institute, LLC 2015-978-001		$6,969
	University of Colorado 1554533		$98,463
	University of Florida UFOER00011511		$15,004
	USDA Forest Services Rocky Mountain Research Station 16-JV-11221633-029		$8,731
	Washington State University 118996_G003357		$162,757
47.075	Social, Behavioral, and Economic Sciences		$469,292
	South Dakota State University 3CT649		$6,529
	Tufts University A130001		$17,112
47.076	Education and Human Resources	$260,408	$3,013,770
	Colorado State University 96702-5		$75,921
	George Mason University E2033191		$158,400
	Michigan State University RC104101MONTANA		$34,358
	Salish Kootenai College UM-SA03		$3,450
	Salish Kootenai College SAG-16-UOM-002		$12,580
	Salish Kootenai College HRD-1262779		$18,142
	University of California National Writing Project 93-MT01-NSF2013		$97
	University of Nebraska-Lincoln 25-0536-0019-002		$84
47.078	Polar Programs		$503,134
	University of Colorado SPO 1000046125/1548197		$98,003
47.079	Office of International Science and Engineering	$32,888	$459,400

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Research and Development Cluster			Amount to Subrecipients	Expenditures
47.080	Office of Cyberinfrastructure			$3,873,393
47.083	Office of Integrative Activities		$174,641	$543,921
	Trustees of Dartmouth College	R896/1632738		$86,268
			NATIONAL SCIENCE FOUNDATION TOTAL	**$21,652,018**
SMALL BUSINESS ADMINISTRATION				
59.058	Federal and State Technology Partnership Program			
	Defense Alliance of Minnesota	ADT CLUSTERS 15_16		$13,593
	Defense Alliance of Minnesota	ADT CLUSTERS 16-17		$39,849
			SMALL BUSINESS ADMINISTRATION TOTAL	**$53,442**
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT				
98.001	USAID Foreign Assistance for Programs Overseas			
	International Food Policy Research Institute	2016X179.MSU	$13,877	$31,055
	University of Florida	UFDSP00011520/P0023483		$19,941
	University of Georgia	RC282-392/4942936		$60,564
			UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL	**$111,560**
			RESEARCH AND DEVELOPMENT CLUSTER TOTAL	**$131,328,370**
			SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL	**$3,870,127,574**

The accompanying notes are an integral part of this schedule.

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the state of Montana under programs of the federal government for the fiscal year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (referred to as the "Uniform Guidance"), and where applicable, Office of Management and Budget Circular A-133 requirements.

Because this schedule presents only a selected portion of the operations of the state of Montana, it is not intended to, and does not present, the financial positions, change in net assets, or, where applicable, its cash flows for the fiscal year ended June 30, 2017.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are generally recorded in the accounting period in which the liability is incurred. However, there are some payments, such as compensated absences, that are only recorded when the payment is due.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Montana University System uses full accrual accounting to report campus federal expenditure activity. The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantees (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented on the basis of accounting described in each note. The Books for the Blind and Physically Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of

Federal Awards but is provided as additional information regarding the types of donations received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States. During fiscal year 2017, Montana distributed $1,170,048 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $10,604,874 in commodities in fiscal year 2017. The value at June 30, 2017 of commodities stored at the state's warehouse is $1,743,598, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities Research Program (CFDA #93.307) includes endowment funds of $9,375,000, along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2017. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2017, Montana received 204,179 vaccine doses valued at $10,708,009.

Note 2. Loan and Loan Guarantee Programs

The following loan and loan guarantee programs are reported on the Schedule of Expenditures of Federal Awards at their July 1, 2016 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2017:

CFDA #	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2017 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	$ 271,203,638
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$ 141,411,906
	Total State Revolving Loan Programs	**$ 412,615,544**

CFDA #	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2017 Ending Balance
84.032	Federal Family Education Loans	$59,296,580
84.038	Federal Perkins Loan Program	$32,183,084
93.364	Nursing Student Loans	$2,194,776
93.264	Nurse Faculty Loan Program	$14,471
93.342	Health Professions Student Loans	$176,650
	Total Student Financial Assistance Programs	**$93,865,561**

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans Program (CFDA #84.032) during fiscal year 2017. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years, for which the federal government has imposed continuing compliance requirements, was $59,296,580 at June 30, 2017.

Effective October 1, 2017, the loan servicing portion of the MGSLP was transferred to a federally approved national education loan servicing provider. The amount transferred at September 30, 2017 was $64,643,273, which included $53,516,103 in principal and interest and $11,127,170 in borrower collection costs. Also refer to Note 14.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) consists of two separate awards which are reported on the Schedule of Expenditures of Federal Awards at their June 30, 2017 ending loan balances. The amount of loans outstanding as of June 30, 2017 is $382,846 for award number 05-19-02445 and $2,794,264 for award number 05-79-73005.

The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445			
State Name = EDA Revolvoing Loan			
Federal Grantor = US Department of Commerce			
Federal Program Name = Title IX SSED Revolving Loan Fund			
Federal Catalog Number = 11.307			
RLF Loan Balance FYE 2017		$	409,369
Cash & Investments FYE 2017		$	94,375
FY 2017 Admin paid out of RLF Income		$	35,476
Unpaid Principal of loans written of during FY		$	-
		$	539,220
Federal Percentage			71%
Federal Share of Revolving Loan Fund		**$**	**382,846**
Award Number: 05-79-73005			
State Name = EDA Revolvoing Loan			
Federal Grantor = US Department of Commerce			
Federal Program Name = Economic Adjustment Assistance			
Federal Catalog Number = 11.307			
RLF Loan Balance FYE 2017		$	3,875,356
Cash & Investments FYE 2017		$	1,308,025
FY 2017 Admin paid out of RLF Income		$	405,146
Unpaid Principal of loans written of during FY		$	-
		$	5,588,527
Federal Percentage			50%
Federal Share of Revolving Loan Fund		**$**	**2,794,264**

Other Federal Loans

The following loans, originally funded through federal programs, do not have any continuing federal compliance requirements imposed on the state, other than the loan repayments. These loans are not reported on the Schedule of Expenditures of Federal Awards:

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2017. The amount of the loan outstanding as of June 30, 2017 is $6,084,615.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "…a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is $2,990,129, and reimbursable interest during construction is $281,857. As of June 30, 2017, the loan outstanding is $1,942,789, and reimbursable interest during construction is $175,890.

Note 3. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2017 will be issued by March 31, 2018.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2017.

Note 4. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.UXX or **. RD. Also refer to Note 13.

Note 5. Program Clusters

As defined by 2 CFR section 200.17, a cluster of programs is a grouping of closely related programs that share common compliance requirements. Except for the Student Financial Assistance Cluster, clusters of programs are presented on the Schedule of Expenditures of Federal Awards either within their respective federal agency (for non-research and development programs) or by federal agency and major subdivision (for research and development programs.

Student Financial Assistance Cluster

Amounts reported for the Student Financial Assistance Cluster include programs administered by both the Department of Education and the Department of Health and Human Services. These clusters are shown separately, within their respective federal agencies, on the Schedule of Expenditures of Federal Awards.

The combined Student Financial Assistance Cluster includes the following programs:

CFDA #'	Student Financial Assistance Cluster	FY 17 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	$1,350,227
84.033	Federal Work-Study Program	$2,266,664
84.038	Federal Perkins Loan Program - Federal Capital Contributions	$36,718,849
84.063	Federal Pell Grant Program	$46,861,495
84.268	Federal Direct Student Loans	$178,026,666
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	$5,122
93.264	Nurse Faculty Loan Program (NFLP)	$21,729
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	$199,042
93.364	Nursing Student Loans	$2,709,657
	Total Student Financial Assistance Cluster	**$268,159,451**

Note 6. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function.

Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 7. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by the state, which is determined to be 22.47% of the original acquisition cost of the property.

Property received under CFDA #81.RD, Miscellaneous Research and Development, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2017. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 17 Amount	FY 17 Ending Inventory
10.203	Agricultural Experiment Stations	$1,821	$125,057
10.500	Cooperative Extension Service	$0	$3,039
10.664	Cooperative Forestry Assistance	($61,513)	$4,689,634
10.UXX	Agriculture Miscellaneous – Non-major	$0	$131,341
39.003	General Services Administration	($26,404)	$51,775
81.RD	Miscellaneous Research and Development	$0	$5,150
43.UXX	NASA Miscellaneous – Non-major	$0	$640,395
47.UXX	NSF Miscellaneous – Non-major	($6,672)	$177,967

Note 8. Department of Defense Firefighting Property

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 22.47% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2017:

CFDA #	Program	FY 17 Amount	FY 17 Ending Inventory
12.UXX	DOD Firefighter Program	$303,448	$2,645,260

Note 9. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, cassette books, accessories, and magazines from the federal government under the Books for the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2017 was $963,142.

Since this program is considered a federal "use of equipment" agreement, the accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 10. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	$108,262,192
Federal UI Expenditures	19,443,479
Total	$127,705,671

Note 11. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 12. Subgrants to Non-State Agencies

Federal assistance transferred from a Montana state agency or university to a non-state agency, such as a city, county, tribal government, or nonprofit organization, is identified in the Amount to Subrecipients column shown in the Schedule of Expenditures of Federal Awards. These amounts are included in the expenditure totals shown on the report.

The Amounts to Subrecipients also includes federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency, is shown below:

CFDA #	Federal Program	Amount to Subrecipients
Non Research and Development		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$45,000
84.048	Career and Technical Education -- Basic Grants to States	$2,431,727
84.126	Rehabilitation Services _Vocational Rehabilitation Grants to States	$31,138
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$61,546
84.419	Preschool Development Grants	$1,347,918
93.236	Grants to States to Support Oral Health Workforce Activities	$25,061
93.262	Occupational Safety and Health Program	$3,531
93.464	ACL Assistive Technology	$60,000
	Total - Non Research and Development	**$4,005,921**
TANF Cluster		
93.558	Temporary Assistance for Needy Families	$763,430
	Total TANF Cluster	**$763,430**
Research and Development Cluster		
20.205	Highway Planning and Construction	$36,054
47.079	Office of International Science and Engineering	$32,888
93.859	Biomedical Research and Research Training	$6,828
	Total Research and Development Cluster	**$75,770**

Note 13. Federal Awards not having a CFDA Number

The following schedules contain contract or grant numbers associated with awards that did not have a CFDA number and were assigned either a **.UXX or **.RD number in the Schedule of Expenditures of Federal Awards. Not all **.UXX or **.RD awards reported on the SEFA had a grant or contract number. Also refer to Note 4.

*Schedule of Unknown Federal CFDA Numbers (**.UXX)*				
Federal Agency		***State Agency***	***Contract or Grant Number***	***Amount***
DEPARTMENT OF AGRICULTURE				
	10.U07	Department of Fish, Wildlife and Parks	11-CS-11011000-037	12,873.00
	10.U08		11-CS-11011600-040	9,625.00
	10.U09		11-PA-11010200-050	892.00
	10.U10		12-CS-11011000-047	73,662.00
	10.U13		12-PA-11011600-040	12,335.00
	10.U14		13-CS-11011000-004	43,441.00
	10.U15		13-CS-11011100-008	824.00
	10.U16		13-CS-11011500-016	6,308.00
	10.U19		14-CS-11011200-013	41,887.00
	10.U21		15-CS-11011100-070	2,250.00
	10.U23	Department of Natural Resources and Conservation	Project Financial Plan 12-FI-11010800-012	19,437.00
	10.U25		Project Financial Plan 12-FI-11011200-022	18,708.00
	10.U26		Project Financial Plan 12-FI-11011600-003	371.00
	10.U27		Project Financial Plan 12-FI-11015200-015	24,216.00
	10.U28		Project Financial Plan 13-FI-11011400-013	631.00
	10.U29		Project Financial Plan 13-FI-11011600-045	924.00
	10.U31		Project Financial Plan 14-FI-11011400-011	154.00
	10.U32		Project Financial Plan 15-FI-11010200-001	544.00
	10.U33	University of Montana - Montana Tech	17-CS-11015600-005	2,472.00
	10.U34	University of Montana - Western	16-CS-11010200-021	1,593.00
	10.U35	Department of Natural Resources and Conservation	Project Financial Plan 16-FI-11011100-057	1,319.00
	10.U36		Project Financial Plan 16-FI-11011500-026	5,371.00
	10.U37		Project Financial Plan 17-FI-11015200-003	893.00
	10.U38		STEWARDSHIP AGREEMENT-13-SA-11015600-063	10,694.00
	10.U39	Department of Fish, Wildlife and Parks	16-PA-11011100-012	823.00
	10.U40		14-PA-11011100-32	2,892.00
	10.U41		12-PA-11010200-049	1,087.00
	10.U42		16-CS-11011600-010	10,214.00
	10.U43	Montana State University - Bozeman	Unknown	9,614.00
	10.U44	Department of Fish, Wildlife and Parks	12-CS-11011000-062	19,643.00
	10.U45		09-CS-11011500-004	8,197.00
DEPARTMENT OF DEFENSE				
	12.U01	Department of Natural Resources and Conservation	Unknown	303,448.00
DEPARTMENT OF EDUCATION				
	84.U01	Office of Public Instruction	Contract # ED-IES-14-C-0086	107,814.00
DEPARTMENT OF ENERGY				
	81.U01	Department of Environmental Quality	Unknown	(2,169.00)
	81.U02	Department of Natural Resources and Conservation	0201.17.053086	41,261.00
DEPARTMENT OF TREASURY				
	21.U01	Department of Administration	Unknown	1,643.00
LIBRARY OF CONGRESS				
	42.U01	Montana Historical Society	Unknown	11,020.00
		Identifies awards with unknown CFDA numbers that were previously reported in FY 2016.		

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (XX.RD)				
Federal Agency		***State Agency***	***Contract or Grant Number***	***Amount***
DEPARTMENT OF AGRICULTURE				
	10.RD	University of Montana - Montana Tech	07-CS-11015600-099	9,828.00
		Montana State University - Bozeman	PO# 0000000666	54,989.00
			Unknown	330,364.00
DEPARTMENT OF DEFENSE				
	12.RD	University of Montana - Missoula	H92236-17-P-5122	135,332.00
			W9128F-14-2-0002 TO 0011	716,893.00
			W9128F-14-2-0002 TO 0012	1,092,808.00
			W9128F-14-2-0002 TO 0013	677,529.00
			W9128F-14-2-0002 TO 0016	441,111.00
			W9128F-14-2-0002 TO 0017	259,845.00
			W9128F-14-2-0002 TO 0018	41,223.00
			W9128F-14-2-0002 TO 0019	180,766.00
			W9128F-14-2-0002 TO 0020	25,176.00
			W9128F-14-2-0002 TO 0021	168,079.00
			W9128F-14-2-0002 TO 0022	31,814.00
			W9128F-14-2-0002 TO 0024	7,141.00
			W9128F-14-2-0002, TO 0001	99,925.00
			W9128F-14-2-0002, TO 0002	42,400.00
			W9128F-14-2-0002. TO 0004	6,379.00
			W9128F-14-2-0002. TO 0005	313,969.00
			W9128F-14-2-0002. TO 0006	41,789.00
			W912HZ-16-2-0023	4,605.00
			Unknown	57,403.00
		Montana State University - Bozeman	USAF ARZ999	55,113.00
			PO10169067	41,769.00
			7600020795	26,968.00
			7600020645	69,290.00
			S2-17-0003-01	19,988.00
			S2-5504-16-01C	73,907.00
			S2-14-0006-02	(3.00)
			S2-1954-16-01	149,707.00
			PO: S15FNC204	1,434.00
			S16FNC216	32,914.00
			AS	109,671.00
			S-111-024-001	19,691.00
			31236-Z8409102	7,573.00
			Unknown	486,425.00
DEPARTMENT OF ENERGY				
	81.RD	Montana State University - Bozeman	ARI11138-1	11,838.00
		University of Montana - Montana Tech	DE-AC07-05ID14517	24,126.00
			DE-AC02-05CH11231	112,363.00
			1340328	(1,254.00)
			1663302	160,362.00
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
	93.RD	University of Montana - Montana Tech	211-2014-59580	73,130.00
			214-2017-M-93216	7,605.00
		University of Montana - Missoula	K-002052	13,449.00
		Department of Public Health and Human Services	BHSIS State Agreement REF# 283-07-4803 SAMSHA	80,693.00
			DASIS State Agreement with SAMSHA	448.00
DEPARTMENT OF THE INTERIOR				
	15.RD	University of Montana - Missoula	P13AC00618	15,903.00
			CHECK #1003	3.00
			Unknown	3,269.00
			G15PC00055	8,737.00
			G16PC00324	9,945.00
		Montana State University - Bozeman	Unknown	59,039.00
		University of Montana - Montana Tech	H1580070001	53,183.00
ENVIRONMENTAL PROTECTION AGENCY				
	66.RD	University of Montana - Missoula	EP-16-8-000017	1,857.00
			36-3428665	3,461.00
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
	43.RD	University of Montana - Missoula	1422120	63,236.00
			E99044MO	45,024.00

Note 14. Subsequent Event

Effective October 1, 2017, the loan servicing portion of the Montana Guaranteed Student Loan Program was transferred to a federally approved national education loan servicing. The value of principle, interest, and borrower collection costs transferred at September 30, 2017 was $64,643,273. Also refer to Note 2.

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements, and have issued our report thereon dated January 30, 2017. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the state of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these component units.

Internal Control Over Financial Reporting

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

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 the attention by those charged with governance.

Our consideration of internal control 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 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 state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

- The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans and an Other Post Employment Benefit (OPEB). The Montana Constitution and state law require all retirement systems to be actuarially sound. The actuarial valuations as of June 30, 2016, indicated the Sheriffs', and Game Wardens' and Peace Officers' retirement plans, and the Public Employees' Retirement System-Defined Contribution Retirement Plan Disability OPEB are not actuarially sound because they do not amortize. The maximum allowable amortization period is 30 years, as defined by state law.

State of Montana's Response to Findings

The state of Montana's response to the findings identified in our audit are described in the separately issued Public Employees' Retirement Administration audit report (16-08A) and on page B-1 of this report. The state of Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 30, 2017

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2016, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Montana State University (MSU) component units and the

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University of Montana (UM) component units, which represents 15.12 percent, 29.94 percent, and 6.73 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

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

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

Summary of Opinions

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 19 to the financial statements, at June 30, 2016, the Game Wardens' and Peace Officers', and Sheriffs' retirement plans, and the Public Employees' Retirement System-Defined Contribution Retirement Plan Disability Other Post Employment Benefit (DCRP Disability OPEB) are not actuarially sound because they do not amortize. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 2B to the financial statements, beginning in fiscal year 2016, the state of Montana elected to report the Short-Term Investment Pool assets at fair value instead of amortized cost, as previously reported. Our opinions are not modified with respect to this matter.

As discussed in Note 2A to the financial statements, in fiscal year 2016, the state of Montana adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

As discussed in Note 2B, Montana State Fund (MSF) was issued a Certificate of Authority, became an authorized insurer regulated by the Montana Commission of Securities and Insurance, and is now subject to the provisions of Title 33, Montana Insurance Code. As a result, MSF's reporting period changed from a June 30 fiscal year-end to a calendar year-end. This report, for the year ended June 30, 2016, includes a 6-month financial reporting period for MSF. Our opinion for the Aggregate Discretely Presented Component Units is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Post Employment Benefit Plan Information, and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries

of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures and Federal Awards 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 January 30, 2017, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2016 by $8.1 billion compared with $7.8 billion at the end of fiscal year 2015, representing a 4% increase in net position. Component units reported net position of $1.8 billion at the end of fiscal year 2016 compared to $1.7 billion at the end of fiscal year 2015, representing a 4% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2016, the State's governmental funds reported combined ending fund balances of $4.1 billion compared with $4.2 billion at fiscal year 2015. Of the 2016 balance, $1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.5 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1.0 billion restricted, $1.2 billion committed, $149.2 million assigned and $126.5 million unassigned. This represents a $88.4 million (2%) decrease in total fund balance. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2016 in the amount of $372.0 million compared with fiscal year 2015 net position of $356.3 million. Of the 2016 business-type activity net position, $15.8 million was reported as net investment in capital assets. Net position of $356.2 million was in spendable form with $8.4 million unrestricted and $347.8 million restricted to expenditure for a specific purpose. This represents a $14.6 million (4%) increase in spendable net position from the fiscal year 2015 balance of $341.7 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by $38.1 million, from $268.7 million in fiscal year 2015 to $230.6 million, a 14% decrease in fiscal year 2016.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

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

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

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. In other words, they follow methods that are similar to those used by most businesses, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities, as defined below.

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

The *Statement of Activities* presents information related to the government's net position changes during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including federal grants. Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bonds Program, which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

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

Fund Financial Statements - Reporting the State's Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted individually. The three categories of funds are as follows:

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the

governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas, internal service funds report activities that provide supplies and services for the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary fund statements use the full accrual basis of accounting.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the $288.2 million increase (4%) in net position. This improvement resulted from a continued economic recovery within the State.

Net Position
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.1 billion at the end of fiscal year 2016. Net position of the both governmental and business-type activities increased by $272.5 million (4%) and $15.7 million (4%), respectively. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position.

At the end of the current fiscal year, the State reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The negative unrestricted net position is primarily due to net pension liability established in fiscal year 2016. GASB Statements No. 68 and 71 were implemented in fiscal year 2015 and are contributing factors to the negative net position. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30, 2016
(expressed in thousands)

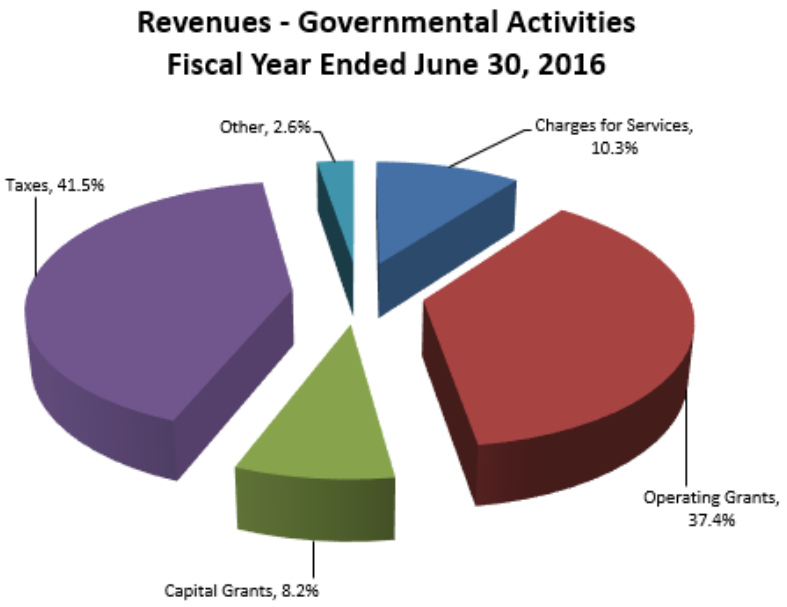
	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Current and other assets	$5,230,463	$5,172,386	$515,480	$525,340	$5,745,943	$5,697,726
Capital assets	5,492,272	5,753,621	15,450	16,363	5,507,722	5,769,984
Total assets	10,722,735	10,926,007	530,930	541,703	11,253,665	11,467,710
Deferred outflows of resources	188,437	201,784	897	1,481	189,334	203,265
Long-term liabilities						
Due in more than one year	2,228,098	2,318,021	23,780	24,508	2,251,878	2,342,529
Other liabilities	923,799	937,756	148,612	145,603	1,072,411	1,083,359
Total liabilities	3,151,897	3,255,777	172,392	170,111	3,324,289	3,425,888
Deferred inflows of resources	304,757	144,983	3,159	1,100	307,916	146,083
Net investment in capital assets	5,332,649	5,616,889	14,616	15,760	5,347,265	5,632,649
Restricted	2,764,165	2,890,669	333,536	347,818	3,097,701	3,238,487
Unrestricted	(642,296)	(780,527)	8,124	8,395	(634,172)	(772,132)
Total net position	$7,454,518	$7,727,031	$356,276	$371,973	$7,810,794	$8,099,004

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

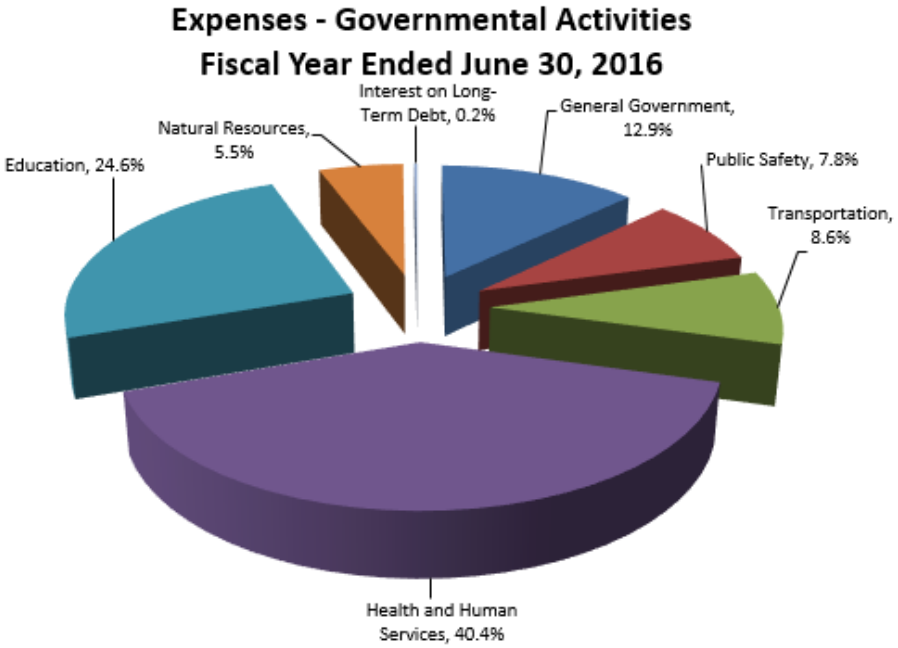
Changes in Net Position
For Fiscal Year Ended June 30, 2016
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Revenues:						
Program revenues						
Charges for services	$ 582,847	$ 577,679	$414,398	$397,793	$ 997,245	$ 975,472
Operating grants	1,885,537	2,093,817	50,751	56,565	1,936,288	2,150,382
Capital grants	470,860	456,588	942	857	471,802	457,445
General revenues						
Taxes	2,430,175	2,318,433	26,440	27,078	2,456,615	2,345,511
Other	94,653	146,716	3,157	2,701	97,810	149,417
Total revenues	5,464,072	5,593,233	495,688	484,994	5,959,760	6,078,227
Expenses:						
General government	655,878	696,984			655,878	696,984
Public safety	403,407	420,532			403,407	420,532
Transportation	483,943	464,092			483,943	464,092
Health and human service	1,936,701	2,174,506			1,936,701	2,174,506
Education	1,306,740	1,324,299			1,306,740	1,324,299
Natural resources	316,834	295,332			316,834	295,332
Interest on long-term debt	9,124	9,373			9,124	9,373
Unemployment Insurance			112,952	119,088	112,952	119,088
Liquor Stores			78,700	81,556	78,700	81,556
State Lottery			41,088	47,202	41,088	47,202
Economic Dev Bonds			989	1,198	989	1,198
Hail Insurance			8,304	817	8,304	817
Gen Govt Services			68,677	71,343	68,677	71,343
Prison Funds			6,464	9,099	6,464	9,099
MUS Group Insurance			86,539	87,535	86,539	87,535
MUS Workers Comp			4,128	2,430	4,128	2,430
Total expenses	5,112,627	5,385,118	407,841	420,268	5,520,468	5,805,386
Increase (decrease) in net position before transfers	351,445	208,115	87,847	64,726	439,292	272,841
Transfers	50,017	49,813	(50,017)	(49,813)	-	-
Change in net position	401,462	257,928	37,830	14,913	439,292	272,841
Net position, beg of year (as adjusted)	7,053,056	7,469,103	318,446	357,060	7,371,502	7,826,163
Net position, end of year	$7,454,518	$7,727,031	$ 356,276	$371,973	$7,810,794	$8,099,004

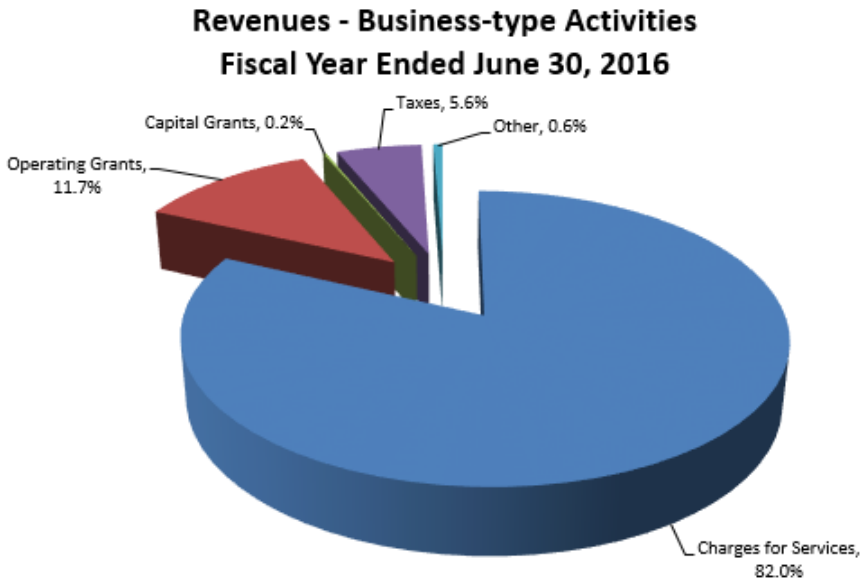
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:



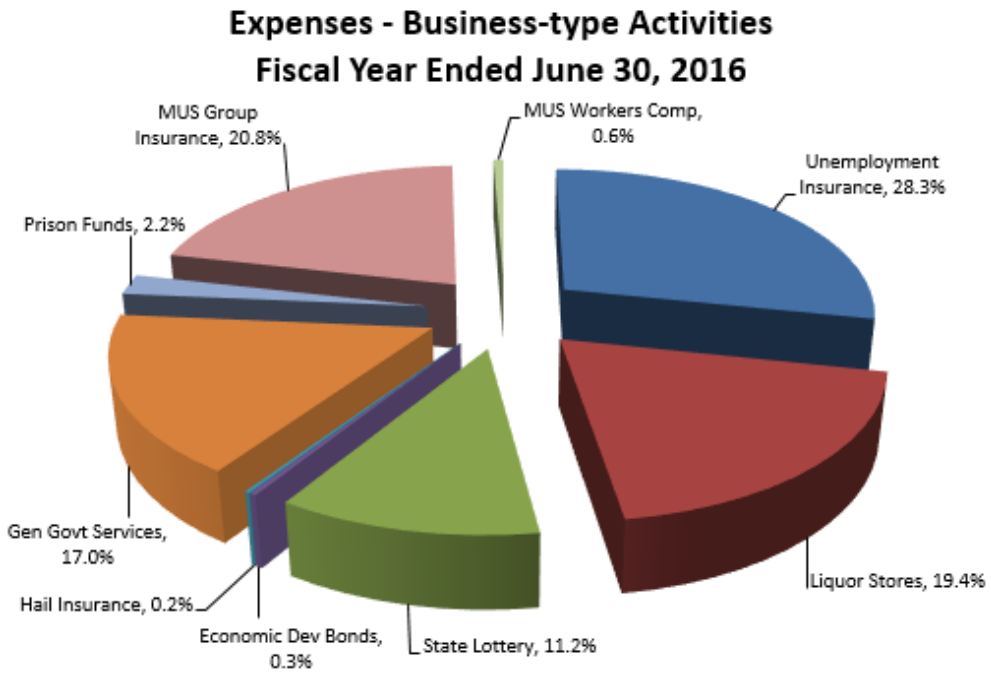
The following chart depicts expenses of the governmental activities for the fiscal year:



Business-type Activities
The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $4.1 billion. Of this total, $2.5 billion (62%) constitutes spendable fund balance and $1.6 billion (38%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. For fiscal year 2016, the total fund balance of the General Fund was reported at approximately $271.3 million. Of this balance $4.5 million is nonspendable. The remaining $266.8 million is spendable with $140.3 million assigned and $126.5 million unassigned. This represents 11% of the $2.5 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, $130.0 million pertains to the projected general fund spend down of fund balance in fiscal year 2017 and $10.3 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance decreased by $200.0 million when compared to the previously reported fund balance of $471.3 million. Changes in both expenditures and revenues are discussed in detail below. The 2015 legislative session projected $319 million of unassigned fund balance for fiscal year 2016, without regard to an additional fund balance amount reported regarding the projected spend down in fiscal year 2017.

Lower General Fund Revenues – Total General Fund revenues were $2.0 billion for fiscal year 2016 (lower than legislative estimation), a 4% decrease from the $2.1 billion reported in 2015 (which were higher than legislative estimation). Fiscal year 2016 tax revenue decreased by 4% in total over 2015, with natural resource and corporate income tax collections down 44% and 31%, respectively. Individual income and property tax collections were up slightly by 1% and 5%, respectively.

Higher General Fund Expenditures – Total General Fund expenditures for fiscal year 2016 increased by $117.1 million (6%). This increase in expenditures occurred in the public safety, health and human services, education and natural resources functions as follows:

- Public safety expenditures increased by $25.0 million (9%)
- Health and human services expenditures increased by $39.2 million (9%)
- Education expenditures increased by $51.7 million (5%)
- Natural resources expenditures increased by $2.4 million (7%)

Transfers out increased by $30.9 million (51%) to $91.2 million in 2016, mostly attributable to the fire suppression transfers.

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

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2016, general fund appropriations that reverted to 2017 were $26.3 million.

The Department of Public Health and Human Services had unspent appropriations of $15.8 million, the vast majority of which was attributable to Medicaid and other benefits.

The Department of Corrections had unspent appropriations of $2.1 million related to Medicaid savings and other operational costs.

The Department of Natural Resources and Conservation, the Judiciary Branch and the Department of Revenue had unspent appropriations of $1.6 million, $1.5 million and $1.3 million, respectively, related to operational costs.

The remaining unspent appropriation of $4.0 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund
The fund balance of the State Special Revenue Fund increased by $3.6 million to $1.6 billion. Revenues and expenditures decreased by $22.1 million (2%) and $50.9 million (5%), respectively, for fiscal year 2016. The largest decrease in revenues is attributable to a reduction in natural resources tax collections. The largest decreases in expenditures is attributable to reductions in general government and education related expenditures.

Federal Special Revenue Fund
The fund balance of the Federal Special Revenue Fund decreased by $2.2 million (20%) to $9.0 million. Revenues and expenditures increased by $168.5 million (8%) and $197.6 million (9%) respectively for the fiscal year 2016. Revenue increases are attributable to increases in federal revenue and expenditure increases are attributable to increases in health and human services related expenditures. Transfers out decreased by $21.4 million (42%) for the fiscal year 2016, primarily due to timing differences among federally funded natural resource transfers.

Coal Severance Tax Permanent Fund
The fund balance of the Coal Severance Tax Permanent Fund increased by $65.8 million (6%) to $1.1 billion. Revenue increased by $27.3 million (44%) to $89.9 million, primarily due to an increase of $28.9 million in investment earnings.

Land Grant Permanent Fund
The fund balance of the Land Grant Permanent Fund increased by $42.7 million (6%) to $710.5 million. Within this fund, investment earnings increased by $24.6 million, while rent/lease/royalties and sales income decreased by $12.7 million.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $15.9 million (6%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2016 accompanied by an increase in the taxable wage base from $29.5 thousand to $30.5 thousand in 2016.

Economic Development Bonds Enterprise Fund
Net position increased by 1% to $5.2 million in fiscal year 2016. Revenues from financing increased $239 thousand, while interest expense increased $125 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2016, amounted to $8.0 billion, with related accumulated depreciation of $2.2 billion, leaving a net book value of $5.8 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $262.3 million or 5% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration
Montana continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA) and Fitch Ratings (AA+), which remain unchanged from 2015.

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt

that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $134.8 million at June 30, 2015 to $115.5 million at June 30, 2016. There is cash available, of $4.3 million at the end of fiscal year 2016, in debt service funds to service general obligation debt.

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

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	$115,500	0.23%	$96
Total State debt	$216,983	0.50%	$221

(1) Based on personal income for calendar year 2015.
(2) Based on estimated 2016 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Montana had the 16th fastest personal income growth among states in 2015, at a rate of 4%. Additionally, Montana had real wage gains of 3% in 2015, which is the fastest gain in real wages since 1990. Montana's unemployment rate (4%) has continued to remain lower than the national rate. Montana added roughly 9.2 thousand jobs in 2015, for a growth rate of 2%. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The 64th Legislative Session adjourned in late April 2015. Upon adjournment, it was anticipated that 2017 biennium general fund revenue collections would be approximately $4.6 billion while general fund expenditures would be approximately $4.7 billion. At the end of fiscal year 2017, the estimated general fund balance would be approximately $315 million.

The 2017 biennium budget seeks to leave sufficient reserves in fund balance and achieve structural balance for the general fund budget.

The following are the major financial highlights of the 2017 biennium budget:

1. Governor Bullock proposed, and the 2015 Legislature adopted, legislation to fund a Montana-made solution to Medicaid Expansion under the provisions of the Affordable Care Act (ACA). Montana's expansion model will contract with a third party administrator to manage and secure a healthcare network to provide health services to eligible Montana citizens. Medicaid expansion in Montana was approved by the Centers for Medicare and Medicaid Services and was implemented effective January 1, 2016. Federal funding will finance the majority of the expansion effort for the entirety of the 2017 biennium.

2. Governor Bullock proposed, and the 2015 Legislature funded, a 2% rate increase per year for most private and community-based providers of health care and corrections-based services on behalf of the State of Montana.

3. Governor Bullock negotiated with the Montana University System, and the Montana Legislature passed, funding to secure a tuition freeze for Montana resident students attending institutions of higher education in Montana. Additionally, the Montana University System received a one-time-only appropriation of $15 million to serve as funds to leverage university-based research into strategic investments for Montana's economy.

4. The 2015 Legislature passed Senate Bill (SB) 157, which changes the reappraisal of class 3 and class 4 property from a six-year reappraisal cycle to a two-year reappraisal cycle.

5. The Governor proposed, and the 2015 Legislature passed SB 262, which ratifies water rights between the state and the Confederated Salish and Kootenai Tribes of the Flathead Reservation. If ratified by the US Congress, the State contribution is estimated to be $55 million, payable over several fiscal years.

6. The Governor proposed, and the 2015 Legislature funded, a one-time-only appropriation for a sage grouse conservation fund at $10 million for the 2017 biennium that was a major consideration in preventing listing on the endangered species list.

7. The 2017 biennium present law budget generally funds existing core services (i.e. health and human services, corrections, and education) at estimated caseload, population, and enrollment levels.

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2016, the Sheriffs' Retirement System (SRS), the Game Warden & Peace Officers' Retirement System (GWPORS), and the Public Employees' Retirement System-Defined Contribution Retirement Plan Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year-end 2016.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION
JUNE 30, 2016
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,304,031	$ 377,056	$ 1,681,087	$ 446,175
Receivables (net) (Note 4)	381,959	43,095	425,054	219,269
Due from primary government	-	-	-	1,799
Due from other governments	316,775	161	316,936	24,255
Due from component units	2,286	2,117	4,403	283
Internal balances	845	(845)	-	-
Inventories	27,947	5,254	33,201	5,444
Advances to component units	16,839	14,701	31,540	-
Long-term loans/notes receivable	449,413	41,283	490,696	483,309
Equity in pooled investments (Note 3)	2,286,572	3,074	2,289,646	48,635
Investments (Note 3)	302,033	33,876	335,909	2,002,824
Securities lending collateral (Note 3)	39,212	3,947	43,159	29,520
Net pension asset (Note 6)	33,961	-	33,961	-
Other assets	10,513	1,621	12,134	87,877
Depreciable capital assets and infrastructure, net (Note 5)	3,895,959	8,180	3,904,139	698,282
Land and nondepreciable capital assets (Note 5)	1,857,662	8,183	1,865,845	149,018
Total assets	10,926,007	541,703	11,467,710	4,196,690
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	201,784	1,481	203,265	50,171
LIABILITIES				
Accounts payable (Note 4)	612,686	24,364	637,050	120,245
Lottery prizes payable	-	3,539	3,539	-
Due to primary government	-	-	-	4,403
Due to other governments	22,516	81	22,597	30
Due to component units	1,799	-	1,799	283
Due to pension trust funds	31,131	-	31,131	-
Advances from primary government	-	-	-	31,540
Unearned revenue	37,742	2,347	40,089	101,484
Amounts held in custody for others	34,533	53	34,586	12,597
Securities lending liability (Note 3)	39,212	3,947	43,159	29,520
Other liabilities	3,750	-	3,750	22,835
Short-term debt (Note 11)	-	97,340	97,340	-
Long-term liabilities (Note 11):				
Due within one year	154,387	13,932	168,319	189,470
Due in more than one year	496,817	9,107	505,924	1,646,269
Net pension liability (Note 6)	1,558,463	10,750	1,569,213	178,700
OPEB implicit rate subsidy (Note 7)	262,741	4,651	267,392	114,894
Total liabilities	3,255,777	170,111	3,425,888	2,452,270
DEFERRED INFLOWS OF RESOURCES (Note 4)	144,983	1,100	146,083	15,610

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 5,616,889	$ 15,760	$ 5,632,649	$ 569,638
Restricted for:				
General government	5,253	-	5,253	-
Transportation	14,568	-	14,568	-
Natural resources	472,921	-	472,921	-
Public safety	235,102	-	235,102	-
Education	8,996	-	8,996	-
Funds held as permanent investments:				
Nonexpendable	1,550,039	-	1,550,039	339,213
Expendable	603,790	-	603,790	-
Unemployment compensation	-	298,177	298,177	-
Montana Board of Housing	-	-	-	153,868
Other purposes	-	49,641	49,641	224,782
Unrestricted	(780,527)	8,395	(772,132)	491,480
Total net position	$ 7,727,031	$ 371,973	$ 8,099,004	$ 1,778,981

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	**EXPENSES**	**CHARGES FOR SERVICES**	**OPERATING GRANTS AND CONTRIBUTIONS**	**CAPITAL GRANTS AND CONTRIBUTIONS**	**NET (EXPENSE) REVENUE**
Primary government:					
Governmental activities:					
General government	$ 696,984	$ 145,725	$ 148,232	$ 332	$ (402,695)
Public safety	420,532	160,783	27,607	14	(232,128)
Transportation	464,092	30,321	54,099	430,314	50,642
Health and human services	2,174,506	42,376	1,531,458	-	(600,672)
Education	1,324,299	30,205	182,438	441	(1,111,215)
Natural resources	295,332	168,269	149,983	25,487	48,407
Interest on long-term debt	9,373	-	-	-	(9,373)
Total governmental activities	5,385,118	577,679	2,093,817	456,588	(2,257,034)
Business-type activities:					
Unemployment Insurance	119,088	121,740	13,529	-	16,181
Liquor Stores	81,556	93,958	-	-	12,402
State Lottery	47,202	59,717	10	-	12,525
Economic Development Bonds	1,198	34	1,194	-	30
Hail Insurance	817	1,103	7	-	293
Other Service	71,343	25,342	41,079	857	(4,065)
Prison Funds	9,099	8,499	-	-	(600)
MUS[1] Group Insurance	87,535	83,136	608	-	(3,791)
MUS[1] Workers Compensation	2,430	4,264	138	-	1,972
Total business-type activities	420,268	397,793	56,565	857	34,947
Total primary government	$ 5,805,386	$ 975,472	$ 2,150,382	$ 457,445	$ (2,222,087)
Component units:					
Montana Board of Housing	$ 22,858	$ 983	$ 24,010	$ -	$ 2,135
Facility Finance Authority	392	610	55	-	273
Montana State Fund	124,110	88,495	-	-	(35,615)
Montana State University	542,254	255,376	209,616	4,710	(72,552)
University of Montana	438,684	184,052	139,625	20,855	(94,152)
Total component units	$ 1,128,298	$ 529,516	$ 373,306	$ 25,565	$ (199,911)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,257,034)	$ 34,947	$ (2,222,087)	$ (199,911)
General revenues:				
Taxes:				
Property	276,367	-	276,367	-
Fuel	225,419	-	225,419	-
Natural resource	163,707	-	163,707	-
Individual income	1,173,281	-	1,173,281	-
Corporate income	117,758	-	117,758	-
Other (Note 1)	361,901	27,078	388,979	-
Unrestricted grants and contributions	15,321	1,852	17,173	81
Settlements	29,379	-	29,379	-
Unrestricted investment earnings	92,404	17	92,421	11,281
Transfers from primary government	-	-	-	239,305
Gain (loss) on sale of capital assets	3,014	318	3,332	86
Miscellaneous	6,598	514	7,112	934
Contributions to term and permanent endowments	-	-	-	22,981
Transfers between primary government	49,813	(49,813)	-	-
Total general revenues, contributions, and transfers	2,514,962	(20,034)	2,494,928	274,668
Change in net position	257,928	14,913	272,841	74,757
Total net position - July 1 - as previously reported	7,454,518	356,276	7,810,794	1,704,224
Adjustments to beginning net position (Note 2)	14,585	784	15,369	-
Total net position - July 1 - as adjusted	7,469,103	357,060	7,826,163	1,704,224
Total net position - June 30	$ 7,727,031	$ 371,973	$ 8,099,004	$ 1,778,981

[1] Montana University System

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	**STATE**	**FEDERAL**
ASSETS			
Cash/cash equivalents (Note 3)	$ 322,388	$ 669,394	$ 68,728
Receivables (net)	244,519	82,009	31,784
Interfund loans receivable (Note 12)	86,668	65,655	-
Due from other governments	12,038	619	304,107
Due from other funds (Note 12)	21,304	9,151	48
Due from component units	32	1,014	80
Inventories	3,319	21,066	-
Equity in pooled investments (Note 3)	-	367,106	-
Long-term loans/notes receivable	2	421,575	5,162
Advances to other funds (Note 12)	639	25,264	-
Advances to component units	-	8,935	-
Investments (Note 3)	15,602	99,558	3,881
Securities lending collateral (Note 3)	-	15,007	231
Other assets	2,211	6,279	278
Total assets	708,722	1,792,632	414,299
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	251,763	119,400	215,833
Interfund loans payable (Note 12)	-	10,854	139,601
Due to other governments	77	20,536	1,902
Due to other funds (Note 12)	96	9,866	381
Due to component units	31,375	290	1,267
Advances from other funds (Note 12)	-	11,940	19,483
Unearned revenue	3,789	32,440	6,321
Amounts held in custody for others	20,728	13,644	15
Securities lending liability (Note 3)	-	15,007	231
Other liabilities	1	537	-
Total liabilities	307,829	234,514	385,034
DEFERRED INFLOWS OF RESOURCES	129,583	4,103	20,307
Fund balances (Note 14):			
Nonspendable	4,499	22,069	190
Restricted	-	990,300	8,768
Committed	-	539,843	-
Assigned	140,333	1,803	-
Unassigned	126,478	-	-
Total fund balances	271,310	1,554,015	8,958
Total liabilities, deferred inflows of resources, and fund balances	$ 708,722	$ 1,792,632	$ 414,299

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ 63,300	$ 6,322	$ 83,098	$ 1,213,230
11,999	1,797	6,711	378,819
1,207	-	-	153,530
-	-	-	316,764
5	-	1,966	32,474
100	-	1,060	2,286
-	-	-	24,385
877,047	702,476	339,944	2,286,573
-	-	22,670	449,409
1,375	-	10,578	37,856
7,905	-	-	16,840
139,311	-	5,821	264,173
10,625	8,310	4,211	38,384
-	-	27	8,795
1,112,874	718,905	476,086	5,223,518
-	-	4,478	591,474
1,581	-	293	152,329
-	-	-	22,515
63	-	846	11,252
-	-	-	32,932
-	-	12,051	43,474
-	-	-	42,550
-	144	-	34,531
10,625	8,310	4,211	38,384
-	-	-	538
12,269	8,454	21,879	969,979
-	-	435	154,428
527,020	710,451	310,745	1,574,974
-	-	31,830	1,030,898
573,585	-	104,146	1,217,574
-	-	7,051	149,187
-	-	-	126,478
1,100,605	710,451	453,772	4,099,111
$ 1,112,874	$ 718,905	$ 476,086	$ 5,223,518

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
(amounts expressed in thousands)

	Governmental Funds Total	(A) Internal Service Fund	(B) Capital Asset Related	(C) Long-term Liability Related	(D) Other Measurement Focus	(E) Internal Balances Related	Statement of Net Position Total
ASSETS							
Cash and cash equivalent	$ 1,213,230	$ 90,801	$ -	$ -	$ -	$ -	$ 1,304,031
Receivables	378,817	3,011	-	-	131	-	381,960
Interfund loans receivable	153,531	-	-	-	-	(153,531)	-
Due from other governments	316,763	12	-	-	-		316,775
Due from other funds	32,472	51	-	-	-	(32,523)	-
Due from component units	2,286	-	-	-	-		2,286
Inventories	24,385	3,563	-	-	-		27,947
Internal balances	-	-	-	-	-	845	845
Equity in pooled investments	2,286,572	-	-	-	-		2,286,572
Securities lending collateral	38,384	828	-	-	-		39,212
Advances to other funds	37,856	80	-	-	-	(37,936)	-
Advances to component units	16,839	-	-	-	-	-	16,839
Investments	264,173	37,859	-	-	-	-	302,033
Depreciable capital assets and infrastructure, net	-	93,054	3,802,904	-	-	-	3,895,958
Land and nondepreciable capital assets	-	11,422	1,846,240	-	-	-	1,857,662
Long-term loans/notes receivable	449,413	-	-	-	-	-	449,413
Net pension asset	-	-	-	-	33,961	-	33,961
Other assets	8,795	1,718	-	-	-	-	10,513
Total assets	$ 5,223,516	$ 242,399	$ 5,649,144	$ -	$ 34,092	$ (223,145)	$ 10,926,007
DEFERRED OUTFLOWS OF RESOURCES	-	5,159	-	196,625	-	-	201,784
LIABILITIES							
Current liabilities:							
Accounts payable	591,474	17,669	-	-	3,543	-	612,686
Interfund loans payable	152,330	-	-	-		(152,330)	-
Due to other government	22,516	-	-	-	-		22,516
Due to other funds	11,250	1,397	-	-	579	(13,226)	-
Due to component units	32,931	-	-	-	-	(31,131)	1,800
Due to pension trust funds	-	-	-	-	-	31,131	31,131
Advances from other funds	43,474	5,265	-	-	8,850	(57,589)	-
Unearned revenue	42,549	1,678	-	-	(6,485)		37,743
Amounts held in custody for others	34,532	1	-	-	-	-	34,533
Securities lending liability	38,384	828	-	-	-	-	39,212
Other current liabilities	538	-	-	-	3,215	-	3,753
Long-term liabilities:							
Due within one year	-	28,159	-	126,228	-	-	154,387
Due in more than one year	-	17,718	-	479,098	-	-	496,816
Net pension liability	-	45,411	-	1,513,051	-	-	1,558,462
OPEB implicit rate subsidy	-	14,794	-	247,948	-	-	262,742
Total liabilities	$ 969,978	$ 132,920	$ -	$ 2,366,325	$ 9,702	$ (223,145)	$ 3,255,781
DEFERRED INFLOWS OF RESOURCES	154,428	4,108	-	(13,365)	(189)	-	144,982
NET POSITION:							
Net investment in capital assets	-	95,446	5,649,144	(127,702)	-	-	5,616,889
Restricted for:							
General government	6,338	-	-	(2,512)	1,426	-	5,253
Transportation	41,892	-	-	(27,129)	(195)	-	14,568
Health and human services	21,373	-	-	(7,330)	(14,042)	-	-
Natural resources	710,010	-	-	(255,334)	18,245	-	472,921
Public safety	236,139	-	-	(24,593)	23,556	-	235,102
Education	15,146	-	-	(2,312)	(3,838)	-	8,996
Funds held as permanent investments:							
Nonexpendable	1,548,689	-	-	-	1,350	-	1,550,039
Expendable	-	-	-	-	603,790	-	603,790
Unrestricted	1,519,524	15,086	-	(1,709,426)	(605,712)	-	(780,527)
Total net position	$ 4,099,111	$ 110,532	$ 5,649,144	$ (2,156,338)	$ 24,580	$ -	$ 7,727,031

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

Differences between the Balance Sheet-Governmental Funds and the Statement of Net Position Governmental Activities

(A) Internal Services Fund: Management uses Internal Services funds (ISF) to report the charges for goods and services sold both by and to state agencies, as well as the related costs of providing these goods and services. Since the sales are made primarily to Governmental Funds, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the net position of the ISF are included in the Governmental Activities on Statement of Net Position.

(B) Capital Asset Related: Capital assets used in governmental activities are not financial resources, and therefore, they are not reported on the Balance Sheet–Governmental Funds. However, capital assets are economic resources and are reported on the Statement of Net Position.

(C) Long-term Liability Related, examples: Net pension liability, OPEB implicit rate subsidy, bonds, notes, leases, mortgages, and certificate of participation (including accrued interest) are not due and payable in the current period; therefore, they are not reported on the Balance Sheet–Governmental Funds. From an economic perspective however, these liabilities reduce net position and are reported on the Statement of Net Position. The portion reported as current in the reconciliation is payable within the following fiscal year.

(D) Other Measurement Focus, examples: Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as unavailable revenue within the deferred inflows of resources on the Balance Sheet-Governmental Funds. From an economic perspective, this revenue is earned and available and the related unavailable revenue is removed from the Statement of Net Position when the revenue is recognized on the Statement of Activities.

(E) Internal Balances Related: Interfund activities such as interfund loan receivable/payables, due from/due to and advances to/from other fund balances shown on the Balance Sheet–Governmental Funds are reported as internal balances on the Statement of Net Position. In order to minimize the “grossing up” effect on assets and liabilities within the same government, balances in these accounts are eliminated from the Statement of Net Position.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	$ 125,357	$ 194,999	$ -
Taxes:			
Natural resource	65,218	60,004	-
Individual income	1,170,799	-	-
Corporate income	119,539	-	-
Property	258,864	17,503	-
Fuel	-	225,841	-
Other	229,026	130,695	-
Charges for services/fines/forfeits/settlements	38,370	98,501	35,521
Investment earnings	5,703	31,117	340
Securities lending income	32	149	3
Sale of documents/merchandise/property	360	6,428	19
Rentals/leases/royalties	43	1,199	-
Contributions/premiums	1,736	24,880	-
Grants/contracts/donations	7,388	23,832	8
Federal	16,126	5,916	2,282,352
Federal indirect cost recoveries	216	43,898	69,042
Other revenues	1,102	3,946	921
Total revenues	2,039,879	868,908	2,388,206
EXPENDITURES			
Current:			
General government	343,252	180,692	98,097
Public safety	316,079	91,725	11,259
Transportation	-	220,925	99,009
Health and human services	485,714	167,489	1,523,553
Education	1,036,830	81,902	207,098
Natural resources	35,008	205,248	62,474
Debt service:			
Principal retirement	48	616	21
Interest/fiscal charges	193	695	6
Capital outlay	9,085	62,803	364,304
Securities lending	16	54	1
Total expenditures	2,226,225	1,012,149	2,365,822
Excess of revenue over (under) expenditures	(186,346)	(143,241)	22,384
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	97	256	15
Insurance proceeds	-	106	-
General capital asset sale proceeds	130	670	18
Refunding bond issued	-	22,540	-
Payment to refunding bond escrow agent	-	(25,557)	-
Bond premium	-	3,256	-
Energy conservation loans	-	677	-
Transfers in (Note 12)	78,554	178,032	5,173
Transfers out (Note 12)	(91,208)	(33,991)	(30,032)
Total other financing sources (uses)	(12,427)	145,989	(24,826)
Net change in fund balances	(198,773)	2,748	(2,442)
Fund balances - July 1 - as previously reported	471,334	1,550,395	11,174
Adjustments to beginning fund balances (Note 2)	(446)	(686)	226
Fund balances - July 1 - as adjusted	470,888	1,549,709	11,400
Increase (decrease) in inventories	(805)	1,558	-
Fund balances - June 30	$ 271,310	$ 1,554,015	$ 8,958

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ -	$ 1,526	$ -	$ 321,882
29,304	-	8,432	162,958
-	-	-	1,170,799
-	-	-	119,539
-	-	-	276,367
-	-	-	225,841
-	-	1,799	361,520
-	-	12,721	185,113
60,407	44,845	29,567	171,979
223	176	82	665
-	9,210	3,946	19,963
-	59,501	-	60,743
-	-	-	26,616
-	9	-	31,237
-	-	-	2,304,394
-	-	-	113,156
-	2	-	5,971
89,934	115,269	56,547	5,558,743
-	-	2,116	624,157
-	-	750	419,813
-	-	-	319,934
-	-	1,145	2,177,901
-	-	99	1,325,929
-	3,741	-	306,471
-	-	38,946	39,631
-	-	9,613	10,507
-	2,990	38,808	477,990
68	54	25	218
68	6,785	91,502	5,702,551
89,866	108,484	(34,955)	(143,808)
-	-	-	368
-	-	-	106
-	2,603	9	3,430
-	-	-	22,540
-	-	-	(25,557)
-	-	-	3,256
-	-	-	677
9	6	61,474	323,248
(24,105)	(68,372)	(26,498)	(274,206)
(24,096)	(65,763)	34,985	53,862
65,770	42,721	30	(89,946)
1,034,853	667,730	451,994	4,187,480
(18)	-	1,748	824
1,034,835	667,730	453,742	4,188,304
-	-	-	753
$ 1,100,605	$ 710,451	$ 453,772	$ 4,099,111

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	Governmental Funds Total	(A) Internal Service Fund	(B) Capital Asset Related	(C) Long-term Liability Related	(D) Other Measurement Focus	Statement of Activities Total
REVENUES						
License/permits	$ 321,882	$ -	$ -	$ -	$ 55	$ 321,937
Taxes:						
Natural resource	162,959	-	-	-	748	163,707
Individual income	1,170,799	-	-	-	2,482	1,173,281
Corporate income	119,539	-	-	-	(1,781)	117,758
Property	276,367	-	-	-	-	276,367
Fuel	225,841	-	-	-	(422)	225,419
Other	361,520	-	-	-	379	361,899
Charges for services/fines/forfeits/settlements	185,112	-	-	-	(7,417)	177,695
Investment earnings	171,980	903	-	-	(80,479)	92,404
Securities lending income	666	-	-	-	(666)	-
Sale of documents/merchandise/property	19,963	-	-	-	-	19,963
Rentals/leases/royalties	60,743	-	-	-	-	60,743
Contributions/premiums	26,615	-	-	-	1	26,616
Insurance proceeds	106	-	-	-	-	106
Gain (loss) on sale of capital assets	-	-	3,014	-	-	3,014
Operating grants and donations	31,236	1,128	-	-	103,062	135,426
Federal	2,304,394	-	-	-	(443,839)	1,860,555
Federal indirect cost recoveries	113,157	-	-	-	-	113,157
Capital grants and contributions	-	-	-	-	456,588	456,588
Other revenues	5,969	-	-	-	627	6,596
Total revenues	5,558,848	2,031	3,014	-	29,338	5,593,231
EXPENDITURES						
Current	5,174,203	(16,004)	194,975	-	22,572	5,375,746
Debt service:						
Principal	39,631	-	-	(39,631)	-	-
Interest/fiscal charges	10,507	194	-	(1,328)	-	9,373
Capital outlay	477,991	-	(477,991)	-	-	-
Securities lending	219	-	-	-	(219)	-
Total expenditures	5,702,551	(15,810)	(283,016)	(40,959)	22,353	5,385,119
Excess of revenue over (under) expenditures	(143,703)	17,841	286,030	40,959	6,985	208,112
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	367	-	-	(367)	-	-
General capital asset sale proceeds	3,430	(82)	(3,348)	-	-	-
Refunding bonds issued	22,540	-	-	(22,540)	-	-
Payment to refunding bond escrow agent	(25,557)	-	-	25,557	-	-
Bond premium	3,256	-	-	(3,256)	-	-
Energy conservation loans	677	-	-	(677)	-	-
Transfers	49,043	1,570	(801)	-	-	49,812
Total other financing sources (uses)	53,756	1,488	(4,149)	(1,283)	-	49,812
Net change in net position	$ (89,947)	$ 19,329	$ 281,881	$ 39,676	$ 6,985	$ 257,924

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

Differences between the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds and the Statement of Activities Governmental Activities

(A) Internal Service Fund: Management uses the Internal Services funds (ISF) to report charges for goods and services sold both by and to state agencies, as well as the related costs of providing these goods and services. ISF are intended to operate on the cost reimbursement basis and should break even each period. Since the revenue is primarily the cost of services purchased from ISF, operating net revenue/expense of each ISF is allocated to the programs that purchased the services. Nonoperating revenue/expense, such as gain/loss of sale of capital assets, capital contributions, and transfers of the ISF are not allocated to the programs, but are reported as general revenues.

(B) Capital Asset Related, reconciling examples:

- Capital assets, received as donations, are not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances–Governmental Funds as they are not current financial resources. However, such donations increase net position and are reported on both the Statement of Net Position and Statement of Activities.
- Depreciation is not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, but it is reported for the economic perspective on which the Statement of Activities is presented.
- Expenditures reported for capital outlay on the Statement of Revenues, Expenditures and changes in Fund Balances-Governmental Funds are generally reported as a conversion of cash to a capital asset on the Statement of Net Position. They are not reported as expenses on the Statement of Activities.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.

(C) Long-term Liability Related, reconciling examples:

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively, on the Statement of Revenues, Expenditures, and Changes in Fund Balances–Governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the Statement of Net Position and are not reported on the Statement of Activities.
- Amortization of debt premium/discount and gain/loss on refunding debts are not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, but are reported on the Statement of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are reported as other financing sources at the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the Statement of Net Position and are not reported on the Statement of Activities.

(D) Other Measurement Focus, reconciling examples:

- Long-term taxes receivable and certain other long-term assets are offset by unavailable revenue and are not part of fund balance on the Balance Sheet-Governmental Funds; however, from a full accrual perspective, changes in the unavailable revenue balances result in adjustments to revenue that are recognized and reported on the Statement of Activities.
- Expenditures that primarily benefit the present period are classified as current expenditures. On the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 296,165	$ 13,887	$ 67,004	$ 377,056	$ 90,801
Receivables (net)	3,680	11,160	28,255	43,095	3,011
Interfund loans receivable (Note 12)	-	-	6	6	-
Due from other governments	33	-	128	161	12
Due from other funds (Note 12)	-	2,425	-	2,425	52
Due from component units	-	2,117	-	2,117	-
Inventories	-	-	5,254	5,254	3,563
Short-term investments (Note 3)	-	4,407	-	4,407	-
Securities lending collateral (Note 3)	-	-	3,947	3,947	828
Other current assets	-	-	143	143	1,718
Total current assets	299,878	33,996	104,737	438,611	99,985
Noncurrent assets:					
Advances to other funds (Note 12)	-	10,883	-	10,883	80
Advances to component units	-	14,701	-	14,701	-
Long-term investments (Note 3)	-	4,993	27,550	32,543	37,859
Long-term notes/loans receivable	1,412	39,778	93	41,283	-
Other long-term assets	-	-	1,478	1,478	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,594	7,594	4,398
Equipment	-	4	9,534	9,538	227,272
Infrastructure	-	-	1,170	1,170	-
Construction work in progress	-	-	3,090	3,090	11,186
Intangible assets	-	-	316	316	2,227
Other capital assets	-	-	4,293	4,293	-
Less accumulated depreciation	-	(2)	(14,266)	(14,268)	(140,938)
Total capital assets	-	2	16,361	16,363	104,476
Total noncurrent assets	1,412	70,357	45,482	117,251	142,415
Total assets	301,290	104,353	150,219	555,862	242,400
DEFERRED OUTFLOWS OF RESOURCES	-	36	1,445	1,481	5,159

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 3,113	$ 191	$ 21,060	$ 24,364	$ 17,668
Lottery prizes payable	-	-	2,522	2,522	-
Interfund loans payable (Note 12)	-	1,207	-	1,207	-
Due to other governments	-	-	81	81	-
Due to other funds (Note 12)	-	1	12,871	12,872	1,397
Unearned revenue	-	-	2,347	2,347	1,678
Lease/installment purchase payable (Note 10)	-	-	186	186	801
Short-term debt (Note 11)	-	97,340	-	97,340	-
Bonds/notes payable - net (Note 11)	-	-	-	-	1,270
Amounts held in custody for others	-	-	53	53	1
Securities lending liability (Note 3)	-	-	3,947	3,947	828
Estimated insurance claims (Note 8)	-	-	12,776	12,776	22,213
Compensated absences payable (Note 11)	-	35	935	970	3,874
Total current liabilities	3,113	98,774	56,778	158,665	49,730
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,017	1,017	-
Advances from other funds (Note 12)	-	-	80	80	5,265
Lease/installment purchase payable (Note 10)	-	-	414	414	1,572
Bonds/notes payable - net (Note 11)	-	-	-	-	1,799
Estimated insurance claims (Note 8)	-	-	7,571	7,571	11,104
Compensated absences payable (Note 11)	-	25	1,080	1,105	3,244
Arbitrage rebate tax payable (Note 11)	-	17	-	17	-
Net pension liability (Note 6)	-	292	10,458	10,750	45,411
OPEB implicit rate subsidy (Note 7)	-	79	4,572	4,651	14,794
Total noncurrent liabilities	-	413	25,192	25,605	83,189
Total liabilities	3,113	99,187	81,970	184,270	132,919
DEFERRED INFLOWS OF RESOURCES	-	25	1,075	1,100	4,108
NET POSITION					
Net investment in capital assets	-	2	15,758	15,760	95,446
Restricted for:					
Unemployment compensation	298,177	-	-	298,177	-
Other purposes	-	1,051	48,590	49,641	-
Unrestricted	-	4,124	4,271	8,395	15,086
Total net position	$ 298,177	$ 5,177	$ 68,619	$ 371,973	$ 110,532

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ 40	$ 34	$ 173,103	$ 173,177	$ 151,727
Investment earnings	6,813	109	807	7,729	898
Securities lending income	-	-	13	13	8
Financing income	-	1,085	-	1,085	-
Contributions/premiums	121,701	-	102,395	224,096	178,448
Grants/contracts/donations	6,716	-	42,633	49,349	1,425
Other operating revenues	-	-	1,035	1,035	3,256
Total operating revenues	135,270	1,228	319,986	456,484	335,762
Operating expenses:					
Personal services	-	365	16,655	17,020	58,266
Contractual services	-	32	22,489	22,521	35,967
Supplies/materials	-	9	82,947	82,956	22,824
Benefits/claims	118,715	37	135,088	253,840	151,881
Depreciation	-	1	986	987	10,762
Amortization	-	-	102	102	1,074
Utilities/rent	-	49	1,363	1,412	8,421
Communications	-	6	1,303	1,309	13,157
Travel	-	4	342	346	547
Repairs/maintenance	-	-	932	932	15,254
Grants	-	-	-	-	345
Lottery prize payments	-	-	33,678	33,678	-
Securities lending expense	-	-	5	5	4
Arbitrage rebate tax	-	17	-	17	-
Interest expense	-	620	42	662	194
Other operating expenses	373	58	2,755	3,186	9,655
Total operating expenses	119,088	1,198	298,687	418,973	328,351
Operating income (loss)	16,182	30	21,299	37,511	7,411
Nonoperating revenues (expenses):					
Tax revenues	-	-	27,078	27,078	-
Non-employer pension revenue	-	7	249	256	1,128
Insurance proceeds	-	-	-	-	316
Gain (loss) on sale of capital assets	-	-	(66)	(66)	(82)
Federal indirect cost recoveries	-	-	-	-	8,985
Increase (decrease) value of livestock	-	-	(911)	(911)	-
Total nonoperating revenues (expenses)	-	7	26,350	26,357	10,347
Income (loss) before contributions and transfers	16,182	37	47,649	63,868	17,758
Capital contributions	-	-	1,858	1,858	1,259
Transfers in (Note 12)	-	-	645	645	2,072
Transfers out (Note 12)	-	-	(51,458)	(51,458)	(1,760)
Change in net position	16,182	37	(1,306)	14,913	19,329
Total net position - July 1 - as previously reported	282,274	5,140	68,862	356,276	91,096
Adjustments to beginning net position (Note 2)	(279)	-	1,063	784	107
Total net position - July 1 - as adjusted	281,995	5,140	69,925	357,060	91,203
Total net position - June 30	$ 298,177	$ 5,177	$ 68,619	$ 371,973	$ 110,532

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	**ECONOMIC DEVELOPMENT BONDS**	**NONMAJOR**	**TOTAL**	**INTERNAL SERVICE FUNDS**
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 122,639	$ 34	$ 274,555	$ 397,228	$ 329,741
Payments to suppliers for goods and services	(868)	(156)	(107,268)	(108,292)	(93,205)
Payments to employees	-	(392)	(17,436)	(17,828)	(62,331)
Grant receipts (expenses)	6,759	-	42,622	49,381	1,075
Cash payments for claims	(118,282)	-	(132,353)	(250,635)	(147,927)
Cash payments for prizes	-	-	(33,421)	(33,421)	-
Other operating revenues	-	7	1,035	1,042	12,264
Other operating payments	(373)	-	(2,755)	(3,128)	(9,679)
Net cash provided by (used for) operating activities	9,875	(507)	24,979	34,347	29,938
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	27,079	27,079	-
Transfer to other funds	(279)	-	(51,458)	(51,737)	(1,763)
Transfer from other funds	-	-	645	645	2,074
Proceeds from interfund loans/advances	-	1,207	-	1,207	1,608
Payment of interfund loans and advances	-	-	(86)	(86)	(133)
Proceeds from bonds and notes	-	-	-	-	2,007
Payment of principal and interest on bonds and notes	-	(9,638)	(42)	(9,680)	(134)
Proceeds from nonemployer pension contributions	-	-	249	249	1,128
Net cash provided by (used for) noncapital financing activities	(279)	(8,431)	(23,613)	(32,323)	4,787
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	316
Acquisition of capital assets	-	-	(1,948)	(1,948)	(18,113)
Proceeds from sale of capital assets	-	-	828	828	331
Net cash provided by (used for) capital and related financing activities	-	-	(1,120)	(1,120)	(17,466)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(10,404)	916	(9,488)	(1,347)
Proceeds (loss) on sales or maturities of investments	-	9,273	-	9,273	-
Proceeds (loss) from securities lending transactions/investments	-	-	13	13	8
Interest and dividends on investments	6,813	98	807	7,718	898
Payment of securities lending costs	-	-	(5)	(5)	(4)
Collections of principal and interest on loans	-	33,056	-	33,056	-
Cash payment for loans	-	(30,063)	-	(30,063)	-
Net cash provided by (used for) investing activities	6,813	1,960	1,731	10,504	(445)
Net increase (decrease) in cash and cash equivalents	16,409	(6,978)	1,977	11,408	16,814
Cash and cash equivalents, July 1	279,756	20,865	65,027	365,648	73,987
Cash and cash equivalents, June 30	$ 296,165	$ 13,887	$ 67,004	$ 377,056	$ 90,801

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 16,182	$ 30	$ 21,299	$ 37,511	$ 7,411
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	-	1	986	987	10,762
Amortization	-	-	102	102	1,074
Securities lending expense	-	-	5	5	4
Investment earnings	(6,813)	(109)	(807)	(7,729)	(898)
Securities lending income	-	-	(13)	(13)	(8)
Financing income	-	(1,085)	-	(1,085)	-
Interest expense	-	621	42	663	194
Other revenue	-	7	-	7	8,983
Arbitrage rebate tax	-	16	-	16	-
Change in assets, deferred outflow, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	1,331	-	(1,287)	44	61
Decr (Incr) in due from other funds	-	-	-	-	(14)
Decr (Incr) in due from other governments	43	-	(11)	32	(4)
Decr (Incr) in inventories	-	-	625	625	(886)
Decr (Incr) in other assets	-	-	219	219	(480)
Incr (Decr) in accounts payable	(868)	1	9,394	8,527	2,585
Incr (Decr) in due to other funds	-	1	(1,550)	(1,549)	231
Incr (Decr) in due to other governments	-	-	(4)	(4)	-
Incr (Decr) in lottery prizes payable	-	-	257	257	-
Incr (Decr) in unearned revenue	-	-	432	432	(188)
Incr (Decr) in amounts held in custody for others	-	-	(6,248)	(6,248)	(2)
Incr (Decr) in compensated absences payable	-	3	206	209	312
Incr (Decr) in OPEB implicit rate subsidy	-	10	473	483	1,553
Incr (Decr) in estimated claims	-	-	1,282	1,282	(1,665)
Incr (Decr) in other payables	-	3	(235)	(232)	1,932
Incr (Decr) in pension liability, deferred outflow and deferred inflows of resources	-	(6)	(188)	(194)	(1,019)
Net cash provided by (used for) operating activities	$ 9,875	$ (507)	$ 24,979	$ 34,347	$ 29,938
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	-	1,858	1,858	1,259
Incr (Decr) in fair value of investments	-	(26)	(121)	(147)	(123)
Total noncash transactions	$ -	$ (26)	$ 1,737	$ 1,711	$ 1,136

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 302,578	$ 114,257	$ 889,759	$ 11,372
Receivables (net):				
Accounts receivable	24,541	-	-	582
Interest	13,629	10	439	-
Due from primary government	31,131	-	-	-
Due from other PERB plans	1,215	-	-	-
Long-term loans/notes receivable	30	-	-	-
Total receivables	70,546	10	439	582
Investments at fair value:				
Equity in pooled investments (Note 3)	9,725,030	-	13,147	-
Other investments (Note 3)	609,934	138,421	-	-
Total investments	10,334,964	138,421	13,147	-
Securities lending collateral (Note 3)	278,736	91	3,905	1
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	186	-	-	-
Equipment	301	-	-	-
Construction work in progress	6,141	-	-	-
Accumulated depreciation	(387)	-	-	-
Total capital assets	6,276	-	-	-
Other assets	-	38,488	-	262
Total assets	10,993,100	291,267	907,250	12,217
DEFERRED OUTFLOWS OF RESOURCES	131	-	-	-
LIABILITIES				
Accounts payable	1,004	30	405	464
Due to other PERB plans	1,214	-	-	-
Unearned revenue	357	-	-	-
Amounts held in custody for others	-	-	-	11,752
Securities lending liability (Note 3)	278,736	91	3,905	1
Compensated absences payable	684	-	-	-
Net pension liability (Note 6)	1,202	-	-	-
OPEB implicit rate subsidy (Note 7)	1,002	-	-	-
Total liabilities	284,199	121	4,310	12,217
DEFERRED INFLOWS OF RESOURCES	113	-	-	-
NET POSITION				
Held in trust for pension benefits and other purposes	$ 10,708,919	$ 291,146	$ 902,940	$ -

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	$ 234,055	$ -	$ -
Employee	225,680	-	-
Other contributions	105,033	16,214	1,164,534
Net investment earnings:			
Investment earnings	269,745	223	3,466
Administrative investment expense	(61,477)	-	(235)
Securities lending income	2,904	-	14
Securities lending expense	(919)	-	(5)
Charges for services	195	-	-
Other additions	1,064	6,229	-
Total additions	776,280	22,666	1,167,774
DEDUCTIONS			
Benefits	773,381	-	-
Refunds	19,438	-	-
Distributions	-	40,843	839,299
Administrative expenses:			
Personal services	5,156	-	-
Contractual services	3,730	817	-
Supplies/materials	194	-	-
Depreciation	32	-	-
Utilities/rent	392	-	-
Communications	241	-	-
Travel	71	-	-
Repair/maintenance	38	-	-
Other operating expenses	268	-	-
Local assistance	12	-	-
Transfers to MUS-RP	130	-	-
Transfers to PERS-DCRP	1,105	-	-
Total deductions	804,188	41,660	839,299
Change in net position	(27,908)	(18,994)	328,475
Net position - July 1 - as previously reported	10,736,827	310,140	574,465
Net position - June 30	$ 10,708,919	$ 291,146	$ 902,940

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units
These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The condensed financial statements, presented in Note18, include the financial data of the entities listed below.

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

Montana Board of Housing 301 South Park, Room 240 PO Box 200528 Helena, MT 59620-0528	Montana State Fund 855 Front Street PO Box 4759 Helena, MT 59604-4759
Facilities Financial Authority 2401 Colonial Drive, 3rd Floor PO Box 200506 Helena, MT 59620-0506	Universities and Colleges Commissioner of Higher Education 2500 Broadway Street Helena, MT 59620-3201

Montana Board of Housing (MBOH) – MBOH, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The MBOH issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. The MBOH is audited annually by the State's Legislative Audit Division.

Facilities Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The FFA is attached to the State of Montana, Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Section 39-71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a

seven member Board of Directors appointed by the Governor. This Board has full power, authority, and jurisdiction in the administration of MSF. MSF is attached to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State's Legislative Audit Division.

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

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

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

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

Fiduciary Fund Component Units

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

Teachers Retirement System 1500 East Sixth Avenue PO Box 200139 Helena, MT 59620-0139	Public Employees' Retirement Board 100 North Park, Suite 200 PO Box 200131 Helena, MT 59620-0131

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts funded from state resources are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $84 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $18 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

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

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

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

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

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

Private-Purpose Trust Funds –To account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation, and bonds held in trust.

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

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

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

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

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

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

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

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

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act (EDBA) programs and the Municipal Finance Consolidation Act (MFCA) programs. The EDBA programs provide qualifying Montana businesses access to tax-exempt funds through the issuance of conduit (no-commitment) debt. The MFCA programs provide low cost funds to eligible Montana governments to finance capital expenditures. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Restricted Net Position

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

I. Equity in Pooled Investments

To account for the custody of monies by the Montana Board of Investment for the investment in five internal investment pools and one external investment pool. The internal investment pools are the Retirement Funds Bond Pool (RFBP), Montana Domestic Equity Pool (MDEP), Montana International Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Pool (MTRP). The external investment pool is the Trust Fund Investment Pool (TFIP). Current state agency participation in the pools is within the enterprise funds, permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The state's nine retirement funds can only participate in RFBP, MDEP, MTIP, MPEP and MTRP. Other state agencies and qualifying local governments can participate in the TFIP. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to Cash and Cash Equivalents and Investments is provided in Note 3.

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value on the Statement of Net Position. Further detail related to Investments is provided in Note 3.

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use

the depreciation approach for infrastructure assets and is reporting accumulated depreciation on the Statement of Net Position and depreciation expense on the Statement of Activities for these assets. Further detail related to Capital Assets is provided in Note 5.

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

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

L. Deferred Outflows, Deferred Inflows, and Unearned Revenue

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

M. Long-term Obligations

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the period they are incurred. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds

payable are recorded net of any applicable premium or discount. Further detail related to Long-term Debt is provided in Note 11.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2015, was 21,497 hours. For fiscal year 2016, 648 sick leave hours, 357 annual leave hours, and 2,666 excess annual leave hours were contributed to the sick leave pool, and 3,635 hours were withdrawn, leaving a balance of 21,533 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

Q. Fund Balance/Net Position

Fund Balance

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

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

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

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by management and later appropriated by the Legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the Legislature for a specific purpose. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. Based on the Governor's budget proposal, for the fiscal year ending June 30, 2016, the General Fund balance will be spent down by $130.0 million when comparing the fiscal year 2016 actual to fiscal year 2017 enacted/proposed budget. This represents management's intention to fund supplemental and other one-time-only expenditures.

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

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

Minimum General Fund - Fund Balance
The State does not maintain a stabilization fund. However, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

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

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

Net Position
In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $3.2 billion.

R. Property Taxes

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

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

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

S. Other Taxes

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

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	$ 21,592	$ 27,927	$ -	$ 18	$ 49,537
Agriculture sales	-	7,297	-	-	7,297
Cigarette/tobacco	37,427	47,175	1,798	-	86,400
Contractors gross receipts	2,397	-	-	-	2,397
Energy tax	7,930	-	-	-	7,930
Fire protection	-	3,682	-	-	3,682
Insurance premium	69,223	29,369	-	-	98,592
Liquor tax	5,405	2,177	-	27,060	34,642
Livestock	-	4,524	-	-	4,524
Other taxes	7,583	5,859	-	-	13,442
Public service commission	-	2,917	-	-	2,917
Telephone license	17,059	-	-	-	17,059
Video gaming	60,554	6	-	-	60,560
Total other taxes	$229,170	$130,933	$1,798	$27,078	$388,979

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2016, the State of Montana implemented the provisions of GASB Statement No. 72, Fair Value Measurement and Application (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

For the year ended June 30, 2016, the State of Montana implemented portions of the provisions of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (GASB 73). The Statement has two different implementation dates. The State is in compliance with the portion of the Statement associated with an effective date for fiscal years beginning after June 30, 2015. The Statement includes clarifying amendments to Statements 67 and 68 that apply to all employers and non-employer contributing entities.

For the year ended June 30, 2016, the State of Montana implemented the provisions of GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB 76). The Statement prioritizes guidance governments follow when preparing GAAP financial statements. The Statement reduces authoritative GAAP hierarchy from four categories to two and lists order of priority for pronouncements to which a government should look for guidance.

B. Other Accounting Changes

The 2015 legislature passed Senate Bill (SB) 123, which changed the regulatory oversight of Montana State Fund (MSF) effective January 1, 2016. MSF was issued a Certificate of Authority, became an authorized insurer regulated by the Montana Commission of Securities and Insurance, and is subject to the provisions of Title 33, Montana Insurance Code. With the approval of SB 123, MSF's reporting period changed from a June 30 fiscal year-end to a calendar year-end. This report, for the year ended June 30, 2016, includes a 6-month financial reporting period for MSF. Further detail related to MSF is provided in Note 18.

The proposal for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, required BOI to elect between accounting for STIP assets in one of the two allowable methods: either to continue to account for securities within the STIP pool at an amortized cost basis or change to a fair value basis. In October 2015, BOI decided that for financial reporting purposes, the STIP portfolio would be measured on a fair value basis, following the guidance of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, and GASB 72. Further detail related to STIP is provided in Note 3.

C. Adjustments to Beginning Net Position

For the year ended June 30, 2016, there were no material adjustments to beginning net position.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$ 3,418,574
Equity in pooled investments	$ 12,076,439
Investments	$ 3,135,544

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

A. General

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

(1**) BOI** was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Unified Investment Program is comprised of State funds, including pensions, trusts, insurance, and cash. Local government entities can, by statute, only voluntarily invest in the Short Term Investment Pool (STIP). With a qualifying event, local government entities may also, by statute, invest in the long-term investment portion of the program. BOI manages the Unified Investment Program pursuant to the "Prudent Expert Principle" mandated by State law, which requires an investment manager to:

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

Currently, only nine of the retirement funds and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. All other state funds must be invested in fixed-income type investments. Neither State law nor the State Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of BOI pursuant to the "Prudent Expert Principle."

To facilitate management of the Unified Investment Program, BOI created seven investment pools (Pools) that operate similar to mutual funds. All State agencies and many local government entities participate in one or more Pools. By investing in large Pools with other participants, the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the State's nine retirement funds, while others are open to other State and local government funds. State agencies, ineligible to participate in a long-term investment pool, have direct fixed income, equity and loan investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible state participants are shown in the following table as of June 30, 2016:

Pool/Investments Managed Name	Creation Date	Eligible Participants
Retirement Funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds Only
Montana International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

During fiscal year 2016, the MDEP small trusts were moved into either the TFIP or the STIP.

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

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

BOI's financial statements include the activity for Montana State Fund (MSF) within AOF on a June 30, 2016, basis. MSF, a discretely presented component of the State, by statute, prepared separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents, equity in pooled investments, and investments.

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

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

STIP investments and the income are owned by the participants and are managed on their behalf by BOI. STIP is presented at fair value. The portfolio may include asset-backed securities, commercial paper, corporate, US Government direct obligations, US Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they are a variable rate security.

State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary.

(b) Investment securities are reported by investment portfolio and type in Table 2 – Cash Equivalents, Table 3 – Equity in Pooled Investments, and Table 4 – Investments. The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. The MDEP portfolio is limited to domestic stock investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depositary receipts. The MTIP portfolio invests in both developed and emerging markets. The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt,

special situation, and secondary investments. The MTRP portfolio includes investments in private core, value-added, and opportunistic real estate.

The value of stocks and bonds are recorded at both "book" and "fair" value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the "amortized" cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. 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 book or carrying value of these private investments is the capital invested less capital returned. All investment portfolios presented in the Statement of Net Asset Value are at "fair" value.
BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.
Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
Level 3 – Prices are determined using unobservable inputs.

Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR investments are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, "derive" their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

MPEP investments are made via limited partnership agreements in which BOI and other institutional investors invest as limited partners in funds managed by a general partner. These investments are less liquid than other types of investments because the funds are usually committed for at least ten years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only.

Real estate core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through limited partnership agreements.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 2 to 270 days. US Government direct-backed securities include direct obligations of the US Treasury and obligations explicitly guaranteed by the US Government. US Government indirect-backed obligations include US Government agency securities. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of US Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the Bank split the earnings, 80/20 respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period.

During fiscal year 2016, the Bank lent BOI public securities and received as collateral: US dollar cash; US Government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2016. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2016 resulting from a borrower default. As of June 30, 2016, RFBP securities in the amount of $4 million were recalled and not yet returned.

During fiscal year 2016, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds: Quality D Short Term Investment Fund and the Securities Lending Quality Trust. Each is comprised of a liquidity pool. Pension funds participate in the Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. Security lending income offset the entire amount of the loss within each investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At fiscal year-end 2016, State Street Bank indemnified BOI's credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

Average Duration and Average Weighted Final Maturity

	Quality D ST Investment Fund	Security Lending Quality Trust
Liquidity Pool		
Average Duration	43 days	32 days
Average Weighted Final Maturity	83 days	92 days

(c) Investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. In regard to BOI, with the exception of US Government securities, the Pools' fixed income instruments have credit risk as measured by major credit rating services. For all retirement Pools, only approved cash investment vehicles are permitted. These include the custodian's STIF vehicle, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines. BOI's policy requires TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the US Government. BOI's STIP investment policy specifies that STIP securities have a minimum of two separate credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP investment policy depending on the type of investment.

The US Government guarantees US Government securities directly or indirectly. Obligations of the US Government or obligations explicitly guaranteed by the US Government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, 16 funds have specific policies associated with credit risk. The remaining two funds are not required to have a policy addressing credit risk, as they do not have exposure to debt securities. One fund requires corporate securities be rated A3/A- or higher by NRSRO to qualify for purchase. One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by NRSRO. This fund's investment policy states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Five funds require, at the time of purchase, "the quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one US Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." Two funds require "fixed income securities must be rated at least A- or A3 at the time of purchase." A portion of one fund's portfolio may have modest credit risk while the remainder has a low tolerance for credit risk. Two funds assume some risk of loss of principal to provide a return sufficient to fund objectives. Four funds may assume low risk of principal loss.

Asset-backed securities held in the bond Pools, AOF and STIP portfolios are based on the cash flows from principal and interest payments emanating from a trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization, and quality of collateral.

Custodial Credit Risk

Per policy, BOI's custodial institution must hold short-term and long-term credit ratings by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash

Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits of the custodial bank or sub-custodial bank, they are held in the name of BOI or its accounts. As of June 30, 2016, BOI recorded cash of $9.7 million.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2016, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US Government are excluded from the concentration of credit risk requirement. The US Government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the bond Pools or STIP.

Bond Pools

Both the RFBP Core Internal Bond Portfolios and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP
The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities, as well as any repurchase agreements with a financial institution. Concentration risk was within the policy as set by BOI.

AOF
With the exception of nine funds, the 18 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than A3 or A- are limited to 25% of the fixed income portfolio at the time of purchase." This same fund is limited to stock investments not to exceed 12% of the book value of its total invested assets. In addition, this fund's, and another fund's, IPS provides for a "2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." One fund's corporate risk is limited to investing 3% in any one name. The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower." Limits are also set by corporate bond sector for these five funds. Investments by various governmental agencies, pooled as AOF, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2016.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the "external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the US dollar value of investments. The Managers' Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis." The MPEP policy does not address foreign currency risk, but identifies "country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States." As of the June 30, 2016, exchange date, BOI's foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables in section C of this note excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, Collateralized Mortgage Obligation, and Adjustable Rate Mortgage securities)." Per policy, the TFIP and CIBP's duration are to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. MDEP domestic equity managers are allowed to maintain up to 5% of assets in short-term investments and index domestic equity managers are allowed to maintain up to 3% of assets in short-term investments and individual securities. MTIP international equity managers are allowed to maintain up to 5% of assets in short-term investments. With the exception of three funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities to three years to maturity and repurchase agreements seven days to maturity. A second fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. A third fund's policy limits securities to 1-5 year US Treasury/Agency securities tolerating modest interest rate risk.

Eight funds have the "ability to assume interest rate risk." According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by:

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

The fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2016, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

RFBP, TFIP, and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2016. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. The Standard & Poor (S&P) rating service provides the credit ratings presented in the later tables. If an S&P rating is not available, a NRSRO rating is used.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2016. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services, are presented. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM is calculated in days.

Legal and Credit Risk

STIP

In January 2007, BOI purchased a $25 million par issue of Orion Finance USA. In April 2007, BOI purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $140 million representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by S&P and Aaa by Moody's. Since June 30, 2008, and through June 30, 2010, these issues carried a D rating by S&P. On November 20, 2007, Axon Financial Funding declared an insolvency event. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million.

BOI determined it to be in the best interest of the STIP to hold these securities in the investment portfolio. In May 2016, BOI wrote-off the entire outstanding SIV balance of $23.6 million against the STIP reserve. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve. From May 31, 2016 until June 30, 2016, $4.4 million was recorded as recovery monies and applied to the STIP reserve.

Axon Financial Funding payments totaled $27.5 million from November 2008 to October 2011. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for $66.8 million from AFF Financing LLC with a July 5, 2011, maturity date. BOI, with the majority of other holders, elected on June 3, 2015 to extend the AFF Financing LLC promissory note maturity date to July 2, 2016. Similar one-year extensions have been granted since 2011. In June and December 2009, BOI applied $13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. Fiscal year 2016 payments through May 30, 2016

from AFF Financing LLC totaled $3.2 million consisting of $3.1 million in principal and $71 thousand in interest. As of June 30, 2016, the AFF Financing LLC, classified as an Other Asset-Backed security, had no outstanding amortized cost balances. Refer to Note 17 – Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of $13.4 million and interest compensation of $1.8 million in excess of the $904 thousand accrued interest receivable for a total of $16.1 million. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee." On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset-backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral." BOI participated in the sale and collectively holds these individual securities as Orion Finance. In June and December 2009, BOI applied $7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. From December 2010 through May 31, 2016, BOI received principal and interest payments of $17.0 million and $2.9 million, respectively. As of June 30, 2016, the Orion Finance collective holding, classified as Other Asset-Backed, had no outstanding amortized cost balance. Refer to Note 17–Subsequent Events for additional information.

STIP, Bond Pool and AOF

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from September 7, 2008.

Bond Pool and AOF

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a $15 million position in a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010, maturity. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011, maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. In May 2009, BOI sold a $5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internally managed bond portfolio. This holding, written down to $1 million, was sold at a loss of $313 thousand. As of June 30, 2011, the book value of the remaining bonds represented 20% of par. BOI sold the $5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011, maturity at a price of $26 on December 6, 2011. Because the bonds were previously written down to a price of $20, this sale generated a gain of $322 thousand.

For the remaining $10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, BOI applied $519 thousand in principal from the October 2013 bankruptcy payment resulting in a book value of $1 each as of June 30, 2014. These positions were sold in June 2016 for $765 thousand. Because these bonds were previously written down to $1, this sale generated a gain of $765 thousand. For fiscal year ending June 30, 2016, BOI recorded a $238 thousand dollar October 2015 payment and a $68 thousand March 2016 payment to gain.

In August 2011, S&P downgraded the US AAA bond rating to AA+.

Derivative Instruments

A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations.

STIP Reserve

In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to STIP participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. The STIP reserve expense is detailed as follows:

STIP Reserve Expense
(in thousands)

Other income	
Accrued interest received on SIV related assets (7/1/2015 – 5/31/2016)	$ 535
Recovery from sale of SIV related assets	4,097
Recovery from SIV related assets (6/1/2016 – 6/30/2016)	320
Realized gains on sale of any STIP asset	257
Daily reserve accrual	2,928
Total reserve expense	$ 8,137
SIV write off	(23,585)
Change in STIP Reserve	$ (15,448)

In May 2016, BOI wrote-off the entire outstanding SIV balance of $23.6 million against the STIP reserve. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve. The STIP reserve balance was $13.1 million as of June 30, 2016.

(2) The EDB deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The EDB's US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The credit ratings are provided by the S&P rating service. If an S&P rating is not available, a Nationally Recognized Securities Rating Organization (NRSRO) rating is used. The EDB does not have a formal investment policy addressing credit risk for Permitted Investments as provided in the Indenture or investment in the STIP. Permitted Investments, as described in the Indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)." BOI's STIP investment policy specifies that STIP securities have a minimum of two credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP policy depending on the type of investment.

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

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by US Bank's Trust Department in the name of BOI.

Investments - As of June 30, 2016, EDB securities were recorded in book entry form in the name of US Bank National Association as Trustee for BOI by specific account. The EDB does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US

government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP Investment Policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. As of June 30, 2016, STIP concentration risk was within the policy as set by BOI.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The EDB does not have a formal investment policy addressing interest risk for Permitted Investments as provided in the Indenture or the cash equivalent investment in the STIP. The EDB's Bond Indenture does not address interest rate risk. In accordance with GASB Statement No. 40, BOI has selected the effective duration method to disclose interest rate risk.

According to the STIP Investment Policy "the STIP portfolio will minimize interest rate risk by:

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

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2016. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations. There were no derivative transactions during the 2016 fiscal year for investments held by the trustee.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$109,412
Uninsured and uncollateralized cash	7,316
Undeposited cash	627
Cash in US Treasury	296,156
Cash in MSU component units	8,503
Cash in UM component units	13,854
Less: outstanding warrants	(33,622)
	$402,246

As of June 30, 2016, the carrying amount of deposits for component units was $224.4 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of BOI or other agencies, as allowed by law. Beginning with the period of June 30, 2016, the STIP portfolio is shown at fair value.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset backed commercial paper	$ 786,486	A1	22
Corporate commercial paper	262,021	A1	82
Corporate – variable	467,046	A1	45
Certificate of deposit – fixed	25,004	A1	15
Certificate of deposit – variable	500,023	A1	47
US government agency fixed	311,621	A1+	75
US government agency variable	263,901	A1+	16
Money market fund unrated	157,268	NR	1
Money market fund rated	189,003	A1+	1
US Bank repurchase agreement (1)	7,830	NR	0
State Street Bank repurchase agreement (1)	5,079	AA-	0
Treasuries	75,122	A1+	133
US government direct obligations	60,189	0	NA
Less: STIP included in pooled investment balance	(94,265)	NR	NA
Total cash equivalents (3)	$3,016,328		41
Securities lending collateral investment pool (2)	$ 11,844	NR	32

(1) As of June 30, 2016, the US Bank sweep repurchase agreement was collateralized at 102% for $8.0 million by a Federal Loan Mortgage Corporation Gold securities maturing November 1, 2024 and July 1, 2024. The security carries an AA+ credit quality rating. At June 30, 2016, The State Street Bank Repurchase Agreement was collateralized at 102% for $5.2 million by a US Treasury security maturing October 31, 2017. This security carries AA+ quality rating.

(2) As of June 30, 2016, the fair value of the cash equivalents was $12.6 million. Collateral provided for the cash equivalents totaled $11.8 million in cash. See also the Table 4 disclosed in Note 3 D – Investments.

(3) As of June 30, 2016, local governments had invested $889.8 million and component units of the State of Montana had invested $464.3 million in STIP.

C. Equity in Pooled Investments

These securities consist of investments held by BOI in pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Investment Pool (TFIP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle" (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
RFBP:		
Retirement Funds Bond Pool	$ 2,279,159	$ 2,372,717
TFIP:		
Trust funds investment pool	2,161,265	2,344,489
MDEP:		
Private equity pool	2,527,530	3,778,004
MTIP:		
International equity pool	1,412,249	1,544,017
MPEP:		
Private equity pool	1,043,178	1,116,761
MTRP:		
Real estate pool	789,833	925,217
Total pooled investments	10,213,214	12,081,205
Pool adjustments (net)	(4,766)	(4,766)
Total equity in pooled investments	$10,208,448	$12,076,439

As of June 30, 2016, the fair value of the underlying securities on loan was $815.4 million. Collateral provided for the securities on loan totaled $834.2 million consisting of $305.0 million in cash and $529.2 million in securities.

As of June 30, 2016, component units of the State of Montana had equity in pooled investments with a book value of $5.0 billion and a fair value of $9.8 billion as included in Table 3.

As of June 30, 2016, local governments invested $13.1 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2016, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Treasuries	$ 540,362	AA+	8.20
Agency/Government Related	115,557	AA-	6.87
Asset Backed Securities	109,847	AAA	2.20
Mortgage Backed Securities	407,828	AA+	3.45
Commercial Mortgage Backed Securities	245,271	AA+	5.39
Financial – Corporate	268,301	BBB+	3.77
Industrial – Corporate	519,683	BBB	6.05
Utility – Corporate	47,020	BBB+	5.90
Short Term Investment Pool (STIP)	16,449	NR	0.11
State Street Short Term Investment Fund (STIF)	95,512	AAA	0.07
Other	131	NR	4.34
Total fixed-income investments	$ 2,365,961	AA-	5.38
Direct Investments			
Montana Mortgages	6,756	NR	NA
Preferred Stock (1)	-		
Common Stock (1)	-		
Total Direct Investments	$ 6,756		
Total Investments	$ 2,372,717		
Securities lending collateral investment pool	$ 83,090	NR	0.12

(1) Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for an investment. As of June 30, 2016 the RFBP still held the 400 warrants at a fair value of $0 with an expiration of May 17, 2017.

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Treasuries	$ 503,524	AA+	7.57
Agency/Government Related	108,132	AA-	7.54
Asset Backed Securities	112,313	AAA	2.26
Mortgage Backed Securities	493,374	AA+	3.73
Commercial Mortgage Backed Securities	164,887	AAA	5.32
Financial – Corporate	213,578	A-	4.94
Industrial – Corporate	367,152	A-	6.67
Utility – Corporate	53,823	BBB+	6.07
Short Term Investment Pool (STIP)	48,310	NR	0.11
Core Real Estate	177,581	NR	NA
High Yield Bond Fund	101,815	B+	4.26
Total Investments	$2,344,489	AA-	5.39
Securities lending collateral investment pool	$ 27,613	NR	0.08

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	WAM in Days
Treasuries	$ 75,122	A-1+	133
Asset Backed Securities	786,486	A-1	22
Corporate Commercial Paper	262,021	A-1	82
Corporate Variable Rate	467,046	A-1	45
Certificates of Deposit Fixed Rate	25,004	A-1	15
Certificates of Deposit Variable Rate	500,023	A-1	47
US Government Agency Fixed	241,350	A-1+	75
US Government Agency Variable Rate	263,901	A-1+	16
Money Market Funds (unrated)	13,143	NR	1
Money Market Funds (rated)	189,003	A-1+	1
Total Investments	$2,823,099	A-1	41
Securities lending collateral investment pool	$ 11,844	NR	32

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – Fair Value Measurement and Application, as defined below. Each of the investment pools has the following recurring fair value measurements as of June 30, 2016.

Level 1 – Quoted prices for identical assets or liabilities in active markets.
Level 2 – Prices determined using inputs, other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3 – Prices are determined using unobservable inputs.

RFBP Investments Measured at Fair Value
(in thousands)

	June 30, 2016	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 540,362	$540,362	$ -	$ -
Agency/Government Related	115,557	-	115,557	-
Asset Backed Securities	109,847	-	109,847	-
Mortgage Backed Securities	407,828	-	407,828	-
Commercial Mortgage Backed Securities	245,271	-	245,271	-
Financial-Corporate	268,301	-	268,301	-
Industrial-Corporate	519,683	-	519,683	-
Utility-Corporate	47,020	-	47,020	-
Total fixed income investments	$2,253,869	$540,362	$1,713,507	$ -
Direct investments				
Montana Mortgages	6,756	-	-	6,756
Investment derivative instruments				
Other		-	-	-
Credit default swaps	131	-	131	-
Total investments by fair value level	$2,260,756	$540,362	$1,713,638	$6,756
Investments measured at the net asset value (NAV)				
Short Term Investment Pool (STIP)	16,449			
Total investments at fair value	$2,277,205			
Investments measured at Cost				
State Street Short Term Investment Fund (STIF)	95,512			
Total investments managed	$2,372,717			

TFIP Investments Measured at Fair Value
(in thousands)

	June 30, 2016	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 503,524	$503,524	$ -	$ -
Agency/Government Related	108,132	-	108,132	-
Asset Backed Securities	112,313	-	112,313	-
Mortgage Backed Securities	493,374	-	493,374	-
Commercial Mortgage Backed Securities	164,887	-	164,887	-
Financial-Corporate	213,579	-	213,579	-
Industrial-Corporate	367,152	-	367,152	-
Utility-Corporate	53,822	-	53,822	-
Total fixed income investments	$2,016,783	$503,524	$1,513,259	$ -
Investments measured at the net asset value (NAV)				
Core Real Estate	177,581			
High Yield Bond Fund	101,815			
Short Term Investment Pool (STIP)	48,310			
Total investments measured at NAV	327,706			
Total investments at fair value	$2,344,489			

MDEP Investments Measured at Fair Value
(in thousands)

	June 30, 2016	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity Investments:				
Consumer discretionary	$ 213,111	$ 213,111	$ -	$ -
Consumer staples	95,760	95,760	-	-
Energy	84,519	84,519	-	-
Financials	223,297	223,297	-	-
Health care	185,821	185,821	-	-
Industrials	180,373	180,373	-	-
Information technology	288,559	288,559	-	-
Materials	81,730	81,730	-	-
Mutual Funds	71,946	71,946	-	-
Telecommunication services	29,197	29,197	-	-
Utilities	31,564	31,564	-	-
Venture Capital	1,568	1,568	-	-
Total equity investments by fair value level	$1,487,445	$ 1,487,445	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity index funds	2,154,363			
Total investments at fair value	$3,641,808			
Investments measured at Cost				
Cash equivalents	136,196			
Total investments managed	$3,778,004			

MTIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity investments:				
Consumer discretionary	$ 72,208	$ 72,208	$ -	$ -
Consumer Staples	53,079	53,079	-	-
Energy	30,226	30,226	-	-
Financials	92,321	92,321	-	-
Health care	44,139	44,139	-	-
Industrials	61,048	61,048	-	-
Information technology	61,111	61,111	-	-
Materials	20,465	20,465	-	-
Mutual funds	78,087	78,087	-	-
Telecommunication services	14,114	14,114	-	-
Utilities	5,240	5,240	-	-
Total equity investments by fair value	$ 532,038	$532,038	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity index funds	973,032			
Total investments at fair value	$1,505,070			
Investments measured at Cost				
Cash equivalents	38,947			
Total investments managed	$1,544,017			

MPEP Investments Measured at Fair Value
(in thousands)

	June 30, 2016	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at the net asset value (NAV)				
Private equity-private equity partnerships	$1,055,015			
Total investments measured at NAV	1,055,015			
Total investments at fair value	$1,055,015			
Investments measured at Cost				
State Street Short Term Investment Fund (STIF)	61,746			
Total investments measured at cost	61,746			
Total investments managed	$1,116,761			

MTRP Investments Measured at Fair Value
(in thousands)

	June 30, 2016	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Direct Real Estate	$ 18,723	$ -	$ -	$18,723
Total Investments by fair value level	$ 18,723	-	-	$18,723
Investments measured at the net asset value (NAV)				
Core Real Estate	333,648			
Opportunistic	101,712			
Timber	103,849			
Value Added	337,779			
Short Term Investment Pool (STIP)	29,506			
	906,494			
Total investments managed	$925,217			

STIP Investments Measured at Fair Value
(in thousands)

	June 30, 2016	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 75,122	$75,122	$ -	$ -
Asset Backed Securities	786,486	-	786,486	-
Corporate Commercial Paper	262,021	-	262,021	-
Corporate Variable Rate	467,046	-	467,046	-
Certificates of Deposit Fixed Rate	25,004	-	25,004	-
Certificates of Deposit Variable Rate	500,023	-	500,023	-
US Government Agency Fixed	241,350	-	241,350	-
US Government Agency Variable Rate	263,901	-	263,901	-
Total investments by fair value level (1)	$2,620,953	$75,122	$2,545,831	$ -
Investments measured at cost				
Money Market Funds (Unrated)	13,143			
Money Market Funds (Rated)	189,003			
Total investments measured at cost	202,146			
Total investments by fair value level (1)	$2,823,099			

(1) STIP is reported in Table 2 – Cash Equivalents

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

RFBP – Montana Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted.

MTRP – Direct real estate classified in Level 3 of the fair value hierarchy for the fiscal year ended June 30, 2016.

Pools and AOF – Investments measured at cost are included to account for all investments within each pool and AOF.

The investments measured at NAV for the year ended June 30, 2016 are detailed below.

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If currently Eligible)	Redemption Notice Period
RFBP				
Short Term Investment Pool	$ 16,449	$ -	Daily	1 day
TFIP				
Core Real Estate	177,581	-	Monthly, quarterly	45-90 days
High Yield Bond Fund	101,815	-	Monthly	30 days
Short Term Investment Pool	48,310	-	Daily	1 day
Total investments measured at NAV	$ 327,706	$ -		
MDEP				
Commingled equity index funds	$2,154,363	$ -	Daily	1 day
MTIP				
Commingled equity index funds	$ 973,032	$ -	Daily	1 day
MPEP				
Private equity – private equity partnerships	$1,055,015	$729,269		
MTRP				
Core Real Estate	333,648	-	Monthly, quarterly	45-90 days
Opportunistic	101,712	87,583		
Timber	103,849	45		
Value added	337,779	96,888		
Short Term Investment Pool	29,506	-	Daily	1 day
Total investments measured at NAV	$ 906,494	$184,516		
AOF				
Core Real Estate	90,312	-	Monthly, quarterly	45-90 days
Commingled equity index funds	156,693	-	Daily	1 day
Total investments measured at NAV	$ 247,005	$ -		

STIP – This investment program is managed and administered under the direction of BOI as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined

using the NAV per share (or its equivalent) of the investment. For the fiscal year ended June 30, 2016, refer to the STIP Investments Measured at Fair Value table.

Commingled Equity Index Funds – This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

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

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

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

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

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

The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2016, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2016, are as follows (in thousands):

	Change in Fair Value		Fair Value at June 30, 2016		
Investment Derivatives (1)	Classification	Amount	Classification	Fair Value Amount	Notional
Credit default swaps	Investment Revenue	$ 323	Swaps	$ 131	4,320
Currency forward contracts	Investment Revenue	309	LT debt/equity	-	-
Index futures long	Investment Revenue	205	Futures	-	2
Rights	Investment Revenue	50	Equity	19	27
Total Derivatives		$ 887		$ 150	

(1) A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. The table below depicts BOI's counterparty credit risk exposure to its investment derivatives and the applicable counterparty credit ratings and risk concentrations.

Maximum Loss before and after Netting and Collateral (in thousands)	
Maximum amount of loss BOI would face in case of default of all counterparties, i.e. aggregated (positive) fair value of Over-the-Counter positions as of June 30, 2016	$ 131
Effect of collateral reducing maximum exposure	-
Liabilities subject to netting arrangements reducing exposure	-
Resulting net exposure	$ 131

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Goldman Sachs Capital	100%	BBB+	A	A3
Deutsche Bank London	0%	NA	NA	NA
Westpac Banking Corp	0%	NA	NA	NA
JP Morgan Chase Bank	0%	NA	NA	NA
Royal Bank of Canada	0%	NA	NA	NA
Citibank N.A.	0%	NA	NA	NA
Royal Bank of Scotland	0%	NA	NA	NA

As of the June 30, 2016, exchange date, BOI's foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the table below excluding the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	$ -	$ -	$ 18,844	$ -	$ -
Brazilian Real	175	-	15,267	-	-
Canadian Dollar	237	-	28,352	-	-
Czech Karuna	4	-	-		
Danish Krone	21	-	9,264	-	-
EMU – Euro	57	-	80,373	25,528	6,617
Hong Kong Dollar	179	-	17,308	-	-
Hungarian Forint	1	-	-	-	-
Indonesian Rupiah	5	-	481	-	-
Israeli Shekel	-	-	602	-	-
Japanese Yen	206	-	70,423	-	-
Korean Fortnit	-	-	1,064	-	-
Malaysian Ringgit	29	-	2,747	-	-
New Zealand Dollar	2	-	-	-	-
New Israeli Sheqel	-	-	471	-	-
Norwegian Krone	17	-	3,761	-	-
Philippine Peso	11	-	2,457	-	-
Polish Zloty	-	-	1,637	-	-
Singapore Dollar	38	-	7,165	-	-
South African Rand	62	-	9,439	-	-
South Korean Won	48	-	11,240	-	-
Swedish Krona	1	-	21,151	-	-
Swiss Franc	93	-	19,371	-	-
New Taiwan Dollar	-	-	8,530	-	-
Thailand Baht	-	-	2,960	-	-
Turkish Lira	1	-	3,413	-	-
UK Pound Sterling	90	-	77,906	-	-
Total Cash and Securities	$1,277	$-	$414,226	$25,528	$6,617

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to private equity and private real estate funds. For further details on the balances as of June 30, 2016, as shown below, please refer to BOI's separately issued external investment pool financial statements.

Commitments to Fund Managers
(in thousands)

	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
MPEP Commitments	$ 2,300,722	$ 729,269	$ 930,826	$ 985,853
MTRP Commitments	681,118	184,516	308,391	327,754
Total	$ 2,981,840	$ 913,785	$ 1,239,217	$ 1,313,607

D. Investments

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

Long-term Investments

Department	Percent Administered
Board of Investments	57.05%
Universities	15.00
MPERA (Montana Public Employee Retirement Administration)	19.30
College Savings Plan	4.08
Montana Board of Housing	2.67
Other (1)	1.90
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and State Auditor.

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

The PERS Defined Contribution Retirement Plan and the Deferred Compensation Plan’s fixed assets were administered on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). The third party record keeper, Empower ™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. All money invested in the Montana Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any third party insurers, such as Transamerica, Prudential and Voya. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
Investments by Fair Value Level				
Corporate (1)	$ 33,099	$ -	$ 33,099	$ -
Agency/Government Related (1)	81,575	-	81,575	-
Asset Backed Securities (1)	2,010	-	2,010	
Treasuries (1)	26,474	26,474	-	-
Government Securities	12,348	-	12,348	-
Mortgaged Backed Securities (1)	14	-	14	-
Other	41,079	-	41,079	-
Total Investments at Fair Value	$ 196,599	$ 26,474	$ 170,125	$ -
Investments at cost				
MT Mortgages and Loans (4)	139,311			
Total Investments at Cost	139,311			
Total Primary Government	335,910			
Component units/fiduciary funds				
Investments by Fair Value Level				
Corporate (1)	$ 674,206	$ -	$ 674,206	$ -
Asset Backed Securities (1)	62,949	-	62,949	-
Mortgage Backed Securities (1)	3,586	-	3,586	-
Agency/Government Related (1)	292,767	-	292,767	-
Treasuries (1)	216,544	216,544	-	-
529 College Savings Plan	127,820	-	127,820	-
VEBA	4,908	-	4,908	-
MSU Component Unit Investments (3)	197,019	82,199	4,055	110,765
UM Component Unit Investments (3)	215,676	111,159	29,419	75,098
Board of Housing (3)	83,767	7,033	76,733	-
State Auditor	10,601	-	10,601	-
Total Investments at Fair Value	$1,889,843	$ 416,935	$1,287,044	$ 185,863
Investments at Net Asset Value (NAV)				
Real Estate (1)	$ 90,312			
Deferred Compensation (3)	448,142			
Defined Contribution (3)	156,884			
UM Component Unit Investments (3)	34,946			
Commingled equity index funds	156,693			
Total Investments at NAV	$ 886,977			
Investments at Cost				
MSU Component Unit Investments (3)	$ 22,814			
Total Investments at Cost	$ 22,814			
Total Component Unit/Fiduciary Investments	2,799,634			
Total investments	$3,135,544			
Securities Lending Investment Pool (2)	$ 48,413			

(1) The credit quality rating and duration are included below for the rated investments.
(2) Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality Trust Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.
(3) For more detail, refer to component unit separately issued financial statements.
(4) The total for MT Mortgages and Loans does not include Coal Tax Trust loan, which was included on AOF financial statements. This amount of $10.6 million is considered advances to other funds in Coal Tax Severance column of governmental fund financial statements.

As of June 30, 2016, the fair value of the investments on loan was $118.2 million. Collateral provided for the investments on loan totaled $120.8 million consisting of $48.4 million in cash and $72.4 million in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type (1)	Fair Value	Credit Quality Rating	Effective Duration
Treasuries	$ 301,923	AA+	3.70
Agency/Government Related	472,542	AA+	2.85
Asset Backed Securities	68,966	AAA	2.29
Mortgage Backed Securities	3,600	AA+	2.03
Financial – Corporate	351,912	A-	3.13
Industrial – Corporate	285,488	A	4.28
Utility – Corporate	42,080	BBB+	3.66
State Street Bank repurchase agreement (2)	5,079	AA-	0.00
US Bank sweep repurchase agreement (3)	7,830	NR	0.00
	$1,539,420	AA-	3.35

Direct Investments			
Equity Index Fund – Domestic	$ 137,916		
Equity Index Fund – International	17,591		
Equity Index Fund – US Debt	1,186		
Total Equity Index Funds	156,693		
Core Real Estate	90,312		
MT Mortgages and Loans	149,897		
Total Direct Investments	396,902		
Total Investments	1,936,322		
Securities Lending Collateral Investment Pool	$ 48,413	NR	0.08

(1) These rated securities are reported on both Table 2–Cash Equivalents and Table 4–Investments.

(2) The State Street Bank repurchase agreement was collateralized at 102% for $5.2 million by a US Treasury security maturing October 31, 2017. This security carries AA+ quality rating.

(3) The US Bank repurchase agreement, per contract, was collateralized at 102% for $8.0 million by a Federal Home Loan Mortgage maturing November 1, 2024 and July 1, 2024. These securities carry AA+ credit quality rating.

EDB - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
First American Government Obligation Fund	$ 9,660	AAA	0.07
First American Prime Obligation Fund	4,108	AAA	0.02
Short Term Investment Pool (STIP)	102	NR	0.11
US Government Indirect Obligations	9,401	AA+	1.53
Total Investments	$ 23,271	AAA	0.65
Securities Lending Collateral Investment Pool	$ -	NR	0.09

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

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2016, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	$ -	$ 5,186	$ 31	$ 434	$ -	$ -	$ 7,063
Contributions/premiums	-	-	-	2,432	-	-	781
Grants/contracts/donations	-	9	-	-	-	-	-
Investment income	3,026	-	529	173	1,797	3,569	11,209
License and permits	-	-	8	-	-	-	8,602
Other receivables	-	27,928	7,087	-	-	916	338
Reimbursements/overpayments	-	753	11,533	-	-	-	16,532
Taxes	8,973	-	350,850	-	-	2,242	58,526
Total receivables	11,999	33,876	370,038	3,039	1,797	6,727	103,051
Less: allowance for doubtful accounts	-	(2,092)	(125,519)	(28)	-	(1)	(20,928)
Receivables, net	$11,999	$31,784	$244,519	$3,011	$1,797	$6,726	$82,123

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	$ -	$24,890	$ -
Contributions/premiums	-	3,506	5,816
Loans/investment income	11,160	111	-
Other receivables	-	90	-
Reimbursements/overpayments	-	-	1,315
Total receivables	11,160	28,597	7,131
Less: allowance for doubtful accounts	-	(342)	(3,451)
Receivables, net	$11,160	$28,255	$3,680

B. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued Interest	$ 3	$ 271	$ 52	$3,093	$ 40
Payroll	7,841	20,933	3,478	47	18,709
Tax refunds	-	146,802	-	-	-
Vendors/individual	207,993	84,028	14,138	4,432	100,826
Payables, net	$215,837	$252,034	$17,668	$7,572	$119,575

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued Interest	$169	$ 4	$ -
Payroll	21	963	-
Vendors/individuals	1	20,093	3,113
Payables, net	$191	$21,060	$3,113

C. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred outflows (1)	$8	$191,913	$5,159	$ -	$38
Refunding deferred outflows	-	-	-	4,666	-
Total deferred outflows	$8	$191,913	$5,159	$4,666	$38

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Pension deferred outflows (1)	$36	$1,445
Total deferred outflows	$36	$1,445

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

D. Deferred Inflows of Resources

	Governmental Activities (2)				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred inflows (1)	$6	$139,706	$4,108	$ -	$41
Refunding deferred inflows	-	-	-	1,122	-
Total deferred inflows	$6	$139,706	$4,108	$1,122	$41

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Pension deferred inflows (1)	$25	$1,075
Total deferred inflows	$25	$1,075

(1) Further detail regarding pension related deferred inflows of resources is provided in Note 6.
(2) Deferred inflows of resources reported on the governmental fund financial balance sheet includes balances of unavailable revenue as of June 30, 2016.

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2016, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 654,457	$ 17,186	$ (859)	$ 670,784
Construction work in progress	991,070	868,803	(918,544)	941,329
Easements	147,018	20,581	-	167,599
Museum and art	65,357	141	-	65,498
Other	12,169	293	(10)	12,452
Total capital assets not being depreciated	1,870,071	907,004	(919,413)	1,857,662
Capital assets being depreciated:				
Infrastructure	4,721,437	517,622	(230,266)	5,008,793
Land improvements	57,405	3,168	(30)	60,543
Buildings/improvements	582,538	10,469	(5,791)	587,216
Equipment	355,450	24,769	(14,070)	366,149
Easements - amortized	1,669	-	(73)	1,596
Other	6,681	269	-	6,950
Total capital assets being depreciated	5,725,180	556,297	(250,230)	6,031,247
Less accumulated depreciation for:				
Infrastructure	(1,549,253)	(229,035)	230,893	(1,547,395)
Land improvements	(22,324)	(2,611)	-	(24,935)
Buildings/improvements	(337,310)	(22,455)	2,212	(357,553)
Equipment	(228,062)	(20,762)	11,292	(237,532)
Other	(5,333)	(240)	-	(5,573)
Total accumulated depreciation	(2,142,282)	(275,103)	244,397	(2,172,988)
Total capital assets being depreciated, net	3,582,898	281,194	(5,833)	3,858,259
Intangible assets	39,303	15,844	(17,447)	37,700
Governmental activities capital assets, net	$5,492,272	$1,204,042	$(942,693)	$5,753,621

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

	Balance	(1)	(1)	Balance
Capital assets not being depreciated:				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	1,897	1,690	(497)	3,090
Other	4,358	56	(121)	4,293
Total capital assets not being depreciated	7,055	1,746	(618)	8,183
Capital assets being depreciated:				
Infrastructure	1,164	6	-	1,170
Land improvements	3,830	-	-	3,830
Buildings/improvements	7,514	1,218	(1,138)	7,594
Equipment	11,494	694	(2,650)	9,538
Total capital assets being depreciated	24,002	1,918	(3,788)	22,132
Less accumulated depreciation for:				
Infrastructure	(681)	(13)	-	(694)
Land improvements	(1,468)	(149)	-	(1,617)
Buildings/improvements	(5,745)	(175)	118	(5,802)
Equipment	(7,897)	(651)	2,393	(6,155)
Total accumulated depreciation	(15,791)	(988)	2,511	(14,268)
Total capital assets being depreciated, net	8,211	930	(1,277)	7,864
Intangible assets	184	234	(102)	316
Business-type activities capital assets, net	$15,450	$2,910	$(1,997)	$16,363

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

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

	Depreciation (2)
General government	$ 10,393
Public safety	8,436
Transportation, including depreciation of the highway system maintained by the State	231,784
Health and human services	2,454
Education	370
Natural resources, including depreciation of the state's dams	10,904
Depreciation on capital assets held by the internal service funds	10,762
Total depreciation expense – Governmental Activities	$275,103

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

	Depreciation (2)
Liquor Stores	$107
State Lottery	167
Prison Funds	485
West Yellowstone Airport	175
Other Enterprise Funds	54
Total depreciation expense – Business-type Activities	$988

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

Public Employees' Retirement Board

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

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

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability Plan provides disability benefits to disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6. Related disclosures for the PERS-DCRP Disability Plan can be found within Note 7 of this report.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and

experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at https://trs.mt.gov/.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB members are appointed from the public at large. TRB members serve staggered five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2016, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	535	289	57	32	26	220	373
Nonemployer contributing entity	-	1	-	-	1	1	1	1
Total Participants	7	536	289	57	33	27	221	374

There are approximately 700 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above. If these employees do choose to participate in any of these other plans the State is required to make contributions to the respective plan.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position, the items have been determined on the same accrual basis as they are reported by the MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

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

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

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2016, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	JRS	HPORS*	GWPORS	PERS-DBRP	SRS	MPORS*	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	55	228	989	28,390	1,364	762	644	1,895	19,048	2,409	5,417
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	16	105	3,062	95	61	27	878	1,704	346	3,970
Nonvested	-	18	278	10,031	394	112	77	-	12,888	590	-
Inactive members and beneficiaries currently receiving benefits:											
Service retirements	62	311	238	20,712	567	714	595	1,422	13,271	38	-
Disability retirements	1	6	3	169	29	23	7	1	206	7	-
Survivor benefits	5	12	9	452	24	31	19	2	1,687	3	-
Total Membership	125	591	1,622	62,816	2,473	1,703	1,369	4,198	48,804	3,393	9,387

*Includes DROP in the Active count

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2016, based on a June 30, 2015, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	$ 53,146	$ 87,107	$ (33,961)	$ (2,394)	$ 1,786	$ 2,745
HPORS	192,966	129,067	63,899	7,221	6,361	3,020
GWPORS	169,649	148,638	21,011	3,596	5,057	3,220
PERS-DBRP	3,462,702	2,713,288	749,414	50,719	68,902	72,698
SRS	22,103	16,669	5,434	420	2,499	2,376
FURS	10,627	8,173	2,454	377	1,011	151
TRS	183,145	126,915	56,230	7,736	29,657	3,834
Totals	$4,094,338	$3,229,857	$864,481	$67,675	$115,273	$88,044

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA. This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]

[1]Hired prior to July 1, 1997, and non-Guaranteed Annual Benefit Adjustment (GABA) – monthly compensation at time of retirement;
[2]Hired on or after July 1, 1997, or electing GABA – HAC during any consecutive 36 months;
[2]Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Age 60, 5 years of membership service;
Any age with 5 years of membership service – involuntary termination, actuarially reduced.

Vesting
5 years of membership service.

Monthly benefit formula
3-1/3% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

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

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

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

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

Employer contributions to the system - As the employer, the State is required to contribute 25.81% of a member's compensation.

Actuarial Assumptions
The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study dated May 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.15%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases None
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
    - 3% for members electing GABA or hired on or after July 1, 1997

- Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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
The discount rate used to measure the total pension asset was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under Montana Code Annotated (MCA). Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the 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. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 JRS's target asset allocation as of June 30, 2015, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis
In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of 7.75%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
JRS Net Pension (Asset)	($28,958)	($33,961)	($38,300)

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

	(dollars presented in thousands)		
	Net Pension Liability (Asset) as of 6/30/14	Net Pension Liability (Asset) as of 6/30/15	Percent of Collective NPA
Employer's Proportionate Share	($32,591)	($33,961)	100%

At June 30, 2016, the employer reported a net pension asset of $34.0 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the JRS participating employers. At June 30, 2015, the State's proportion as an employer was 100%.

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

Other Items Related to and Changes in Net Pension Asset

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2014	$51,632	$84,223	($32,591)
Service Costs	1,653	-	1,653
Interest	3,934	-	3,934
Difference between Expected and Actual Experience	(1,032)	-	(1,032)
Contributions - employer	-	1,684	(1,684)
Contributions - member	-	534	(534)
Net Investment Income	-	3,843	(3,843)
Benefit Payments	(3,041)	(3,041)	-
Administrative Expense	-	(136)	136
Net Changes	1,514	2,884	(1,370)
Balances at 6/30/2015	$53,146	$87,107	($33,961)

Pension Expense

At June 30, 2016, the employer recognized pension expense/(income) of ($2.4) million for the JRS.

Deferred Outflows and Inflows

At June 30, 2016, the employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $1.7 million.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$ 774
Earnings on pension plan investments	-	1,971
Contributions paid to JRS subsequent to the measurement date - FY 2016 Contributions	$1,786	-
Totals	$1,786	$2,745

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

	(in thousands)
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(1,092)
2018	(1,092)
2019	(1,091)
2020	530
2021	-
Thereafter	-

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

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

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2016, was approximately $161.2 thousand.

Summary of Benefits

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

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.
Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Vesting
Hired prior to July 1, 2013 - 5 years of membership service.
Hired on or after July 1, 2013 - 10 years of membership service.

Monthly benefit formula
Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.
Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

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

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

Minimum Monthly Benefit (non-GABA)
If hired prior to July 1, 1997, and member did not elect GABA - monthly benefits are increased each July when the fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

Contributions to the Plan

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

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.
Hired prior to July 1, 1997, and not electing GABA - Plan members are required to contribute 12.00%.
Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 12.05%.
Effective July 1, 2013, and ending July 1, 2016, all HPORS member contributions, regardless of hired date, will increase 1.0% annually.

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study,

dated May 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.23%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.30%
- Postretirement Benefit Increases - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - If electing GABA or hired on or after July 1, 1997 – 3.00%
    - Hired on or after July 1, 2013 – 1.50%
    - Minimum Benefit Adjustment – Limited to 5% over the current benefit any may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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 and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the HPORS. 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. These factors include rates of return adopted by similar public sector systems, as well as utilization of 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 an 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 HPORS's target asset allocation as of June 30, 2015, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
HPORS Net Pension Liability	$89,975	$63,899	$42,629

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
Employer's Proportionate Share	$57,123	$63,899	100%

At June 30, 2016, the employer reported a liability of $63.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the HPORS participating employers. At June 30, 2015, the State's proportion as an employer was 100%.

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 was a change in benefit terms since the measurement date. A DROP was added by Senate Bill 238 by the 2015 Legislature. The DROP plan increased the total pension liability by approximately $1.9 million.

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

Other Items Related to and Changes in Net Pension Liability

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2014	$183,133	$126,010	$57,123
Service Costs	3,598	-	3,598
Interest	14,113	-	14,113
Changes in Benefits	1,856	-	1,856
Difference Expected and Actual Experience	267	-	267
Contributions - employer	-	5,840	(5,840)
Contributions - member	-	1,624	(1,624)
Net Investment Income	-	5,738	(5,738)
Benefit Payments	(10,001)	(10,001)	-
Administrative Expense	-	(144)	144
Net Changes	9,833	3,057	6,776
Balances at 6/30/2015	$192,966	$129,067	$63,899

Pension Expense
At June 30, 2016, the employer recognized pension expense of $7.2 million for the HPORS.

Deferred Outflows and Inflows
At June 30, 2016, the employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $5.8 million.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources related to the HPORS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 200	-
Difference between projected and actual earnings on pension plan investments	-	$3,020
Contributions paid to HPORS subsequent to the measurement date - FY 2016 Contributions	6,161	-
Totals	$6,361	$3,020

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

	(in thousands)
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(1,201)
2018	(1,202)
2019	(1,202)
2020	785
2021	-
Thereafter	-

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

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

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

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

Eligibility for benefit
Service Retirement
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting
5 years of membership service.

Monthly benefit formula
2.5% of HAC per year of service credit.

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

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

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

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

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

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - 3.00% for members hired prior to July 1, 2007
  - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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
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 and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 an 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 GWPORS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis
In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Primary Government GWPORS Net Pension Liability	$44,154	$19,849	$(118)
Discretely Presented Component Units GWPORS Net Pension Liability	2,584	1,162	(7)
Total Employer GWPORS Net Pension Liability	$46,738	$21,011	$(125)

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

	(dollars presented in thousands) Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
Primary Government Employer Proportionate Share	$14,262	$19,849	94.470296%
Discretely Presented Component Unit Share	859	1,162	5.529704%
Total Employer GWPORS Proportionate Share	$15,121	$21,011	100%

At June 30, 2016, the employer reported a total liability of $21.0 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of GWPORS participating employers. At June 30, 2015, the State's proportion as an employer was 100%.

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 net pension liability.

Other Items Related to and Changes in Net Pension Liability

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

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2014	$145,127	$130,864	$14,263
Service Costs	7,565	-	7,565
Interest	11,713	-	11,713
Difference between Expected and Actual Experience	690	-	690
Contributions - employer	-	3,862	(3,862)
Contributions - member	-	4,652	(4,652)
Net Investment Income	-	6,079	(6,079)
Benefit Payments	(5,056)	(5,056)	-
Administrative Expense	-	(190)	190
Net Changes	14,912	9,347	5,565
Balances at 6/30/2015	$160,039	$140,211	$19,828

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

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2014	$8,737	$7,879	$ 858
Service Costs	443	-	443
Interest	686	-	686
Difference between Expected and Actual Experience	40	-	40
Contributions - employer	-	226	(226)
Contributions - member	-	272	(272)
Net Investment Income	-	357	(357)

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Benefit Payments	(296)	(296)	-
Administrative Expense	-	(11)	11
Net Changes	873	548	325
Balances at 6/30/2015	$9,610	$8,427	$1,183

Pension Expense

At June 30, 2016, the employer recognized a total pension expense of $3.6 million for its proportionate share of the GWPORS pension expense: $3.4 million related to the primary government and $193.8 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2016, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $3.8 million.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 592	-
Changes in proportionate shares	182	$ 151
Difference between projected and actual earnings on pension plan investments	-	2,863
Contributions paid to GWPORS subsequent to the measurement date - FY 2016 Contributions	4,008	-
Totals	$4,782	$3,014

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(1,131)
2018	(1,131)
2019	(1,131)
2020	945
2021	104
Thereafter	104

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $231.6 thousand.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$35	-
Changes in proportionate shares	8	$ 38
Difference between projected and actual earnings on pension plan investments	-	168
Contributions paid to GWPORS subsequent to the measurement date - FY 2016 Contributions	$232	-
Totals	$275	$206

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(72)
2018	(72)
2019	(71)
2020	50
2021	1
Thereafter	1

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

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, MCA. This plan covers 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 Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System-Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the Employer contributions are used to fund the PERS-DBRP liability.

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

Member's highest average compensation (HAC)

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

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

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

Eligibility for benefit
Service retirement:

Hired prior to July 1, 2011 -
Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011 -
Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 -
Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

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

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

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

- A refund of member's contributions plus regular interest (.25%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- Their GABA starts again in the January immediately following their second retirement

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

- A recalculated retirement benefit based on provisions in effect after their initial retirement; and
- Their GABA starts on their recalculated benefit in the January after receiving new benefit for 12 months

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

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

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011 -

Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 -

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

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

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

Contributions to the Plan

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

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

Employer contributions to the system

State and University System employers are required to contribute 8.37% of member compensation.
Local government entities are required to contribution 8.27% of member compensation.
School district employers contributed 8.00% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. On January 1, 2017, the additional contributions will not be terminated.

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

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

Non Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.
The State contributes 0.37% of member compensation on behalf of school district entities.

Not Special Funding

The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with Section 15-35-108, MCA.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.27%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - 3.00% for members hired prior to July 1, 2007
    - 1.50% for members hired between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
        - 1.50% for each year PERS is funded at or above 90%
        - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
        - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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 nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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-DBRP's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in PERS-DBRP - Net Pension Liability	$1,155,435	$749,414	$406,539
State as a Nonemployer Contributing Entity to PERS-DBRP - Net Pension Liability	20,606	13,365	7,250

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

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

The State also has a funding situation that is not considered a special funding situation whereby the General Fund provides contributions received from the Coal Severance Tax collections and interest accrued on the Coal Tax Permanent Trust Fund. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as a grant revenue.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$663,174	$749,414	53.611080%
State's Proportionate Share as a Nonemployer Contributing Entity	11,978	13,365	0.956090%
State of Montana Totals	$675,152	$762,779	54.567170%

At June 30, 2016, the State reported a liability of $762.8 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2014, through June 30, 2015, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

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

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

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses
At June 30, 2016, the State as an employer recognized a pension expense of $50.7 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of $874 thousand for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2016 were $51.6 million.

Support Revenue
As of the fiscal year ended June 30, 2016, the State as an employer recognized grant revenue of $18.0 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows
At June 30, 2016, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $58.6 million.

As of the fiscal year ended June 30, 2016, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$63,446
Actual versus expected experience	-	4,534
Differences between actual contributions and proportionate share contributions	$ 949	392
Changes in proportionate shares	8,880	4,326
Contributions paid to PERS-DBRP subsequent to the measurement date - FY 2016 Contributions	59,073	-
Totals	$68,902	$72,698

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(26,419)
2018	(26,419)
2019	(26,532)
2020	16,501
2021	-
Thereafter	-

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $32.4 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$1,131
Differences between actual contributions and proportionate share contributions	-	57
Changes in proportionate shares	-	61
Actual versus expected experience	-	81
Contributions paid to PERS-DBRP subsequent to the measurement date - FY 2016 Contributions	$30,800	-
Totals	$30,800	$1,330

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2017.

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

	(in thousands)
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(545)
2018	(545)
2019	(534)
2020	294
2021	-
Thereafter	-

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

Summary of Benefits

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

Eligibility for benefit
Service Retirement
20 years of membership service, regardless of age.

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

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

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

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

Contributions to the Plan

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

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 9.245% of member's compensation.

Employer contributions to the system - The employers are required to contribute 10.115% of member compensation. Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - For members hired prior to July 1, 2007 3.00%
  - For members hired on or after July 1, 2007 1.50%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

The discount rate used to measure the total pension liability was 6.68%, which is a blend of the assumed long-term expected rate of return of 7.75% on SRS's investments and a municipal bond index rate of 3.80%. The basis for this is the June 30, 2016 Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System. The projection of cash flows used to determine the discount rate

assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the SRS's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 SRS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 6.86%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (5.86%) or 1.00% higher (7.86%) than the current rate.

	(in thousands)		
	1.0% Decrease (5.86%)	Current Discount Rate	1.0% Increase (7.86%)
Employer's SRS Net Pension Liability	$8,727	$5,434	$2,735

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
Employer Proportionate Share	$2,304	$5,434	5.637055%

At June 30, 2016, the State as an employer reported a liability of $5.4 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net

pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of SRS participating employers. At June 30, 2015, the employer's proportion was 5.637055%.

Changes in actuarial assumptions and methods: There were no changes in demographic assumptions that affected the measurement of the total pension liability. There was an adjustment in the discount rate during the measurement period.

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 net pension liability.

Pension Expense

At June 30, 2016, the employer recognized a pension expense of $420.3 thousand for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2016, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $388 thousand.

As of the fiscal year ended June 30, 2016, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$2,023	$1,995
Actual versus expected experience	-	9
Changes in proportionate shares	87	-
Difference between projected and actual earnings on pension plan investments	-	372
Contributions paid to SRS subsequent to the measurement date - FY 2016 contributions	389	-
Totals	$2,499	$2,376

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2015, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

	(in thousands)
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(136)
2018	(136)
2019	(137)
2020	122
2021	21
Thereafter	-

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

Deferred Retirement Option Plan (DROP)
Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2016, there are 60 DROP participants. Since program inceptions, a total of 142 members have participated in the DROP. The balance held by MPERA for DROP participants as of June 30, 2016, was approximately $7.2 million.

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

Summary of Benefits

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

Eligibility for benefit
Service Retirement
20 years of membership service, regardless of age.

Second Retirement
Age 50, reemployed in a MPORS position

Early Retirement
Age 50, 5 years of membership service.

Vesting
5 years of membership service.

Monthly benefit formula
2.5% of FAC per year of service credit.

Second retirement benefit formula
Recalculated using specific criteria:
Less than 20 years of membership service, based on total MPORS service

More than 20 years of membership service, initial benefit plus new service credit and FAC after reemployment

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

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

Contributions to the Plan

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

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2016:

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

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin expense as a % of payroll 0.20%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases
  - GABA
    Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit
  - Minimum benefit adjustment (non-GABA)
    If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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 nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 MPORS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$156,371	$110,756	$70,262

Net Pension Liability

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

liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State as a Nonemployer Contributing Entity - Proportionate Share	$105,106	$110,756	66.954111%

At June 30, 2016, the State as a nonemployer contributing entity reported a liability of $110.8 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2014, through June 30, 2015, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity. At June 30, 2015, the State's proportion was 66.954111%.

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

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

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State recognized grant expense of $11.3 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $13.4 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$4,161
Changes in proportionate shares	$ 87	-
Actual versus expected experience	-	1,011
Contributions paid to MPORS subsequent to the measurement date - FY 2016 Contributions	13,752	-
Totals	$13,839	$5,172

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(2,156)
2018	(2,156)
2019	(2,155)
2020	1,382
2021	-
Thereafter	-

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

Summary of Benefits

Member's compensation

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

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

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

Eligibility for benefit

Service retirement

20 years of membership service, regardless of age.

Early Retirement

Age 50, 5 years of membership service.

Vesting

5 years of membership service.

Monthly benefit formula

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

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

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum Benefit Adjustment (non-GABA)
If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed firefighter employed by the city that last employed the member, provided the member has at least 10 years of membership service.

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

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

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

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

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

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

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.19%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases
  - GABA
    Members hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
  - Minimum Benefit Adjustment (non-GABA)
    Members hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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

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 nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries pensionable payroll paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 an 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 FURS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in FURS - Net Pension Liability	$ 3,959	$ 2,454	$ 1,228
State as a Nonemployer Contributing Entity to FURS - Net Pension Liability	111,140	68,892	34,463

Net Pension Liability

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

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

	(dollars presented in thousands) Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 1,806	$ 2,454	2.399255%
State's Proportionate Share as a Nonemployer Contributing Entity	66,384	68,892	67.358196%
State of Montana Totals	$68,190	$71,346	69.757451%

At June 30, 2016, the State reported a liability of $71.3 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2014, through June 30, 2015, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity. At June 30, 2015, the State as employer had a proportion of 2.399255% and the nonemployer proportion was 67.358196%.

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

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

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were some changes in proportion that may have an effect of the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2016, the State as an employer recognized pension expense of $377.3 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of $7.5 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2016, was $7.9 million.

Deferred Outflows and Inflows

At June 30, 2016, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $361 thousand.

As of the fiscal year ended June 30, 2016, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$148
Changes in proportionate shares	$536	-
Actual versus expected experience	-	3
Contributions paid to FURS subsequent to the measurement date - FY 2016 Contributions	475	-
Totals	$1,011	$151

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2015, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$ 40
2018	40
2019	40
2020	157
2021	107
Thereafter	-

At June 30, 2016, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2015 contributions of $13.6 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$4,164
Changes in proportionate shares	-	631
Actual versus expected experience	-	90
Contributions paid to FURS subsequent to the measurement date - FY 2016 Contributions	$13,635	-
Totals	$13,635	$4,885

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(2,001)
2018	(2,001)
2019	(2,002)
2020	1,264
2021	(144)
Thereafter	-

Volunteer Firefighters' Compensation Act – The VFCA, administered by the MPERA, is a statewide retirement and disability plan established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and included volunteer fire departments, fire districts, and fire service areas under the laws of the State. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. VFCA also provides limited benefits for death or injuries incurred in the line of duty. A member who chooses to

retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

Additional benefit
As of April 25, 2005, all retirees may receive a benefit per month equal to $7.50 for each year of credited service, up to 30 years of credited service (maximum benefit $225).

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting
10 years of credited service.

Monthly benefit formula (effective January 1, 2016)
$8.75 per year of credited service up to 20 years;
$7.50 per year of credited service after 20 years

Contributions to the Plan

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Inflation at 3.00%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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.

For VFCA the average dollar amount of recurring expense over the last three years was $61,000, adjusted for the inflation assumption. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the VFCA. 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. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 VFCA's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, 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.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$14,777	$10,504	$6,865

Net Pension Liability

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

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State as a Nonemployer Proportionate Share	$5,089	$10,504	100%

At June 30, 2016, the State reported a liability of $10.5 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2014, through June 30, 2015, relative to total contributions received. At June 30, 2015, the State's proportion as a nonemployer contributing entity in a special funding situation was 100%.

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

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

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

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of $6.3 million for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $1.9 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	$309
Earnings on pension plan investments	-	693
Contributions paid to VFCA subsequent to the measurement date - FY 2016 Contributions	$2,024	-
Totals	$2,024	$1,002

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(612)
2018	(302)
2019	(303)
2020	215
2021	-
Thereafter	-

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

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

Summary of Benefits

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

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation—1.85% 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 for Tier 1 members is 1.5% of the benefit payable as of January 1. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. The legislative enactment that allows for reduction of the GABA for Tier One members was in litigation and has since been settled.

Contributions to the System

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

All State and University employers are required to contribute 11.05% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.67% of an active, nonreemployed, member's compensation to the System.

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

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

Actuarial Assumptions

The total pension liability as of June 30, 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 (includes 4% general wage increase assumption) — 4.00%-8.51% for non-university members; 5.00% for university members
- Price Inflation — 3.25%
- Investment Return — 7.75%
- Postretirement Benefit Increases (starting three years after retirement)
  - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute $25 million annually to the TRS payable July 1st of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

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

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS - Net Pension Liability	$77,256	$56,230	$38,538
State as a Nonemployer Contributing Entity to TRS - Net Pension Liability	889,052	647,092	443,496

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State's as an Employer Entity	$ 72,168	$ 56,230	3.422388%
State's as a Nonemployer Entity	596,724	647,092	39.384625%
State of Montana Totals	$668,892	703,322	42.807013%

At June 30, 2016, the State reported a liability of $703.3 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2014, through June 30, 2015, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity. At June 30, 2015, the State as an employer had a proportionate share of 3.422388% and as a nonemployer contributing entity a proportionate share of 39.384625%.

Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs that affected the measurement of the total pension liability have been made since the previous measurement date.

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier Two members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the TRS" are covered by the $500 death benefit after termination.

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 net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2016, the State as an employer recognized a pension expense of $7.7 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of $30.0 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension expense for fiscal year 2016 was $37.7 million.

Deferred Outflows and Inflows

At June 30, 2016, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $16.2 million.

As of the fiscal year ended June 30, 2016, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 593	-
Difference between projected and actual earnings on pension plan investments	-	$3,019
Changes in proportionate share	796	119
Difference between actual and expected	11,322	696

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
contributions and changes in proportion		
Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	16,946	-
Totals	$29,657	$3,834

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$3,778
2018	3,777
2019	547
2020	775
2021	-
Thereafter	-

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources as a for fiscal year 2015 contributions of $42.8 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 6,824	$ -
Changes of assumptions	9,157	1,367
Difference between projected and actual earnings on pension plan investments	-	34,748
Changes in proportionate shares	4,384	24,206
Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	42,400	-
Totals	$62,765	$60,321

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(15,598)
2018	(15,596)
2019	(17,676)
2020	8,914

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2021	-
Thereafter	-

D. Legal Actuarial Status of Plans

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

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2016, the Sheriffs' Retirement System (SRS) and Game Warden & Peace Officers' Retirement System (GWPORS) were not in compliance and do not amortize.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5 year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2016, is $3.7 million and contribution forfeitures were $219.8 thousand.

Local government entities contribute 8.27% of member compensation. School district employers contributed 7.90% of member compensation. The State contributes 0.1% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.37% of member compensation.

The total contribution rate of 8.37%, referenced in the preceding paragraph, is allocated as follows: 4.19% to the member's retirement account; 3.84% to the member's retirement account after the plan choice rate unfunded actuarial liability was paid in March 2016; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. See Note 7 for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 43 non-state entity employers participate in the 457-Plan.

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

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.37% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA-CREF. Total contributions made to the plan by the employer were $14.9 million and the total employee contributions were $17.8 million for the fiscal year ended June 30, 2016.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. Investments are reported at fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on appraised value. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. In fiscal year 2016, there were 242 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2016 totaled $239.3 thousand. The outstanding balance at June 30, 2016, totaled $29.7 thousand.

I. Litigation

Wrzesien v. State. Three members of PERS who elected to participate in either the PERS Defined Contribution Retirement Plan or the University System's Montana University System Retirement Program (MUS-RP) (formally known as the Optional Retirement Program) have sued the State of Montana and MPERA over the PERS plan choice rate. The complaint alleges equal protection and due process violations, and requests issuance of a declaratory judgment granting plaintiffs the employer contributions paid toward the plan choice rate. Class action certification is also requested. The plaintiffs are represented by Travis Dye of Kalkstein, Johnson & Dye in

Missoula, Montana. The State and MPERA are represented by J. Stuart Segrest of the Montana Attorney General's Office. The complaint was subsequently amended to include the 1% in employer contributions for DCRP plan members that, pursuant to HB 454 (2013), go to the PERS defined benefit retirement plan starting July 1, 2013. A hearing on the cross motions for summary judgment was held before Judge Reynolds on October 7, 2014. A decision was made in favor of the State granting the motion on November 13, 2014.

The Plaintiffs appealed to the State Supreme Court and on September 28, 2016, the Court upheld the constitutionality of the plan choice rate. Therefore, neither the State nor MPERA will incur a liability.

***Tadman, et al. v. State*.** A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. Plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the complaint on November 25, 2015, and will be represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson, & Williams PC, in Great Falls, Montana and the PERB's legal counsel. The State's response to the complaint was filed on January 25, 2016. As of the date of the printing of this report, no further action other than discovery has taken place in this matter.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan. Further detail on Retirement Plans is provided in Note 6.

In accordance with Section 2-18-704, MCA, the MUS provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System (TRS), the Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

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

B. Plan Descriptions

Both healthcare OPEB plans for the State of Montana and MUS are agent multiple employer plans. In addition to the primary government, the participating employers under the State Plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Office of Commissioner on Higher Education (OCHE), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Helena College UM, University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required by GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 43) to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and note disclosures. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (http://mpera.mt.gov) or by contacting the following:

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

Further details on the funding policies are provided in section D. of this note.

C. Basis of Accounting

OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. OPEB is not reported on the governmental fund financial statements, as OPEB liability is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The healthcare OPEB plan document states "an employee enrolled in the State Plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the State Plan on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2016.

The number of State Plan participants as of December 31, 2015, follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Montana Board of Housing	Public Employee Retirement Board	Montana State Fund	Teachers Retirement System	Total
Active employees	12,241	1	17	45	269	19	12,592
Retired employees, spouses, and surviving spouses (1)	3,983	-	2	3	28	2	4,018
Total	16,224	1	19	48	297	21	16,610

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retires are listed as State regardless of their last place of employment. Since we are unable to account for all retired employees last place of employment cumulatively, an allocation method was used based on the accrued liability and ARC for active employees by entity for the determination of the inactive liability by entity.

The number of MUS Plan participants as of June 30, 2016, follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-UM	UM-Msla	UM-MT Tech	UM-Western	Other	Total
Active employees	427	2,392	113	165	76	87	2,091	373	173	324	6,221
Retired employees, spouses, and surviving spouses	168	699	12	52	29	23	649	129	86	79	1,926
Total	595	3,091	125	217	105	110	2,740	502	259	403	8,147

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Section 19-3-2141, MCA. There have been no significant changes in the number of participants or the type of coverage as of June 30, 2016.

The number of PERS-DCRP Disability Plan participants as of June 30, 2016, follows:

PERS-DCRP Disability Plan Participants

Enrollment	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total
Participant counts used for valuation	2,409	7	-	-	-	2,416

D. Funding Policies

The State of Montana and MUS pay for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan.

As of June 2016, the State Plan's administratively established retiree medical contributions vary between $416 and $1,506 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $41.10 and $70 and vision hardware contributions vary between $7.64 and $22.26 depending on the coverage selected.

As of June 2016, the MUS plan's administratively established retiree medical premiums vary between $225 and $1,885 per month. Retiree dental premiums vary between $52 and $156 per month while vision premiums vary from $7.48 to $21.80 depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2016, 1,763 retirees (policyholders) were enrolled in the MUS plan.

The PERS-DCRP Disability plan is funded through a portion of the statutorily required employer contributions in Section 19-3-2117, MCA. An amount equal to 0.3% of a PERS-DCRP members' compensation is contributed to this trust fund by each participating employer.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 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 over a period not to exceed 30 years. The current

State's ARC of $34.0 million is 5.26% of annual covered payroll. The State's annual covered payroll is $645.9 million. The current MUS's ARC of $9.7 million is 2.33% of annual covered payroll. The MUS's annual covered payroll is $416.6 million.

There are no long-term contracts for contributions to either plan. Contributions refer to payments made in relation to the ARC. Since the State and MUS do not fund their plans, contributions disclosed as being made herein are an implicit rate subsidy provided through the difference of retiree payments provided to the healthcare plan and claims paid by the plan on a retiree's behalf.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2016 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	$ 33,960	$ 9,669
Interest on net OPEB obligation	10,482	4,569
Amortization factor	(8,221)	(3,584)
Annual OPEB cost	36,221	10,654
Retiree claims paid (1)	(8,999)	(3,056)
Increase in net OPEB obligation	27,222	7,598
Net OPEB obligation – beginning of year (1)	245,825	107,498
Net OPEB obligation – end of year	$273,047	$115,096

Note that the amounts in the State and MUS Annual OPEB Cost table above include component unit and community college portions and therefore, they will not match the Statement of Net Position.

(1) A new actuarial valuation of the OPEB Liability was performed as of December 31, 2015. This resulted in the need to perform an adjustment of the amounts for reflection in the accounting records. The State adjusted the current year Retiree Claims Paid amount and the Montana University System adjusted their prior year OPEB balance. As a result, the upper table continues to show the State's Beginning Net OPEB Obligation historical value, but the new actuarial value is presented below; whereas, the MUS liability, in either table, no longer presents the prior year CAFR amount reported.

The State and MUS annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2016 through 2013 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2016	$36,221	24.8%	$273,047
	6/30/2015	37,205	28.2%	246,643
	6/30/2014	36,823	19.1%	219,109
	6/30/2013	34,544	10.0%	189,327
MUS	6/30/2016	$10,654	28.7%	$115,096
	6/30/2015	10,624	31.3%	107,498
	6/30/2014	10,671	15.9%	99,891
	6/30/2013	13,288	6.9%	90,916

The disability OPEB plan administered for defined contribution pension plan participants has an annual covered payroll, statutorily required contribution amount, and percentage of required contributions paid into the plan for fiscal years 2016 through 2013 as follows for the State and University system plan participants (in thousands):

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2016	$66,224	$199	100%
	6/30/2015	55,339	166	100%
	6/30/2014	50,083	150	100%
	6/30/2013	46,540	140	100%
MUS	6/30/2016	$4,612	$14	100%
	6/30/2015	4,057	12	100%
	6/30/2014	4,115	12	100%
	6/30/2013	3,901	12	100%

F. Actuarial Methods and Assumptions

As of January 1, 2015, the State's actuarially accrued liability (AAL) for benefits was $347.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $347.9 million, and the ratio of the UAAL to the covered payroll was 53.87%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2015, actuarial valuation, the projected unit cost 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 initially 3.4% for medical and 10.8% prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years.

As of July 1, 2015, the MUS actuarially accrued liability (AAL) for benefits was $110.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $110.5 million, and the ratio of the UAAL to the covered payroll was 26.5%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2016, actuarial valuation, the projected unit cost funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 20.6% for both medical and prescription drugs, initially. The increase to medical and prescriptions drug cost trend rates in plan year 2015 is based on groups cumulative rate increase instead of estimate trend rates. Both medical costs and prescriptions drugs are reduced by decrements to a rate of 4.5% after eight years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial 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*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The 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.

Additional information as of the latest actuarial valuation for the State Plan follows:

	Other Postemployment Benefits State Agent Multiple-Employer Plan	
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$11,172	$4,267
After Medicare eligibility	4,454	3,545
Actuarial valuation date	1/1/2015 (ARC calculated through December 31, 2015)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

Additional information as of the latest actuarial valuation for MUS Pan follows:

	Other Postemployment Benefits MUS Agent Multiple-Employer Plan	
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$8,392	$3,866
After Medicare eligibility	3,624	2,753
Actuarial valuation date	7/1/2015 (ARC Calculated through June 30, 2016)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		

Future retirees	50.00%
Future eligible spouses	60.00%
Marital status at retirement	70.00%

G. Termination Benefits

During the year ended June 30, 2016, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for six employees provided for up to twelve months, one-time lump-sum incentive payments for fifteen employees, and paid administrative leave for two employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2016, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for eighteen employees.

During the year ended June 30, 2016, the cost of termination benefits for the fiscal year was $665.0 thousand and $508.9 thousand for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,109 policies during the 2016 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2016 growing season, with an 85% share of premiums and losses allotted to the Reinsurer and a 15% share of each allotted to the State Hail Insurance. The fund recorded a liability of $134.5 thousand which is 15% of the estimated claims in the amount of $813.6 thousand plus adjustment expenses through June 30, 2016. The amount deducted from the estimated claims as of June 30, 2016 for reinsurance was $691.6 thousand or 85% of estimated claims. The premiums ceded to the reinsurer through June 30, 2016 were $1.9 million which was 85% of total premiums of $2.2 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan –This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be $9.1 million as of June 30, 2016, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750.0 thousand per occurrence ($500.0 thousand for claims occurring prior to July 1, 2013) and $1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1.0 million above the self-insured amount of $750.0 thousand ($500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2016, the program ceded $311.8 thousand in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers' Compensation Program Committee based on actuarial calculations of premium need and premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $7.8 million for estimated claims at June 30, 2016. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The assessment and surcharge rates are set by the Employment Relations Division of the Department of Labor and Industry annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Employers covered by Plans 1, 2 and 3 share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers in the preceding calendar year.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. The benefit to an insured employer is that the insurer's liability is limited to 104 weeks on the claim. This can favorably impact the employer's modification factor, which in turn can keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2016, the amount of this liability was estimated to be $3.3 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2016	2015	2016	2015	2016	2015
Unpaid claims and claim adjustment expenses at beginning of year	$ 17	$ 226	$ 7,300	$ 6,400	$ 8,289	$ 7,619
Incurred claims and claim adjustment expenses: provision for insured events of the current year	324	6,660	90,131	87,768	3,157	3,417
Less excess insurance reimbursement	-	-	-	-	(62)	-
Increase (decrease) in provision for insured events of prior years	79	523	-	-	(1,655)	(556)
Total incurred claims and claim adjustment expenses	403	7,183	90,131	87,768	1,440	2,861
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(189)	(6,643)	(88,331)	(86,868)	(598)	(701)
Claims and claim adjustment expenses attributable to insured events of prior years	(97)	(749)	-	-	(1,367)	(1,490)
Total payments	(286)	(7,392)	(88,331)	(86,868)	(1,965)	(2,191)
Total unpaid claims and claim adjustment expenses at end of year	$ 134	$ 17	$ 9,100	$ 7,300	$ 7,764	$ 8,289

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $2.0 million of value, with state agencies paying the first $1.0 thousand. Commercial property insurance protects approximately $5.7 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2.0 million for earthquake and $2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2006, through June 30, 2016, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2016, estimated claims liability was $15.4 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Cigna as third party administrator for medical coverage for the first six months of the fiscal year. The plan operates on a calendar year and the contract expired on December 31, 2015. Allegiance replaced Cigna as the administrator on January 1, 2016, for the last six months of the fiscal year. Delta Dental is the administrator for dental coverage. MedImpact is the administrator for the prescription drug program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments and are recorded as revenue in the Employee Group Benefits internal service fund. At June 30, 2016, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the

benefit coverage is available, as well as other actuarially determined liabilities, were $17.9 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $17.7 million is estimated to be paid in fiscal year 2017.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Towers Watson, as of June 30, 2016, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2016, $38.4 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2016	2015	2016	2015	2016	2015
Amount of claims liabilities at the beginning of each fiscal year	$ 16,953	$ 17,550	$ 18,028	$ 22,103	$ 41,597	$ 45,034
Incurred claims:						
Provision for insured events of the current year	5,343	5,278	163,115	167,770	-	-
Increase (decrease) in provision for insured events of prior years	(167)	1,834	(4,035)	(7,182)	5,707	4,618
Total incurred claims	5,176	7,112	159,080	160,588	5,707	4,618
Payments:						
Claims attributable to insured events of the current year	(1,737)	(937)	(145,572)	(148,342)	-	-
Claims attributable to insured events of prior years	(4,948)	(6,772)	(13,663)	(16,321)	(8,894)	(8,055)
Total payments	(6,685)	(7,709)	(159,235)	(164,663)	(8,894)	(8,055)
Total claims liability at end of each fiscal year	$ 15,444	$ 16,953	$ 17,873	$ 18,028	$ 38,410	$ 41,597

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2016, the Department of Transportation had contractual commitments of approximately $189.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2016, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $24.9 million for capital projects construction. The primary government will fund $15.1 million of these projects, with the remaining $9.8 million funding coming from the Montana University System.

C. Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to the BOI policies. As of June 30, 2016, the BOI had committed, but not yet purchased, $61.5 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $14.1 million for loans as of June 30, 2016. As of June 30, 2016, $1.6 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

As of June 30, 2016, the BOI has committed but not yet funded $3.0 million to the Department of Natural Resources and Conservation to purchase tax bonds to finance projects.

The BOI makes reservations to fund mortgages from the state's pension funds. The Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2016, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2016, totaled $44.1 million.

In November 2015, BOI authorized the issuance of up to an $8.5 million bond anticipation note (BAN) in anticipation of a new bond issuance in 2017 to provide liquidity to the INTERCAP loan program. The BAN was purchased and funded by the Permanent Coal Tax Trust Fund on April 15, 2016, with a stated maturity of March 15, 2017.

As of June 30, 2016, the Economic Development Bonds Enterprise Fund recorded an interentity loan payable to the Permanent Coal Tax Trust Fund in the amount of $1.2 million related to the BAN. The proceeds were used to fund two INTERCAP loan draws from a local government.

D. Department of Corrections Bond Commitments

At June 30, 2016, the outstanding tax-exempt bonds issued by the Facility Finance Authority were issued in the amount of $19.7 million of which $2.5 million is scheduled to be paid by June 30, 2017. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not

received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

Proprietary Fund Commitments

Enterprise Funds	Amount
Liquor Warehouse	$ 69
State Lottery	260
Other	1
Subtotal – Enterprise funds	$330
Internal Service Funds	
Buildings & Grounds	$ 5
Employee Group Benefit	22
FWP Equipment	47
Information Technology Services	7
Labor Central Services	97
Prison Industries	98
Subtotal – Internal Service funds	$276

F. Encumbrances

As of June 30, 2016, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	Federal Special Revenue Fund	General Fund	Nonmajor Governmental Funds	State Special Revenue Fund	Total
Encumbrances	$27,495	$10,333	$119	$52,878	$90,825

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2016, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2017	$1,172	$208
2018	957	208
2019	663	208
2020	353	18
2021	167	-
2022-2026	2	-
Total minimum payments	3,314	642
Less: interest	(144)	(42)
Present value of minimum payments	$3,170	$600

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	$ 1,596
Equipment	7,506
Less: Accum Depreciation	(4,237)
Net Book Value	$ 4,865

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2016 totaled $25.4 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2017	$ 24,735	$ 393
2018	21,953	229
2019	19,389	195
2020	15,424	118
2021	10,932	80
2022-2026	37,937	295
2027-2031	16,580	8
Thereafter	7,506	-
Total future rental payments	$154,456	$1,318

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2016, the State issued four bond anticipation notes. The proceeds of Water/Waste Water – 2015A, Drinking Water – 2015B, Water/Waste Water – 2016C and Drinking Water – 2016D were used, and will be used, to fund water and wastewater system improvements and rehabilitation. As of June 30, 2016, no funds have been drawn on the Water/Waste Water – 2016C and Drinking Water – 2016D issuances. The State issued two bond anticipation notes during fiscal year 2015 that were still active at the end of fiscal year 2016. The following schedule summarizes the activity for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Water / Wastewater – 2014A	2,642	358	2,700	300
Drinking Water – 2014A	1,550	350	835	1,065
Water / Wastewater – 2015A	-	2,605	-	2,605
Drinking Water – 2015B	-	900	-	900

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2016, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2016
1998	12,500	11,695
2000	15,000	14,335
2003	15,000	14,430
2004	18,500	18,130
2007	15,000	14,775
2010	12,000	11,975
2013	12,000	12,000
		$97,340

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$106,445	$ -	$9,105	$97,340

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2016, were as follows (in thousands):

				Principal Payments		
Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Fiscal Year 2017	In Year of Maturity (2)	Balance June 30, 2016
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 140	200 (2023)	$ 1,190
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,310	2,310 (2017)	2,310
CERCLA Program (6)	2005D	2,000	3.25-4.3	100	140 (2026)	1,185
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	290	200 (2020)	1,110
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	270	330 (2022)	1,800
CERCLA Program (6)	2006C	1,000	4.0	120	120 (2017)	120
Renewable Resource Program (4)	2006D	950	5.6-6.0	70	155 (2019)	225
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,340	2,465 (2018)	4,805
Long-Range Bldg Program	2008D	3,100	3.375-4.35	135	220 (2028)	2,065
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	610	710 (2021)	3,300
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	460	110 (2026)	3,180
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	-	560 (2019)	1,100
Trust Land	2010F	21,000	1.55-4.9	895	1,450 (2031)	16,985
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	290
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	100	115 (2021)	540
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	590	720 (2023)	4,560
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	595	115 (2025)	5,520
Water Pollution Control Revolving Fund (3)	2013D	1,035	0.4-3.7	100	120 (2024)	855
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	480	575 (2024)	4,180
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,435	820 (2028)	26,475
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,810	1,260 (2020)	9,340
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	670	1,860 (2036)	24,365
Total general obligation bonds		$ 196,230		$ 15,575		$ 115,500
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,425	1,820 (2022)	$ 9,695
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	160	215 (2024)	1,480
Broadwater Power Project Refunding (8)	2010A	10,180	3.0-4.0	1,550	1,605 (2018)	3,155
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	75	115 (2031)	1,375
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	355	170 (2031)	5,035
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	9,765	11,040 (2020)	41,550
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	130	185 (2029)	2,000
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	195	290 (2029)	3,010
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	2,635	3,740 (2023)	22,540
Total special revenue bonds		$ 126,645		$ 16,290		$ 89,840

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2017	Principal Payments In Year of Maturity (2)	Balance June 30, 2016
Middle Creek Dam Project (10)	$ 3,272	8.125	$ 81	226 (2034)	$ 2,200
Tongue River Dam Project (11)	11,300	-	290	290 (2038)	6,374
ITSD Software Licenses	1,004	3.44	323	335 (2018)	658
ITSD Software Licenses	2,890	2.41	947	494 (2019)	2,411
Total notes payable	$ 18,466		$ 1,641		$ 11,643
Subtotal governmental activities, before unamortized balances					216,983
Unamortized discount					(11)
Unamortized premium					13,645
Total governmental activities	$ 341,341		$ 33,506		$230,617

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.

(11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2016, were as follows (in thousands):

	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$15,575	$ 4,351	$16,290	$ 3,641	$ 1,641	$ 114
2018	14,190	3,826	17,115	2,875	1,679	80
2019	11,010	3,381	16,195	2,234	872	46
2020	9,370	3,034	16,915	1,595	382	42
2021	8,165	2,735	6,160	947	385	42
2022-2026	31,540	9,290	14,505	1,832	1,992	208
2027-2031	17,190	3,920	2,660	250	2,125	208
2032-2036	8,460	1,099	-	-	1,987	124
2037-2041	-	-	-	-	580	-
Total	$115,500	$ 31,636	$89,840	$ 13,374	$ 11,643	$ 864

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2016, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$ 134,795	$ -	$ 19,295	$ 115,500	$ 15,575	$ 99,925
Special revenue bonds	110,975	23	21,158	89,840	16,290	73,550
Notes payable	9,949	2,890	1,196	11,643	1,641	10,002
	255,719	2,913	41,649	216,983	33,506	183,477
Unamortized discount	(12)	1	-	(11)	-	(11)
Unamortized premium	13,015	630	-	13,645	-	13,645
Total bonds/notes payable (3)	268,722	3,544	41,649	230,617	33,506	197,111
Other liabilities						
Lease/installment purchase payable	1,186	2,646	662	3,170	1,110	2,060
Operating lease rent holiday	54	-	8	46	9	37
Pension benefits payable	4	-	-	4	2	2
Compensated absences payable (1)	101,545	56,629	55,606	102,568	55,210	47,358
Arbitrage rebate tax payable (1)	97	-	14	83	-	83
Estimated insurance claims (1)	76,579	169,963	174,815	71,727	30,940	40,787
Pollution remediation	269,898	16,169	43,078	242,989	33,610	209,379
Net pension liability	1,423,406	135,057	-	1,558,463	-	1,558,463
OPEB implicit rate subsidy (2)	236,667	34,693	8,619	262,741	-	262,741
Total other liabilities	2,109,436	415,157	282,802	2,241,791	120,881	2,120,910
Total governmental activities long-term liabilities	$2,378,158	$418,701	$324,451	$2,472,408	$154,387	$2,318,021
Business-type activities						
Lease/installment purchase payable	836	2	238	600	186	414
Compensated absences payable	1,867	1,178	970	2,075	970	1,105
Arbitrage rebate tax payable	-	17	-	17	-	17
Estimated insurance claims	19,065	91,974	90,692	20,347	12,776	7,571
Net pension liability	9,363	1,387	-	10,750	-	10,750
OPEB implicit rate subsidy (2)	4,168	642	159	4,651	-	4,651
Total business-type activities long-term liabilities	$ 35,299	$ 95,200	$ 92,059	$ 38,440	$ 13,932	$ 24,508

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy on the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

(3) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

F. Refunded and Early Retired Debt

Prepayments
The Department of Natural Resources and Conservation (DNRC) used current available resources to make three prepayments: $480.0 thousand on Series 2005F, $255.0 thousand on Series 2006D and $1.1 million on Series 2010C general obligation bonds. The Department of Public Health and Human Services (DPHHS) used current and available resources to make one prepayment resulting in a payoff: $2.8 million on special revenue Series 2003 bonds.

Refundings
In March 2016, the State issued Grant Anticipation (GARVEE) Refunding Series 2016 Bonds in the amount of $22.5 million to make an advanced refunding of $29.1 million GARVEE, Series 2008. The refunding resulted in an economic gain of $1.2 million and a difference in cash flow requirements of $1.2 million.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)
The BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2016, QZAB debt outstanding aggregated $8.5 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2016, QSCB debt outstanding aggregated $6.1 million.

Beginning Farm Loan Program
The Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2016, was as follows: Hershberger Project – issued $129.4 thousand, outstanding $49.1 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2016, was $243.0 million. Of this liability, $21.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $214.9 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2016, consisted of the following (in thousands):

	Due to Other Funds				
	Coal Severance Tax	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds
Due from Other Funds					
Coal Severance Tax	$ -	$1	$ -	$ -	$ -
Economic Development Bonds	-	-	-	-	1,397
Federal Special Revenue	-	-	-	-	-
General Fund	18	-	374	-	-
Internal Service Funds	45	-	-	7	-
Nonmajor Governmental Funds	-	-	-	-	-
State Special Revenue	-	-	7	89	-
Total	$63	$1	$381	$96	$1,397

	Due to Other Funds (cont)			
	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds (cont)				
Coal Severance Tax	$ -	$ 4	$ -	$ 5
Economic Development Bonds	-	349	679	2,425
Federal Special Revenue	-	-	48	48
General Fund	12,004	-	8,908	21,304
Internal Service Funds	-	-	-	52
Nonmajor Governmental Funds (1)	-	-	231	231
State Special Revenue (2)	532	493	-	1,121
Total	$12,536	$846	$9,866	$25,186

(1) Total due from other funds to the non-major governmental funds on the financial statements is reported as $2.0 million. The difference of $1.7 million between the amount reported above of $231.4 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as $9.2 million. The difference of $8.0 million between the amount reported above of $1.1 million and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as $12.9 million. The difference of $334.8 thousand between the amount reported above of $12.5 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2016, consisted of the following (in thousands):

	Interfund Loans Payable					
	Coal Severance Tax	Economic Development Bonds	Federal Special Revenue	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
Coal Severance Tax	$ -	$1,207	$ -	$ -	$ -	$ 1,207
General Fund (1)	1,581	-	73,940	293	10,854	86,668
Nonmajor Enterprise	-	-	6	-	-	6
State Special Revenue	-	-	65,655	-	-	65,655
Total	$1,581	$1,207	$139,601	$293	$10,854	$153,536

(1) The interfund loan balance of $ 73.9 million between the General Fund and the Federal Special Revenue Fund includes a loan processed unnecessarily in the amount of $ 20.0 million.

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2016, consisted of the following (in thousands):

	Advances from Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds						
Coal Severance Tax	$ -	$ -	$ -	$ 1,375	$ -	$ 1,375
Economic Development Bonds	-	5,265	-	4,570	1,048	10,883
General Fund	325	-	-	-	314	639
Internal Service Funds	-	-	80	-	-	80
Nonmajor Governmental Funds	-	-	-	-	10,578	10,578
State Special Revenue	19,158	-	-	6,106	-	25,264
Total	$19,483	$5,265	$80	$12,051	$11,940	$48,819

Additional detail for certain advance balances at June 30, 2016, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Justice	$ 1,048
Natural Resources and Conservation	4,570
Transportation	5,265
Total	$10,883

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2016, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant
Transfers Out					
Coal Severance Tax	$ -	$ -	$20,722	$ -	$ -
Federal Special Revenue	-	-	133	-	-
General Fund	-	-	-	1,034	-
Internal Service Funds (1)	-	-	-	7	-
Land Grant	-	-	11	-	-
Nonmajor Enterprise Funds	-	-	43,630	-	-
Nonmajor Governmental Funds	9	1,241	300	-	-
State Special Revenue	-	3,932	13,758	1,031	6
Total	$9	$5,173	$78,554	$2,072	$6

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out (cont)				
Coal Severance Tax	$ -	$ 683	$ 2,700	$ 24,105
Federal Special Revenue	-	15,604	14,295	30,032
General Fund	-	23,459	66,715	91,208
Internal Service Funds (1)	68	240	5	320
Land Grant	-	1,510	66,851	68,372
Nonmajor Enterprise Funds (2)	-	-	7,809	51,439
Nonmajor Governmental Funds	-	5,291	19,657	26,498
State Special Revenue	577	14,687	-	33,991
Total	$645	$61,474	$178,032	$325,965

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $1.8 million. The difference of $1.4 million between the amount reported above of $3.2 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as $51.5 million. The difference of $18.2 thousand between the amount reported above of $51.4 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2016, as follows (in thousands):

Fund Type/Fund	Deficit
Internal Service Funds	
Information Tech Services	$ (15,652)
Building and Grounds	(839)
Admin Central Services	(1,607)
Labor Central Services	(4,979)
Commerce Central Services	(1,391)
OPI Central Services	(1,102)
DEQ Indirect Cost Pool	(4,070)
Payroll Processing	(1,320)
Warrant Processing	(48)
Investment Division	(2,268)
Aircraft Operation	(576)
Justice Legal Services	(387)
Personnel Training	(203)
Other Internal Services	(295)
Enterprise Fund	
State Lottery	(2,240)
Subsequent Injury	(2,564)
Secretary of State Business Services	(47)
Local Government Audits	(50)

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2016.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 65,615	$30,927	$ 22,626	$ 2,241	$ 169	$ 73,421	$ 194,999
Taxes	188,478	4,217	225,848	-	(2)	15,502	434,043
Charges for services	27,334	9,885	6,774	32,988	1,885	19,635	98,501
Investment earnings	321	12,155	47	265	1,051	17,278	31,117
Securities lending income	1	53	-	1	4	90	149
Sale of documents/merchandise/property	2,168	2,571	117	117	5	1,450	6,428
Rentals/leases/royalties	341	11	419	49	3	376	1,199
Contributions/premiums	24,880	-	-	-	-	-	24,880
Grants/contracts/donations	2,616	529	496	14,845	1,802	3,544	23,832
Federal	5,292	54	1	567	-	2	5,916
Federal indirect cost recoveries	-	-	39,355	81	-	4,462	43,898
Other revenues	2,012	530	559	472	256	117	3,946
Transfers in	28,205	3,675	140	7,036	1,756	137,220	178,032
Total State Special Revenue	$347,263	$64,607	$296,382	$58,662	$6,929	$273,097	$1,046,940

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 722	$ 14	$ -	$ 6,645	$ 28,133	$ 7	$ 35,521
Investment earnings	196	4	-	-	58	82	340
Securities lending income	-	-	-	-	-	3	3
Sale of documents/merchandise/property	19	-	-	-	-	-	19
Grants/contracts/donations	-	-	-	-	-	8	8
Federal	116,870	10,150	444,504	1,444,052	179,425	87,351	2,282,352
Federal indirect cost recoveries	14	-	-	68,435	65	528	69,042
Other revenues	(120)	6	-	1,031	4	-	921
Transfers in	-	221	-	2,101	-	2,851	5,173
Total Federal Special Revenue	$117,701	$10,395	$444,504	$1,522,264	$207,685	$90,830	$2,393,379

Governmental Fund Balance By Function, June 30, 2016
(in thousands)

	General	Special Revenue		Permanent		Nonmajor	Total
		State	Federal	Coal Severance Tax	Land Grant		
Fund balances							
Nonspendable							
Inventory	$ 3,319	$ 21,066	$ -	$ -	$ -	$ -	$ 24,385
Permanent fund principal	-	500	-	527,020	710,451	310,718	1,548,689
Long-term notes/receivables	641	-	-	-	-	-	641
Prepaid expense	539	503	190	-	-	27	1,259
Total nonspendable	4,499	22,069	190	527,020	710,451	310,745	1,574,974
Restricted							
General government	-	2,443	-	-	-	3,896	6,339
Transportation	-	40,449	1,443	-	-	-	41,892
Health and human services	-	2,939	-	-	-	18,433	21,372
Natural resources	-	700,936	-	-	-	9,074	710,010
Public safety	-	235,746	-	-	-	393	236,139
Education	-	7,787	7,325	-	-	34	15,146
Total restricted	-	990,300	8,768	-	-	31,830	1,030,898
Committed							
General government	-	105,931	-	573,585	-	69,825	749,341
Transportation	-	4,070	-	-	-	-	4,070
Health and human services	-	29,086	-	-	-	-	29,086
Natural resources	-	352,800	-	-	-	34,321	387,121
Public safety	-	31,776	-	-	-	-	31,776
Education	-	16,180	-	-	-	-	16,180
Total committed	-	539,843	-	573,585	-	104,146	1,217,574
Assigned							
General government	-	1,803	-	-	-	6,647	8,450
Public safety	-	-	-	-	-	404	404
General Fund Spend Down FY17 (1)	130,000	-	-	-	-	-	130,000
Encumbrance	10,333	-	-	-	-	-	10,333
Total assigned	140,333	1,803	-	-	-	7,051	149,187
Unassigned	126,478	-	-	-	-	-	126,478
Total fund balance	$271,310	$1,554,015	$8,958	$1,100,605	$710,451	$453,772	$4,099,111

(1) In fiscal year 2016, the General Fund unassigned fund balance was $126.5 million. An additional $130.0 million was reported as assigned fund balance pertaining to the projected General Fund spend down of fund balance in fiscal year 2017. The 2015 Legislature projected $319 million of unassigned fund balance for fiscal year 2016.

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation (SAF). Approximately 70.44%, or $841.6 million of MGSLP's outstanding loan volume is held by MHESAC.

The Montana Association of Health Care Purchasers (MAHCP) had a member from the Department of Administration (DOA), Health Care and Benefits Division, serve on the board from July 1 through December 31, 2015 as well as a member from the Montana University System. No remuneration was received for their services. DOA paid MAHCP $1.25 per health care plan member per year to maintain its membership for this time period. The DOA transitioned from a full member to an associate member of the MAHCP effective January 1, 2016. Associate membership does not require a membership fee, but no longer provides a seat on the board. DOA also paid $0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program, for the period July 1, 2015, through June 30, 2016.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT from Mineral Plaza, LLC, in which one of the owners is Johnette Watkins, a local job service manager. The term of the lease is four years beginning July 1, 2013, and ending June 30, 2017. The annual lease amount is currently set at $21,330.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a base settlement amount of $832 million payable over 26 years. The base amount was augmented by $90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017.

The settlement provides that the cigarette manufacturers may offset, against their payment in any year, certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2006. The State filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question. District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed through discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state will not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana will have no reduction to its annual OPM settlement payments for 2003).

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana will not be subject to the 2003 NPM Adjustment, but the consent decree specifically

articulates that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, though not yet filed, litigation challenging its diligent enforcement in 2004, 2005, and 2006, for which years the OPMs have already received a determination that Master Settlement terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

Factual arguments exist to show that Montana enacted a qualifying statute within the meaning of the Master Settlement Agreement, which was in full force and effect and diligently enforced during 2004-2006 and thereafter to date. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2004 through 2006, which would be recouped through an offset of payments due to Montana in future years. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and certain tobacco product manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration. Neither Montana nor any tobacco product manufacturers have yet initiated litigation to determine the State's diligent enforcement for 2004. Montana anticipates initiating such an action in Montana District Court in fiscal year 2017.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost $41 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael McMahon presiding. The cause number is CDV 2004-846.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the $41 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1.2 million for PPL's costs relating to the appellate proceedings. All but approximately $31,000 relate to premiums that PPL paid for a supersedeas bond in support of staying the $41 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31,263. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The

parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible. At this time, no further potential liability to the State is expected relative to this action and no additional updates are necessary in regards to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), was filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately $1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Kohoutek, Inc. v. Montana involves a class action constitutional challenge to the state's statute governing compensation for mandatory case-lot sales of liquor. Agency liquor stores are required by statute to provide an 8% discount to liquor licensees for sales of unbroken case-lots. Section 16-2-101(2)(b)(ii)(B), MCA, provides for a weighted average discount ratio to offset for some or all of this mandatory case lot discount. The weighted average discount ratio is based on fiscal year 1994 sales. Plaintiffs contend that this provision, rooted in 1994 rather than based on actual sales, violates their rights to substantive due process and equal protection, and constitutes a taking.

Plaintiffs filed a Complaint for Declaratory, Injunctive, and Class Relief on March 25, 2014, before the Eighth Judicial District Court, ADV-14-181. The District Court for the Eighth Judicial District granted class certification by Order dated August 21, 2014. The case has been bifurcated into two parts: constitutionality and damages. The Court heard oral argument on the Plaintiffs' Motion for Partial Summary Judgment, addressing its constitutional claims, on January 20, 2015, and will decide on that issue in the near future.

On May 28, 2015, the District Court determined that Section 16-2-101(2)(b)(ii)(B), MCA, violated the plaintiffs' rights to substantive due process and to equal protection of the law because the state has continued to use 1994 sales information to reimburse agency liquor stores for the mandatory case lot discounts. Trial on the issue of damages is set for February 4 and 5, 2016.

On August 2, 2016, District Judge Greg Pinski ruled the damages due to the class is $14.7 million. Further proceedings will be held in December 2016 to determine whether interest and attorney fees are due to the plaintiffs; however, it is anticipated that the total amount due to this litigation will exceed $31 million.

Stretch v. State of Montana (Cause # DV-05-475A) is a class action wage claim for overtime wages for employees at Treasure State Correctional Training Center. The court recently granted Plaintiffs' motion to expand the class. The matter has been set for trial in late 2017. The parties are currently scheduled for settlement discussions in mid-December 2016. Plaintiffs claim that their damages run from $2 to $4 million. Plaintiffs recently offered to settle for $1.5 million.

Barclay v. Montana Department of Corrections (Cause # DV-13-26) is a wage claim suit filed by 41 non-union employees at Montana State Prison (MSP). Plaintiffs claim the department failed to pay their wages under the 2010 market survey, since May 2012. They claim losses in excess of $2 million in lost wages and penalties. The parties are currently engaged in discovery and are required to engage in a mandatory settlement conference. The case is currently scheduled for a jury trial in February 2017, but the parties anticipate seeking a new scheduling order and trial date.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Department has incurred costs to make upgrades to the physical infrastructure at MSP. Since about 2014, the department has assumed the additional responsibility to pay attorneys' fees and expert fees for Plaintiffs' counsel (ACLU). Currently, the parties are engaged in weekly conferences to reach the goal of final settlement of the remaining issue before February 1, 2017, as ordered by the court. At this time, the department cannot specify an anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by ACLU on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at MSP. The Plaintiff appealed the district court order, dismissing the case for failure to state a claim, to the Ninth Circuit Court of Appeals. The 9th Circuit "suggested" that the parties engage in mediation, so the department has exchanged settlement proposals with Plaintiff. The Plaintiff's counsel has presented an unrealistic settlement proposal, including construction of two separate housing units for mentally ill inmates and at least $800,000 in attorneys' fees, continued monitoring of the facility and fees to pay the expert monitor. The Plaintiff's chances of success are not good, but the cost to defend could be expensive. At this time the department cannot specify an anticipated amount of financial obligation.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Public Employees' Retirement System - Defined Contribution Retirement Plan. Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has two items of litigation in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section N for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2016, the State distributed $1.0 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $10.6 million in commodities in fiscal year 2016. The value at June 30, 2016, of commodities stored at the State's warehouse is $1.9 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2016, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling $177.2 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $97.3 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $79.9 million.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2016, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	$42,354
Total	$42,354

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2016. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2016, these include $6.0 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2016. As of June 30, 2016, these include $3.4 million of protested property taxes recorded in the General Fund and $3.9 million recorded in the State Special Revenue Fund. In addition, certain companies have appealed an additional $5.6 million in regular property taxes recorded in the General Fund on the State's financial statements.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2016, an additional $50.0 million was committed to Montana Private Equity Pool fund managers and an additional $45.0 million was committed to Montana Real Estate Pool fund managers by the Board of Investments (BOI).

Since June 30, 2016, the BOI made additional commitments to fund loans from the INTERCAP loan program in the amount of $28.0 million.

From July 1 through December 12, 2016, the BOI received recovery payments associated with AFF Financing LLC holding of $2.5 million, representing $2.4 million in principal and $60.0 thousand in interest. For the same period, the BOI received recovery payments associated with the Orion Finance collective holding of $572.0 thousand with $521.0 thousand and $51.0 thousand applied to principal and interest, respectively. Both the principal and interest was treated as recovery money and applied to the reserve.

During July 2016, the BOI terminated one manager in Montana Domestic Equity Pool. A transition manager was hired to liquidate the portfolio and cash was transferred to another fund within the portfolio. The market value of the transfer was approximately $63.0 million.

On August 16, 2016, the BOI approved two commercial loans for a total of $3.1 million.

During October 2016, the BOI terminated one manager in the Montana Domestic Equity Pool. A transition manager was hired to liquidate the portfolio. The market value of the liquidation was approximately $27.0 million.

The BOI exercised the United States Department of Agriculture - Rural Development's guarantee on two commercial loans outstanding in the principal amount of $6.9 million. Payment was received October 19, 2016.

As of October 31, 2016, the Short-term Investment Pool will no longer participate in the Security Lending Program.

During the November 15-16, 2016, meeting of the BOI, the board approved the issuance of up to $20 million in INTERCAP bonds on March 1, 2017. Up to $8.5 million of the proceeds will be used to satisfy the BAN with the Permanent Coal Tax Trust Fund. Since June 30, 2016, an additional $5.9 million has been recorded as an interentity loan payable to the Permanent Coal Tax Trust Fund. The proceeds funded six INTERCAP loan draws of a local government.

The BOI is in the process of working through a bankruptcy trustee to begin foreclosure on one commercial loan with an outstanding principal amount of $1.2 million.

Other Subsequent Events

On August 2, 2016, $3,000,000 was drawn for a Coal Severance Tax, taxable bond series 2016A, for the renewable resource loan program. The bond was purchased by the BOI.

On August 15, 2016, the Land Board approved, by vote of 5-0, a like-kind property exchange. The Old Amory at 1100 Last Chance Gulch and the Old Liquor Warehouse at 920 Front St. will be traded for a former Coca-Cola Warehouse located at 1698 A St.; all respective properties are located in Helena. Additional requirements must be met, such as renovations to the Coca-Cola Warehouse that are suitable to the State, prior to completion of the exchange.

On September 21, 2016, a complaint and proposed consent decree, related to the case of United States of America and State of Montana v. ExxonMobil Pipeline Company, No. 1:16-cv-00143-SPW-TJC, (United States District Court for the District of Montana, Billings Division) resulting from a July 2011 Yellowstone River oil spill near Laurel, was filed. The consent decree settles all natural resource damage claims of the U.S. and the State of Montana under the Oil Pollution Act and State CECRA for a total of $12.0 million. The split of the settlement proceeds is $2.5 million

for the U.S., and $9.5 million for the State. The consent decree and a related restoration plan were subject to public comment. The Court then entered the consent decree on December 12, 2016, and settlement proceeds are due February 21, 2017.
On October 3, 2016, the Consumer Protection Bureau prevailed in the case State of Montana, ex rel. Tim Fox, Attorney General vs. Merck & Co., Inc., No. ADV 2005-899 (Mont. 1st Jud. Dist. Lewis & Clark County). The Bureau anticipates future receipt of $9.9 million into its State Special Revenue reserve fund and a $3.0 million distribution to the Montana Healthcare Foundation as a result of a Consent Judgment agreed to by the parties on this date.

The Hail Insurance program has experienced an approximate doubling of claims compared to prior growing seasons' occurrences. While the program has the resources to cover all claims incurred, participants may not receive premium refunds for multiple future years. See Note 8 for additional information related to this self-supported program.

On January 18, 2017, the Cascade County District Court approved mediation process agreements sought by the Risk Management and Tort Defense Division for additional groups of Libby Mine Claims. As a result, an amount of $750.0 thousand has been paid. Within thirty days of the approval date, the State will pay an additional $14.2 million and another $10.0 million will be paid in July 2017. However, the State may be able to mitigate a portion or all of this payment should it receive a favorable outcome in a related case against NIC, a State insurer.

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2016 (in thousands):

Condensed Statement of Net Position
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$640,966	$5,269	$1,648,050	$595,374	$457,648	$3,347,307
Due from primary government	-	-	-	458	1,341	1,799
Due from component units	-	-	-	57	226	283
Capital assets (net) (Note 18C)	3	-	28,843	459,067	359,388	847,301
Total assets	640,969	5,269	1,676,893	1,054,956	818,603	4,196,690
Deferred Outflows of Resources	696	20	1,187	29,423	18,845	50,171
Liabilities:						
Accounts payable and other liabilities	7,777	36	143,697	77,226	57,975	286,711
Due to primary government	-	32	-	3,251	1,120	4,403
Due to component units	-	-	-	226	57	283
Advances from primary government	-	-	-	19,645	11,895	31,540
Long-term liabilities (Note 18I)	479,911	246	1,017,665	363,525	267,986	2,129,333
Total liabilities	487,688	314	1,161,362	463,873	339,033	2,452,270
Deferred Inflows of Resources	106	12	1,757	6,560	7,175	15,610
Net Position:						
Net investment in capital assets	3	-	28,843	291,601	249,191	569,638
Restricted	153,868	-	-	296,796	267,199	717,863
Unrestricted	-	4,963	486,118	25,549	(25,150)	491,480
Total net position	$153,871	$4,963	$ 514,961	$613,946	$491,240	$1,778,981

(1) Effective January 1, 2016, Montana State Fund reports their financial statements on a calendar-year basis. The information provided is based on a six-month period, ending December 31, 2015.

Condensed Statement of Activities
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (2)	Montana State University	University of Montana	Total Component Units
Expenses	$ 22,858	$ 392	$124,110	$ 542,254	$ 438,684	$1,128,298
Program Revenues:						
Charges for services	983	610	88,495	255,376	184,052	529,516
Operating grants and contributions	24,010	55	-	209,616	139,625	373,306
Capital grants and contributions	-	-	-	4,710	20,855	25,565
Total program revenues	24,993	665	88,495	469,702	344,532	928,387
Net (expense) program revenues	2,135	273	(35,615)	(72,552)	(94,152)	(199,911)
General Revenues:						
Unrestricted grants and contributions	-	-	-	81	-	81
Unrestricted investment earnings	-	-	12,682	905	(2,306)	11,281
Transfer from primary government (1)	-	-	-	132,598	106,707	239,305
Gain (loss) on sale of capital assets	-	5	(20)	101	-	86
Miscellaneous	-	-	934	-	-	934
Contributions to term and permanent endowments	-	-	-	12,658	10,323	22,981
Total general revenues and contributions	-	5	13,596	146,343	114,724	274,668
Change in net position	2,135	278	(22,019)	73,791	20,572	74,757
Total net position – July 1 – as previously reported	151,736	4,685	536,980	540,155	470,668	1,704,224
Adjustments to beginning net position	-	-	-	-	-	-
Total net position – July 1 – as restated	151,736	4,685	536,980	540,155	470,668	1,704,224
Total net position – June 30	$153,871	$4,963	$514,961	$ 613,946	$ 491,240	$1,778,981

(1) Includes non-employer pension revenue and payments for services provided.
(2) Effective January 1, 2016, Montana State Fund reports their financial statements on a calendar-year basis. The information provided is based on a six-month period, ending December 31, 2015.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 8,377	$ 8,225	$ 1,139	$ 17,741
Construction work in progress	54,016	46,219	-	100,235
Capitalized collections	9,247	18,108	-	27,355
Livestock for educational purposes	3,685	-	-	3,685
Total capital assets not being depreciated	75,325	72,552	1,139	149,016
Capital assets being depreciated:				
Infrastructure	43,655	8,343	-	51,998
Land improvements	22,918	15,422	-	38,340
Buildings/Improvements	600,397	538,124	27,941	1,166,462
Equipment	162,589	92,005	7,517	262,111
Livestock	-	10	-	10
Library books	65,577	61,234	-	126,811
Leasehold improvements	1,262	-	-	1,262
Total capital assets being depreciated	896,398	715,138	35,458	1,646,994
Total accumulated depreciation	(520,782)	(432,854)	(8,110)	(961,746)
Total capital assets being depreciated, net	375,616	282,284	27,348	685,248
Intangible assets	377	1,878	359	2,614
MSU Component Unit capital assets, net	7,749	-	-	7,749
UM Component Unit capital assets, net	-	2,674	-	2,674
Discretely Presented Component Units capital assets, net	$ 459,067	$ 359,388	$28,846	$ 847,301

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. MSF investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2015, approximately 24,400 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2015, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2015, $900.3 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA requires MSF to set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the six-month period ended December 31, 2015, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to $100.0 million in which MSF retains the first $5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5.0 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2014 through December 31, 2016. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $5.5 million during the six-month period ended December 31, 2015.

Estimated claim reserves were reduced by $10.8 million as of December 31, 2015 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional $22.4 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Six Months Ended December 31, 2015
Unpaid claims and claim adjustments expenses at beginning of year	$ 895,543
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	72,200
Increase (decrease) in provision for insured events of prior years	(4,817)
Total incurred claims and claim adjustment expenses	67,383
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(8,090)
Claims and claim adjustment expenses attributable to insured events of prior years	(54,540)
Total payments	(62,630)
Total unpaid claims and claim adjustment expenses at end of year	$ 900,296

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2016, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2017	$249
2018	175
2019	97
2020	62
2021	20
2022-2026	-
Total minimum payments	603
Less: interest	(53)
Present value of minimum payments	$550

G. Operating Leases

Future rental payments under operating leases at June 30, 2016, are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2017	$ 4,598
2018	2,718
2019	2,488
2020	2,307
2021	1,274
2022-2026	2,874
2027-2031	1,491
Thereafter	2,833
Total future rental payments	$20,583

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2016, were as follows (in thousands):

	Montana Board of Housing		Montana State University		University of Montana	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 13,550	$ 16,036	$ 9,642	$ 6,094	$ 8,207	$ 3,587
2018	15,325	15,741	8,995	5,834	8,506	3,293
2019	15,795	15,403	12,560	5,560	8,825	2,964
2020	16,265	15,010	9,180	5,242	9,220	2,611
2021	16,800	14,569	9,200	4,931	9,565	2,227
2022-2026	96,575	64,433	35,255	20,220	42,830	5,585
2027-2031	105,880	46,068	25,380	13,731	9,800	1,201
2032-2036	98,100	26,352	24,120	8,645	1,885	114
2037-2041	70,749	10,288	14,795	4,483	-	-
2042-2046	22,105	1,156	11,205	857	-	-
Total	$471,144	$225,056	$160,332	$75,597	$98,838	$21,582

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2016, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	$ 482,723	$ 129,045	$ 134,754	$ 477,014	$ 13,550	$ 463,464
Montana State University (MSU)	168,723	4,805	9,589	163,939	9,642	154,297
University of Montana (UM)	108,670	-	8,284	100,386	8,241	92,145
Total bonds/notes payable (1)	760,116	133,850	152,627	741,339	31,433	709,906
Other liabilities						
Lease/installment purch payable	556	255	261	550	218	332
Compensated absences payable	60,312	31,613	30,161	61,764	31,207	30,557
Arbitrage rebate tax payable	904	310	453	761	409	352
Estimated insurance claims	895,543	67,383	62,630	900,296	126,298	773,998
Due to federal government	33,201	313	1,013	32,501	-	32,501
Derivative instrument liability	4,607	1,490	-	6,097	-	6,097
Reinsurance funds withheld	77,720	13,328	1,477	89,571	-	89,571
Unearned compensation	371	20	-	391	-	391
Net pension liability	163,178	29,601	14,079	178,700	-	178,700
OPEB implicit rate subsidy (2)	106,648	9,833	1,587	114,894	-	114,894
Total other liabilities	1,343,040	154,146	111,661	1,385,525	158,132	1,227,393
	$2,103,156	$287,996	$264,288	$2,126,864	189,565	1,937,299
Long-term liabilities of Montana University System component units (4)					(95)	2,564
Total discretely presented component units long-term liabilities					$189,470	$1,939,863

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

(3) Beginning balances are taken from component unit financial statements.

(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2016, $113.6 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)
The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2016, revenue bonds and notes outstanding aggregated $966 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)
The MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of the MBOH. These bonds issued by the MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2016, bonds outstanding aggregated $14.8 million.

L. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2016. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	*11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

* Counterparty may opt out in 2016

As of June 30, 2016, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In Addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public

and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option); this option was not excercised. The value of the cancelation option was included within the derivative structure, resulting in an off-market (i.e., lower) fixed swap rate. As of the trade date, the option's value included intrinsic value and time value. The option's intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. The option's time value, which will always be negative to MSU and will equal $0 on the option's expiration date, is reported as deferred investment revenue. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2016, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2016, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2016 (in thousands):

		Activity During 2016		Fair Values at June 30, 2016	
Cash flow hedges:	Notional	Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	$21,200	Interest expense	$ 20	Loan receivable	$ 268
		Investment income	20	Derivative liability	6,097
		Deferred outflow	1,512		
Investment derivative –					
Basis swap	$21,200	Investment revenue	$16	Investment (excluding interest accrued)	$1,271

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2016, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$21,200	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk
It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2016, counterparty ratings were A3 and Baa2 by Moody's and BBB+ and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk
Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk
The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk
MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2016, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Rollover Risk
MSU's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on December 14, 2016. Should the counterparty exercise its option, MSU would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

M. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and the booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, UM. For the year ended June 30, 2016, $112.4 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and the booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C)(3) corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $1.1 million during 2016 and Friends of KEMC Public Radio provided $865.0 thousand during 2016 in support of MSU's television and radio stations.

N. Litigation Contingencies

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers' Compensation Court in October, 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson vs. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

O. Subsequent Events

Subsequent to June 30, 2016, the Montana State University drew an additional $2.8 million on its Series C bonds, bringing the total outstanding as of December 9, 2016, to $7.6 million. The University is committed to draw a total of $16.5 million through February of 2018, as funds are required to complete its parking garage and new dining hall.

On July 1, 2016, a promissory note was entered into between the Montana Facility Finance Authority (FFA) and Gateway Community Services for $32.0 thousand for the approximate cost of FFA purchasing a condo unit during remediation of defaulted loans.

On August 3, 2016, a $771.0 thousand loan was made to Northeast Montana Health Services from the Trust Fund Loan Program to finance the costs associated with the purchase of replacement boilers and asbestos mitigation.

On August 17, 2016, $20.5 million of bonds were issued for North Valley Hospital to refinance bonds issued by the FFA in 2012 and 2014. The refinancing was necessary because of an affiliation with Kalispell Regional Healthcare System. The refinancing also reduced the interest rate and extended the term of the bonds.

On September 16, 2016, the Montana State Fund Board of Directors declared a $35.0 million dividend at their board meeting. The dividend payments were issued in November 2016 to eligible policyholders for the 2014 policy year.

On September 28, 2016, $50.8 million of bonds were issued for Providence St. Joseph Health to refund bonds issued in 2006 by the FFA for Providence Health & Services. The 2016 issuance will bring the 2006 debt into the new obligated group formed by the merger of Providence Health & Services and St. Joseph Health System.

On October 5, 2016, $17.9 million of bonds were issued for St. Luke Community Healthcare to redeem bonds originally issued by the FFA in 2006. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 11, 2016, $2.1 million of bonds were issued for Marias Medical Center to refinance bonds originally issued by the FFA in 2005. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 14, 2016, a $100.0 thousand Direct Loan was made to McCone County Health Center by the FFA to finance the purchase, move and installation of a modular building to house traveling professionals.

On October 21, 2016, $3.1 million of bonds were issued for Boyd Andrew Community Services to refinance bonds originally issued by the FFA in 2006. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 27, 2016, a $245.0 thousand loan was made to Broadwater Health Center by the FFA to purchase lab equipment and a house for the use of locum physicians and offices.

In November 2016, the Montana State University received approval from the Board of Regents' to negotiate a long-term land and building lease at a cost of approximately $2 million per year for up to ten years, with renewal options at a land-lease only rate for five or more years thereafter. The leased facility will be used to conduct classified research that is expected to be funded by governmental grants. Lease negotiations were not yet complete as of December 9, 2016.

On November 10, 2016, $141.3 million of bonds were issued for Benefis Health System to refinance bonds issued by the FFA in 2007 and 2011. The Series 2016 bonds reduced the interest rate of the prior bonds.

On December 31, 2016, the Executive Director of the FFA retired.

On December 31, 2016, the President of the University of Montana departed from the institution.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2016, the Sheriffs' Retirement System (SRS), the Game Warden & Peace Officers' Retirement System (GWPORS), and Public Employees' Retirement System-Defined Contribution Retirement Plan Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of the fiscal year ended June 30, 2016.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 125,356	$ 125,356	$ 125,357	$ 1
Taxes:				
Natural resource	82,268	82,268	65,218	(17,050)
Individual income	1,229,616	1,229,616	1,170,799	(58,817)
Corporate income	179,898	179,898	119,539	(60,359)
Property	255,082	255,082	258,864	3,782
Fuel	-	-	-	-
Other	232,269	232,269	229,026	(3,243)
Charges for services/fines/forfeits/settlements	45,429	45,429	38,370	(7,059)
Investment earnings	-	-	5,703	5,703
Sale of documents/merchandise/property	366	366	360	(6)
Rentals/leases/royalties	43	43	43	-
Contributions/premiums	180	180	1,736	1,556
Grants/contracts/donations	3,777	3,777	7,388	3,611
Federal	24,649	24,649	16,126	(8,523)
Federal indirect cost recoveries	189	189	216	27
Other revenues	4,412	4,412	1,102	(3,310)
Total revenues	2,183,534	2,183,534	2,039,847	(143,687)
EXPENDITURES				
Current:				
General government	364,592	364,592	343,252	21,340
Public safety	330,560	330,560	316,079	14,481
Transportation	-	-	-	-
Health and human services	512,641	512,641	485,714	26,927
Education	1,043,598	1,043,598	1,036,828	6,770
Natural resources	41,583	41,583	35,008	6,575
Debt service:				
Principal retirement	-	-	48	(48)
Interest/fiscal charges	-	-	193	(193)
Capital outlay (Note RS-1)	-	-	9,085	(9,085)
Total expenditures	2,292,974	2,292,974	2,226,207	66,767
Excess of revenue over (under) expenditures	(109,440)	(109,440)	(186,360)	(76,920)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	143	143	130	(13)
Refunding bond issued	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	70,474	70,474	78,555	8,081
Transfers out (Note 12)	(267,082)	(267,082)	(91,207)	175,875
Total other financing sources (uses)	(196,465)	(196,465)	(12,522)	183,943
Net change in fund balances (Budgetary basis)	(305,905)	(305,905)	(198,882)	107,023
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	32	32
2. Securities lending costs	-	-	(16)	(16)
3. Inception of lease/installment contract	-	-	97	97
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances (GAAP basis)	(305,905)	(305,905)	(198,769)	107,136
Fund balance - July 1	-	-	471,334	471,334
Prior period adjustments	-	-	(446)	(446)
Increase (decrease) in inventories	-	-	(805)	(805)
Fund balances - June 30	$ (305,905)	$ (305,905)	$ 271,314	$ 577,219

The notes to the required supplementary information are an integral part of this schedule.
Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 198,635	$ 198,635	$ 194,993	$ (3,642)	$ -	$ -	$ -	$ -
90,126	90,126	60,004	(30,122)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
16,268	16,268	16,873	605	-	-	-	-
219,997	219,997	225,841	5,844	-	-	-	-
134,751	134,751	130,695	(4,056)	1	1	-	(1)
98,441	98,441	96,358	(2,083)	36,198	36,198	35,520	(678)
-	-	9,441	9,441	-	-	339	339
7,567	7,567	6,298	(1,269)	19	19	19	-
994	994	1,061	67	1	1	-	(1)
24,802	24,802	24,880	78	-	-	-	-
12,616	12,616	10,235	(2,381)	102	102	8	(94)
16,628	16,628	5,868	(10,760)	2,260,622	2,260,622	2,282,352	21,730
48,032	48,032	43,825	(4,207)	66,012	66,012	69,042	3,030
4,646	4,646	3,622	(1,024)	1,101	1,101	921	(180)
873,503	873,503	829,994	(43,509)	2,364,056	2,364,056	2,388,201	24,145
305,205	305,205	179,239	125,966	267,437	267,437	98,097	169,340
88,789	88,789	70,848	17,941	31,998	31,998	11,259	20,739
298,315	298,315	220,931	77,384	475,704	475,704	99,009	376,695
171,187	171,187	160,531	10,656	1,663,630	1,663,630	1,523,547	140,083
111,299	111,299	80,753	30,546	254,511	254,511	207,098	47,413
318,048	318,048	167,720	150,328	131,180	131,180	62,474	68,706
						-	
-	-	616	(616)	-	-	21	(21)
-	-	695	(695)	-	-	6	(6)
-	-	60,933	(60,933)	-	-	364,304	(364,304)
1,292,843	1,292,843	942,266	350,577	2,824,460	2,824,460	2,365,815	458,645
(419,340)	(419,340)	(112,272)	307,068	(460,404)	(460,404)	22,386	482,790
1,475	1,475	106	(1,369)	-	-	-	-
164	164	670	506	18	18	18	-
22,540	22,540	22,540	-	-	-	-	-
-	-	(25,557)	(25,557)	-	-	-	-
-	-	3,256	3,256	-	-	-	-
3,256	3,256	-	(3,256)	-	-	-	-
-	-	677	677	-	-	-	-
316,198	316,198	160,384	(155,814)	36,838	36,838	5,173	(31,665)
(83,636)	(83,636)	(14,719)	68,917	(71,549)	(71,549)	(30,033)	(41,516)
259,997	259,997	147,357	112,640	(34,693)	(34,693)	(24,842)	9,851
(159,343)	(159,343)	35,085	194,428	(495,097)	(495,097)	(2,456)	492,641
-	-	150	150	-	-	3	3
-	-	(54)	(54)	-	-	(1)	(1)
-	-	256	256	-	-	15	15
-	-	(32,689)	(32,689)	-	-	-	-
(159,343)	(159,343)	2,748	162,091	(495,097)	(495,097)	(2,439)	492,658
-	-	1,550,398	1,550,398	-	-	11,173	11,173
-	-	(686)	(686)	-	-	226	226
-	-	1,558	1,558	-	-	-	-
$ (159,343)	$ (159,343)	$ 1,554,018	$ 1,713,361	$ (495,097)	$ (495,097)	$ 8,960	$ 504,057

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2016, reverted governmental fund appropriations were as follows: General Fund - $26.3 million, State Special Revenue Fund - $145.2 million, and Federal Special Revenue Fund - $104.1 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Total Pension Liability (TPL)		
Service costs	$ 1,653	$ 1,594
Interest	3,934	3,824
Differences between expected and actual experience	(1,032)	-
Benefit payments	(3,041)	(3,023)
Net change in total pension liability	$ 1,514	$ 2,395
Total pension liability - beginning	51,632	49,237
Total pension liability - ending	$ 53,146	$ 51,632
Plan Fiduciary Net Position		
Contributions – employer	$ 1,684	$ 1,651
Contributions - member	534	481
Net investment income	3,843	12,421
Benefit payments	(3,041)	(3,023)
Administrative expense	(136)	(100)
Net change in plan fiduciary net position	$ 2,884	$ 11,430
Plan fiduciary net position - beginning	84,223	72,793
Plan fiduciary net position - ending	$ 87,107	$ 84,223
Net Pension (Asset) - Beginning	$(32,591)	$(23,556)
Net Pension (Asset) - Ending	$(33,961)	$(32,591)
Plan fiduciary net position as a percentage of TPL	163.90%	163.12%
Pensionable payroll	$6,525	$6,355
Net pension (asset) as a percentage of pensionable payroll	(521)%	(513)%

Judges' Retirement System
Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2016	2015
Contractually required contributions	$1,786	$1,684
Contributions made in relation to the contractually required contributions	$1,786	$1,684
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$6,920	$6,525
Contributions as a percentage of covered-employee payroll	26%	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADC rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00%
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Total Pension Liability (TPL)		
Service costs	$ 3,598	$ 3,464
Interest	14,113	13,518
Changes in benefits	1,856	-
Difference between expected and actual experience	267	-
Benefit payments	(10,001)	(9,443)
Net change in total pension liability	$9,833	$7,539
Total pension liability - beginning	183,133	175,594
Total pension liability - ending	$192,966	$183,133
Plan Fiduciary Net Position		
Contributions - employer	$ 5,840	$5,736
Contributions - member	1,624	1,458
Net investment income	5,738	18,677
Benefit payments	(10,001)	(9,443)
Administrative expense	(144)	(109)
Net change in plan fiduciary net position	$ 3,057	$16,319
Plan fiduciary net position - beginning	126,010	109,691
Plan fiduciary net position - ending	$129,067	$126,010
Net Pension Liability - Beginning	$57,123	$65,903
Net Pension Liability - Ending	$63,899	$57,123
Plan fiduciary net position as a percentage of TPL	67%	69%
Pensionable payroll	$14,549	$14,149
Net pension liability as a percentage of pensionable payroll	439%	404%

Highway Patrol Officers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$6,161	$5,782
Contributions in relation to the contractually required contributions	6,161	5,782
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$15,276	$14,549
Contributions as a percentage of covered-employee payroll	40%	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADC rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Amortization growth rate	4.00%
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases, where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 Combined Mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Total Pension Liability (TPL)		
Service costs	$8,008	$7,850
Interest	12,398	11,258
Actual experience	731	
Benefit payments	(5,352)	(5,229)
Net change in total pension liability	$15,785	$13,879
Total pension liability - beginning	153,864	139,985
Total pension liability - ending	$169,649	$153,864
Plan Fiduciary Net Position		
Contributions - employer	$4,088	$3,762
Contributions - member	4,924	4,462
Net investment income	6,435	20,069
Benefit payments	(5,352)	(5,229)
Administrative expense	(200)	(162)
Net change in plan fiduciary net position	$9,895	$22,902
Plan fiduciary net position - beginning	138,743	115,841
Plan fiduciary net position - ending	$148,638	$138,743
Net Pension Liability - Beginning	$15,121	$24,144
Net Pension Liability - Ending	$21,011	$15,121
Plan fiduciary net position as a percentage of TPL	87%	90%
Pensionable payroll	$44,885	$41,637
Net pension liability as a percentage of pensionable payroll	47%	36%

Game Wardens' and Peace Officers' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$4,240	$4,040
Contributions in relation to the contractually required contributions	4,240	4,040
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$47,108	$44,885
Contributions as a percentage of covered-employee payroll	9%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	$749,414	$663,174
Employer's covered-employee payroll	$620,286	$597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$59,073	$58,575
Contributions in relation to the contractually required contributions	59,073	58,575
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$621,755	$620,286
Contributions as a percentage of covered-employee payroll	10%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	$13,365	$11,978
Plan fiduciary net position as a percentage of the total pension liability	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$30,800	$32,397
Contributions in relation to the contractually required contributions	30,800	32,397
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Not Special Funding

The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with Section 15-35-108, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	5.637055%	5.535%
Employer's proportionate share of the net pension liability	$5,434	$2,304
Employer's covered-employee payroll	$3,836	$3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	75%	87%

Sheriffs' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$389	$388
Contributions in relation to the contractually required contributions	389	388
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$3,850	$3,836
Contributions as a percentage of covered-employee payroll	10%	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Sheriffs' Retirement System
Notes to Required Supplementary Information
For the Year ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	$110,756	$105,106
Plan fiduciary net position as a percentage of the total pension liability	67%	67%

Municipal Peace Officers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$13,752	$13,433
Contributions in relation to the contractually required contributions	13,752	13,433
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Municipal Peace Officers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

> The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	$2,454	$1,806
Employer's covered-employee payroll	$986	$735
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	77%	77%

Firefighters' Unified Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$475	$142
Contributions in relation to the contractually required contributions	475	142
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$974	$986
Contributions as a percentage of covered-employee payroll	49%	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation
Mortality	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	$68,892	$66,384
Plan fiduciary net position as a percentage of the total pension liability	77%	77%

Firefighters' Unified Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$13,635	$13,573
Contributions in relation to the contractually required contributions	13,635	13,573
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%
Nonemployer's proportionate share of the net pension liability	$10,504	$5,089
Plan fiduciary net position as a percentage of the total pension liability	76%	87%

Volunteer Firefighters' Compensation Act
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$2,024	$1,913
Contributions in relation to the contractually required contributions	2,024	1,913
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Volunteer Firefighters' Compensation Act
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	$56,230	$72,168
Employer's covered-employee payroll	$31,252	$32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%

Teachers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$16,946	$16,234
Contributions in relation to the contractually required contributions	16,946	16,234
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$28,915	$31,252
Contributions as a percentage of covered-employee payroll	58%	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" should not be applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation should be updated so that the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation should be updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated members commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the TRS" should be covered by the $500 death benefit after termination.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	26 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
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%, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	$647,092	$596,724
Plan fiduciary net position as a percentage of the total pension liability	69%	70%

Teachers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$42,400	$42,806
Contributions in relation to the contractually required contributions	42,400	42,806
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a $25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of 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 State or any of its component units.

In accordance with GASB Statement No. 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
			State Agent Multiple Employer Plan			
1/1/2011	$ -	$337,274	$337,274	0.00%	$521,881	64.63%
1/1/2013	$ -	$366,739	$366,739	0.00%	$616,158	59.52%
1/1/2015	$ -	$347,935	$347,935	0.00%	$645,888	53.87%
			MUS Agent Multiple Employer Plan			
7/1/2011	$ -	$191,017	$191,017	0.00%	$371,802	51.38%
7/1/2013	$ -	$114,498	$114,498	0.00%	$400,017	28.62%
7/1/2015	$ -	$110,494	$110,494	0.00%	$416,565	26.50%

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

State of Montana Hail Insurance Program

Claims Development Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. **Premiums and investment revenue**										
Earned	$7,446	$8,309	$8,029	$7,101	$7,034	$6,710	$6,886	$6,846	$7,718	$6,032
Ceded	6,346	2,049	-	-	-	-	-	-	-	-
Net earned	$1,100	$6,260	$8,029	$7,101	$7,034	$6,710	$6,886	$6,846	$7,718	$6,032
2. **Unallocated expenses including overhead**	$ 424	$1,124	$1,033	$3,562	$2,308	$1,545	$2,637	$3,593	$1,485	$3,133
3. **Estimated losses and expenses end of accident year**	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435	$1,206
4. **Net paid (cumulative) as of:**										
End of policy year	$ 189	$6,643	$13,285	$1,881	$3,857	$6,144	$3,723	$2,248	$1,960	$ 687
One year later		-	-	-	-	-	-	-	-	-
Two years later			-	-	-	-	-	-	-	-
Three years later				-	-	-	-	-	-	-
Four years later					-	-	-	-	-	-
Five years later						-	-	-	-	-
Six years later							-	-	-	-
Seven years later								-	-	-
Eight years later									-	-
Nine years later										-
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	-	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435	$1,206
One year later		-	-	-	-	-	-	-	-	-
Two years later			-	-	-	-	-	-	-	-
Three years later				-	-	-	-	-	-	-
Four years later					-	-	-	-	-	-
Five years later						-	-	-	-	-
Six years later							-	-	-	-
Seven years later								-	-	-
Eight years later									-	-
Nine years later										-
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Montana University System – Medical, Dental, Vision, Rx Claims

Claims Development Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. **Premiums and investment revenue**	$84,297	$80,764	$79,257	$76,505	$75,911	$73,078	$62,851	$59,573	$62,497	$56,970
2. **Unallocated expenses including overhead**	$5,129	$5,198	$4,787	$3,938	$4,063	$4,663	$3,629	$3,123	$2,904	$2,575
3. **Estimated losses and expenses end of accident year**	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474	$53,729
4. **Net paid (cumulative) as of:**										
End of policy year	$68,968	$72,065	$57,257	$56,383	$51,640	$51,606	$52,860	$48,459	$44,117	$42,691
One year later	-	82,602	63,914	63,200	58,286	58,713	62,116	55,438	51,143	49,276
Two years later			63,915	63,236	58,316	58,756	62,148	55,494	51,199	49,288
Three years later				63,236	58,324	58,756	62,166	55,495	51,212	49,288
Four years later					58,324	58,756	62,167	55,495	51,213	49,288
Five years later						58,756	62,168	55,495	51,213	49,288
Six years later							62,168	55,495	51,213	49,288
Seven years later								55,495	51,213	49,288
Eight years later									51,213	49,288
Nine years later										49,288
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474	$53,729
One year later		71,718	69,106	63,446	63,941	67,006	60,208	55,319	53,660	46,777
Two years later			63,915	63,236	58,316	58,756	62,148	55,494	51,199	49,288
Three years later				63,236	58,324	58,756	62,166	55,495	51,212	49,288
Four years later					58,324	58,756	62,167	55,495	51,213	49,288
Five years later						58,756	62,168	55,495	51,213	49,288
Six years later							62,168	55,495	51,213	49,288
Seven years later								55,495	51,213	49,288
Eight years later									51,213	49,288
Nine years later										49,288
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	($ 15,635)	($ 7,962)	($ 6,089)	($ 6,008)	($ 6,163)	($ 3,407)	($ 5,433)	($ 4,261)	($ 4,441)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.003	State Commissions		$263,327
94.006	AmeriCorps	$2,053,124	$2,312,329
	University of Denver COMPACT SERVICE CORP 2013-2014		$1,925
	University of Denver SC37138A		$597
94.013	Volunteers in Service to America		$703,338
		TOTAL	**$3,281,516**
		CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	**$3,281,516**
DEPARTMENT OF AGRICULTURE			
10.025	Plant and Animal Disease, Pest Control, and Animal Care		$1,415,214
10.093	Voluntary Public Access and Habitat Incentive Program		$105,105
10.162	Inspection Grading and Standardization		$21,340
10.163	Market Protection and Promotion	$99,177	$135,937
10.170	Specialty Crop Block Grant Program - Farm Bill	$201,361	$714,725
10.310	Agriculture and Food Research Initiative (AFRI)		$13,486
10.433	Rural Housing Preservation Grants		$5,178
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers		
	Fort Peck Community College FPCC/SMITH		($95)
10.446	Rural Community Development Initiative		
	Ravalli County Economic Development Authority Artists in Business		$5,734
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		$773,647
10.500	Cooperative Extension Service	$10,852	$2,799,838
	Kansas State University S16129		$4,459
	Kansas State University S16083		$24,723
	Kansas State University S15148		$4,823
	Kansas State University S15074		$8,807
	Pennsylvania State University 5220-MSU-USDA-2628		$5,000
	University of Kentucky 3048111073-16-013		$3,000
	University of Missouri C00048589-6		$9,301
	University of Missouri C00051968-6		$13,928
	Washington State University 108815 G003339		$7,043
10.547	Professional Standards for School Nutrition Employees		$22,953
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$4,124,100	$15,117,842
10.558	Child and Adult Care Food Program	$710,295	$11,568,559

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
10.560	State Administrative Expenses for Child Nutrition		$558,174
10.567	Food Distribution Program on Indian Reservations	$1,698,382	$4,878,697
10.572	WIC Farmers' Market Nutrition Program (FMNP)	$2,447	$52,307
10.574	Team Nutrition Grants		$311,711
10.576	Senior Farmers Market Nutrition Program	$90,166	$94,426
10.578	WIC Grants To States (WGS)	$59,238	$174,970
10.579	Child Nutrition Discretionary Grants Limited Availability	$52,864	$530,138
10.582	Fresh Fruit and Vegetable Program	$1,678,480	$1,763,087
10.601	Market Access Program		
	United States Livestock Genetics Export MT DOA 2016		$65,297
10.601	Market Access Program		
	Western United States Agricultural Trade Association MT 2016		$7,645
10.652	Forestry Research	$15,490	$615,860
10.664	Cooperative Forestry Assistance	$2,758,537	$5,123,771
10.672	Rural Development, Forestry, and Communities	$28,000	$28,000
10.674	Wood Utilization Assistance	$3,500	$39,917
10.676	Forest Legacy Program		$7,566,533
10.678	Forest Stewardship Program		$1,920
10.680	Forest Health Protection	$34,253	$65,053
10.682	National Forest Foundation		
	National Forest Foundation AH-102		$49,242
10.691	Good Neighbor Authority		$15,000
10.902	Soil and Water Conservation		$74,350
10.UXX	Miscellaneous Non-Major Grants		$445,888
		TOTAL	**$55,242,533**
Child Nutrition Cluster			
10.553	School Breakfast Program	$9,004,204	$9,004,204
10.555	National School Lunch Program	$30,750,723	$30,780,705
10.556	Special Milk Program for Children	$15,530	$15,530
10.559	Summer Food Service Program for Children	$1,667,786	$1,760,132
		TOTAL	**$41,560,571**
Food Distribution Cluster			
10.565	Commodity Supplemental Food Program		$2,428,704
10.568	Emergency Food Assistance Program (Administrative Costs)	$119,690	$276,050

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
10.569	Emergency Food Assistance Program (Food Commodities)		$1,558,839
		TOTAL	**$4,263,593**
Forest Service Schools and Roads Cluster			
10.665	Schools and Roads - Grants to States	$15,938,821	$15,938,821
		TOTAL	**$15,938,821**
SNAP Cluster			
10.551	Supplemental Nutrition Assistance Program		$164,812,716
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	$1,202,897	$12,320,321
		TOTAL	**$177,133,037**
		DEPARTMENT OF AGRICULTURE TOTAL	**$294,138,555**
DEPARTMENT OF COMMERCE			
11.303	Economic Development_Technical Assistance		$102,789
11.550	Public Telecommunications Facilities Planning and Construction		
	Corporation for Public Broadcasting 1492		$274,528
11.611	Manufacturing Extension Partnership		$628,787
		TOTAL	**$1,006,104**
Economic Development Cluster			
11.300	Investments for Public Works and Economic Development Facilities		$746,277
11.307	Economic Adjustment Assistance		$3,216,974
		TOTAL	**$3,963,251**
		DEPARTMENT OF COMMERCE TOTAL	**$4,969,355**
DEPARTMENT OF DEFENSE			
12.002	Procurement Technical Assistance For Business Firms		
	Big Sky Economic Development Authority MSU PTAC 2015		$6,662
	Big Sky Economic Development Authority SP4800-15-2-1522 OPTION YEAR		$80,247
	Big Sky Economic Development Corporation SP4800-15-2-1522		$56,166
	Big Sky Economic Development Corporation SP4800-14-2-1422		$5,512
12.110	Planning Assistance to States		$347,989
12.112	Payments to States in Lieu of Real Estate Taxes	$13,770	$13,770
12.114	Collaborative Research and Development		
	Academy of Applied Science 14-14, 14-14A		$3,751
12.357	ROTC Language and Culture Training Grants		
	Institute of International Education 2603-UMT-5-GO-017-P03		$206,028

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
	Institute of International Education 2603-UMT-5-GO-015-PO1		$120,639
12.400	Military Construction, National Guard		$16,063,536
12.401	National Guard Military Operations and Maintenance (O&M) Projects		$23,721,647
12.404	National Guard ChalleNGe Program		$3,976,515
12.579	Language Training Center		
	Institute of International Education 2603-UMT-LTC-LT4-PO2		$2,064,523
	Institute of International Education 2603-UMT-5-LTC-LT4-PO2		$893,906
	Institute of International Education 2603-UMT-5-LTC-LT5-PO4		$372,697
12.900	Language Grant Program		$88,954
12.UXX	Miscellaneous Non-Major Grants		$453,477
		TOTAL	**$48,476,019**
		DEPARTMENT OF DEFENSE TOTAL	**$48,476,019**
DEPARTMENT OF EDUCATION			
84.002	Adult Education - Basic Grants to States	$1,065,087	$1,278,997
84.010	Title I Grants to Local Educational Agencies	$44,335,430	$45,975,980
84.011	Migrant Education_State Grant Program	$702,514	$819,777
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	$124,754	$126,515
84.031	Higher Education_Institutional Aid		$95,931
84.032	Federal Family Education Loans		$81,891,311
84.048	Career and Technical Education -- Basic Grants to States	$3,032,029	$5,127,930
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	$13,862	$15,715,069
84.133	National Institute on Disability and Rehabilitation Research		
	Baylor College of Medicine 101750549		$12,273
84.144	Migrant Education_Coordination Program	$60,000	$60,000
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind		$199,717
84.181	Special Education-Grants for Infants and Families		$3,179,200
84.184	Safe and Drug-Free Schools and Communities_National Programs		$619,763
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		$366,970
84.196	Education for Homeless Children and Youth	$147,668	$210,748
84.224	Assistive Technology	$65,000	
84.287	Twenty-First Century Community Learning Centers	$5,446,136	$5,662,612
84.299	Indian Education -- Special Programs for Indian Children		
	Fort Peck Community College S299B130018		$6,545
84.323	Special Education - State Personnel Development	$86,186	$702,226

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
84.324	Research in Special Education		
	University of California, Davis 201500425-03		$2,968
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		$183,061
	University of Florida H325A120003		$128,178
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		$93,631
	California State University, Northridge F-11-2963-3-UMT		$367,790
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)		$25,954
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$2,244,824	$4,265,137
84.335	Child Care Access Means Parents in School		$44,031
84.358	Rural Education	$193,246	$227,810
84.365	English Language Acquisition State Grants	$481,086	$566,053
84.366	Mathematics and Science Partnerships	$454,010	$504,302
	Bozeman Public Schools 16 0350 1513 MSP		$4,534
84.367	Improving Teacher Quality State Grants	$8,511,152	$9,213,216
	University of California National Writing Project 93-MT01-SEED2012		$2,114
84.369	Grants for State Assessments and Related Activities		$3,111,520
84.371	Striving Readers	$4,676,495	$4,871,074
84.372	Statewide Longitudinal Data Systems		$1,406,622
84.377	School Improvement Grants		$571,343
84.378	College Access Challenge Grant Program		$925,943
84.418	Promoting Readiness of Minors in Supplemental Security Income		
	University of Utah 10033712		$65,768
84.419	Preschool Development Grants	$5,375,521	$8,254,552
84.998	American Printing House for the Blind		$5,409
84.UXX	Miscellaneous Non-Major Grants		$99,658
		TOTAL	**$196,992,232**
Special Education Cluster (IDEA)			
84.027	Special Education_Grants to States	$32,641,190	$36,453,434
84.173	Special Education_Preschool Grants	$1,016,039	$1,016,039
		TOTAL	**$37,469,473**
Student Financial Assistance Cluster			
84.007	Federal Supplemental Educational Opportunity Grants		$1,377,866

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
84.033	Federal Work-Study Program		$2,401,282
84.038	Federal Perkins Loan Program - Federal Capital Contributions		$37,382,972
84.063	Federal Pell Grant Program		$49,701,336
84.268	Federal Direct Student Loans		$175,493,286
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		$15,930
		TOTAL	**$266,372,672**
TRIO Cluster			
84.042	TRIO_Student Support Services		$1,718,351
84.044	TRIO_Talent Search		$1,192,391
84.047	TRIO_Upward Bound		$1,224,121
84.066	TRIO_Educational Opportunity Centers		$649,467
84.217	TRIO_McNair Post-Baccalaureate Achievement		$193,234
		TOTAL	**$4,977,564**
		DEPARTMENT OF EDUCATION TOTAL	**$505,811,941**
DEPARTMENT OF ENERGY			
81.041	State Energy Program		$325,897
81.042	Weatherization Assistance for Low-Income Persons		$2,408,645
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance		
	Washington State University 121240_G003325		$8,176
81.138	State Heating Oil and Propane Program		$5,460
81.UXX	Miscellaneous Non-Major Grants		$3,721
	National Fish and Wildlife Foundation		$5,701
		TOTAL	**$2,757,600**
		DEPARTMENT OF ENERGY TOTAL	**$2,757,600**
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	$37,679	$37,679
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	$94,706	$94,706
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	$132,670	$132,670
93.052	National Family Caregiver Support, Title III, Part E	$760,661	$809,347
93.058	Food and Drug Administration_Research	$104,269	$115,651

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
93.070	Environmental Public Health and Emergency Response	$77,332	$367,746
93.071	Medicare Enrollment Assistance Program	$113,252	$120,732
93.072	Lifespan Respite Care Program	$72,582	$102,201
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	$3,049,717	$5,829,413
93.090	Guardianship Assistance		$1,249,998
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	$118,205	$183,412
93.110	Maternal and Child Health Federal Consolidated Programs	($6,406)	$307,485
	Utah State University P0298694		$6,797
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	$9,200	$183,688
93.127	Emergency Medical Services for Children	$131,285	$373,188
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	$59,706	$183,647
93.150	Projects for Assistance in Transition from Homelessness (PATH)	$285,321	$292,972
93.155	Rural Health Research Centers		
	National Rural Health Association 2015 SRHA TECH ASSIST AWARD		$6,743
93.157	Centers of Excellence		$409,928
93.161	Health Program for Toxic Substances and Disease Registry		
	Denver Health SUBAWARD E0952Q		$2,092
93.165	Grants to States for Loan Repayment Program	$125,000	$125,000
93.184	Disabilities Prevention	$289,286	$296,538
93.217	Family Planning_Services	$1,649,074	$2,183,544
93.236	Grants to States to Support Oral Health Workforce Activities	$344,054	$361,416
93.241	State Rural Hospital Flexibility Program	$542,993	$886,256
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	$1,368,785	$4,863,900
	Policy Research Associates, Inc. 1002-0004-006		$17,956
93.251	Universal Newborn Hearing Screening		$251,498
93.262	Occupational Safety and Health Program	$4,800	$191,446
93.268	Immunization Cooperative Agreements	$351,207	$12,273,006
93.270	Adult Viral Hepatitis Prevention and Control	$1,500	$34,017
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	$15,351	($16,552)
93.292	National Public Health Improvement Initiative		
	Association of Maternal & Child Health Programs 1U38OT000140-01		$9,430
93.300	National Center for Health Workforce Analysis		$19,391
93.305	National State Based Tobacco Control Programs		$900,385

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
93.307	Minority Health and Health Disparities Research		$9,736,247
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program		$145,818
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		$577,941
93.324	State Health Insurance Assistance Program	$417,562	$590,897
93.325	Paralysis Resource Center		
	Christopher and Dana Reeve Foundation 90PR3001-01-00		$5,781
93.336	Behavioral Risk Factor Surveillance System		$281,884
93.358	Advanced Education Nursing Traineeships		$350,669
93.369	ACL Independent Living State Grants		$302,708
93.424	NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations		
	Association of Maternal & Child Health Programs 1U38OT000140-03		$2,039
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	$42,183	$702,845
93.448	Food Safety and Security Monitoring Project		$132,692
93.449	Ruminant Feed Ban Support Project		$22,443
93.464	ACL Assistive Technology	$19,471	$399,119
93.500	Pregnancy Assistance Fund Program	$952,290	$1,060,168
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	$1,030,778	$1,102,061
	TEAM for West Virginia Children		$97,685
93.516	Affordable Care Act (ACA) Public Health Training Centers Program		
	University of Colorado 1000587203		$58,855
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	$39,490	$40,113
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF		$695,519
93.524	Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations- financed in part by Prevention and Public Health Funds		
	National Association of Chronic Disease Directors 0942016		$2,353
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	$22,205	$120,259
93.556	Promoting Safe and Stable Families	$416,872	$661,436
93.563	Child Support Enforcement		$11,584,581
93.566	Refugee and Entrant Assistance_State Administered Programs	$11,026	$46,148
93.568	Low-Income Home Energy Assistance	$984,648	$19,651,837
93.569	Community Services Block Grant		$3,355,903
93.586	State Court Improvement Program		$184,540

State of Montana
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		Amount to Subrecipients	Amount
93.590	Community-Based Child Abuse Prevention Grants	$146,766	$234,247
93.597	Grants to States for Access and Visitation Programs	$100,293	$102,023
93.599	Chafee Education and Training Vouchers Program (ETV)	$173,760	$176,879
93.600	Head Start		$105,605
93.609	The Affordable Care Act - Medicaid Adult Quality Grants		$68,199
93.610	Health Care Innovation Awards (HCIA)		
	Mineral Regional Health Center 331058-02-UMSA02		($4,878)
93.617	Voting Access for Individuals with Disabilities_Grants to States		$100,000
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance		$940,639
93.630	Developmental Disabilities Basic Support and Advocacy Grants	$434,367	$434,367
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service		$542,149
93.643	Children's Justice Grants to States		$114,169
93.645	Stephanie Tubbs Jones Child Welfare Services Program		$602,108
93.652	Adoption Opportunities	$100,147	$702,170
93.658	Foster Care_Title IV-E	$2,440,862	$12,712,443
93.659	Adoption Assistance		$8,563,223
93.667	Social Services Block Grant		$8,750,551
93.669	Child Abuse and Neglect State Grants		$170,299
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	$811,826	$819,541
93.674	Chafee Foster Care Independence Program	$846,419	$881,604
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)		$261,349
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	$520,000	$2,860,314
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	$8,200	$974,165
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	$260,298	$716,163
93.767	Children's Health Insurance Program		$93,166,818
93.791	Money Follows the Person Rebalancing Demonstration		$2,392,918
93.800	Organized Approaches to Increase Colorectal Cancer Screening		$672,178
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).		$275,623
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	$330,000	$345,455
93.859	Biomedical Research and Research Training	$7,754	$53,570
	University of New Mexico 3RN79		($321)
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program		$106

State of Montana
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For the Fiscal Year Ended June 30, 2016

		Amount to Subrecipients	Amount
93.884	Grants for Primary Care Training and Enhancement	$47,891	$283,355
	University of Pikeville 16-001		$85,000
	University of Pikeville 15-001		$87,408
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	$16,080	$232,470
	Barrett Hospital 1DO6RH27763-01-00		$8,847
	Madison Valley Medical Center 14-01		$24,723
93.913	Grants to States for Operation of Offices of Rural Health		$171,878
93.917	HIV Care Formula Grants	$289,680	$1,823,906
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		$59,829
93.940	HIV Prevention Activities_Health Department Based	$505,632	$834,989
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		$191,615
	Association of University Centers on Disabilities		($3,421)
93.945	Assistance Programs for Chronic Disease Prevention and Control	$3,959,997	$6,426,009
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs		$1,973
93.958	Block Grants for Community Mental Health Services	$583,688	$1,151,371
93.959	Block Grants for Prevention and Treatment of Substance Abuse	$1,488,189	$7,541,435
93.969	PPHF Geriatric Education Centers	$50,345	$509,966
93.970	Health Professions Recruitment Program for Indians		$179,350
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants		$284,038
93.994	Maternal and Child Health Services Block Grant to the States	$1,170,273	$2,165,019
93.UXX	Miscellaneous Non-Major Grants		$2,250
		TOTAL	**$244,915,553**
Aging Cluster			
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	$1,515,132	$1,864,824
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	$3,179,849	$3,579,115
93.053	Nutrition Services Incentive Program	$869,745	$1,303,200
		TOTAL	**$6,747,139**

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		Amount to Subrecipients		Amount
CCDF Cluster				
93.575	Child Care and Development Block Grant	$5,545,129		$14,322,507
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			$8,229,781
			TOTAL	**$22,552,288**
Medicaid Cluster				
93.775	State Medicaid Fraud Control Units			$587,176
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare			$2,698,345
93.778	Medical Assistance Program	$583,073		$995,096,917
			TOTAL	**$998,382,438**
Student Financial Assistance Cluster				
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students			$163,579
93.364	Nursing Student Loans			$2,841,631
			TOTAL	**$3,005,210**
TANF Cluster				
93.558	Temporary Assistance for Needy Families	$3,955,215		$31,746,802
			TOTAL	**$31,746,802**
		DEPARTMENT OF HEALTH AND HUMAN SERVICES	***TOTAL***	**$1,307,349,430**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT				
14.103	Interest Reduction Payments_Rental and Cooperative Housing for Lower Income Families			$49,238
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	$7,266,086		$8,222,542
14.231	Emergency Solutions Grant Program			$662,723
14.235	Supportive Housing Program			$60,258
14.238	Shelter Plus Care			$245,865
14.239	Home Investment Partnerships Program	$4,667,686		$4,924,429
14.241	Housing Opportunities for Persons with AIDS			$997,781
14.326	Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities			$23,737
14.877	Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services			
	Missoula Housing Authority 2012-FSSR-MT033-15191			$69,007
			TOTAL	**$15,255,580**
Housing Voucher Cluster				
14.871	Section 8 Housing Choice Vouchers			$20,054,305
			TOTAL	**$20,054,305**

State of Montana
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		Amount to Subrecipients	Amount
Section 8 Project-Based Cluster			
14.195	Section 8 Housing Assistance Payments Program		$20,938,525
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation		$1,801,874
		TOTAL	**$22,740,399**
		DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$58,050,284**
DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	$257,179	$270,899
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus		$44,877
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	$404,599	$461,656
16.550	State Justice Statistics Program for Statistical Analysis Centers		$155,330
16.554	National Criminal History Improvement Program (NCHIP)		$1,183,896
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		
	Bozeman Public Schools 2014-MU-0017 (UM #1)		$151,794
16.575	Crime Victim Assistance	$2,306,410	$2,493,490
16.576	Crime Victim Compensation		$283,021
16.582	Crime Victim Assistance/Discretionary Grants		$454,903
16.585	Drug Court Discretionary Grant Program		$360,574
16.588	Violence Against Women Formula Grants	$702,142	$915,087
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program		
	Missoula County 2008-WR-AX-0008		$2,512
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program		
	Missoula County 2015-WR-AX-0013		$3,349
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		$192,952
16.593	Residential Substance Abuse Treatment for State Prisoners	$26,829	$32,146
16.606	State Criminal Alien Assistance Program		$19,574
16.726	Juvenile Mentoring Program		
	National 4-H Council 4-H NAT PROGRAM YR 5		$58,022
	National 4-H Council 4-H UNDER OJJDP 2015-JU-FX-001		$71,034
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities		$109,844
16.738	Edward Byrne Memorial Justice Assistance Grant Program	$846,102	$1,097,937
16.741	DNA Backlog Reduction Program		$122,589
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		$71,712
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	$14,154	$14,154

State of Montana
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		Amount to Subrecipients	Amount
16.751	Edward Byrne Memorial Competitive Grant Program		$49,862
16.754	Harold Rogers Prescription Drug Monitoring Program		$217,459
16.812	Second Chance Act Reentry Initiative		$57,802
16.816	John R. Justice Prosecutors and Defenders Incentive Act	$30,877	$30,877
		TOTAL	**$8,927,352**
		DEPARTMENT OF JUSTICE TOTAL	**$8,927,352**
DEPARTMENT OF LABOR			
17.002	Labor Force Statistics		$718,429
17.005	Compensation and Working Conditions		$80,964
17.225	Unemployment Insurance		$129,877,402
17.235	Senior Community Service Employment Program	$522,223	$543,925
17.245	Trade Adjustment Assistance		$122,454
17.271	Work Opportunity Tax Credit Program (WOTC)		$10,352
17.273	Temporary Labor Certification for Foreign Workers		$198,225
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants		$2,646,942
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	$396,228	$9,818,661
	Pueblo Community College T-23780-12-60-A-8		$253,024
17.283	Workforce Innovation Fund		
	State of Utah 131903		$193,927
17.504	Consultation Agreements		$526,299
17.600	Mine Health and Safety Grants		$150,000
		TOTAL	**$145,140,604**
Employment Service Cluster			
17.207	Employment Service/Wagner-Peyser Funded Activities		$5,304,974
17.801	Disabled Veterans' Outreach Program (DVOP)		$570,312
17.804	Local Veterans' Employment Representative Program		$51,563
		TOTAL	**$5,926,849**
WIA/WIOA Cluster			
17.258	WIA/WIOA Adult Program	$418,702	$2,079,370
17.259	WIA/WIOA Youth Activities	$1,452,366	$2,025,661
17.278	WIA/WIOA Dislocated Worker Formula Grants	$1,429	$1,684,809
		TOTAL	**$5,789,840**
		DEPARTMENT OF LABOR TOTAL	**$156,857,293**

State of Montana
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		Amount to Subrecipients	Amount
DEPARTMENT OF STATE			
19.009	Academic Exchange Programs - Undergraduate Programs		$475,658
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program		
	Institute of International Education S-ECAGD-16-CA-1014		$30,594
	Institute of International Education S-ECAGD-15-CA-1017		$149,436
19.401	Academic Exchange Programs - Scholars		$201,349
19.408	Academic Exchange Programs - Teachers		
	International Research & Exchange Board FY15-TEA-MSU-01		$183,881
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	$98,690	$727,096
19.501	Public Diplomacy Programs for Afghanistan and Pakistan		
	International Research & Exchange Board FY14-TEA-MSU-02		$210,091
		TOTAL	**$1,978,105**
		DEPARTMENT OF STATE TOTAL	**$1,978,105**
DEPARTMENT OF THE INTERIOR			
15.022	Tribal Self-Governance		
	Chippewa Cree Tribe		$8,649
15.025	Services to Indian Children, Elderly and Families		$4,656
15.034	Agriculture on Indian Lands		
	Fort Belknap Community Council A10AV00583		$58,461
15.224	Cultural and Paleontological Resources Management		$36,413
15.225	Recreation Resource Management		$33,004
15.230	Invasive and Noxious Plant Management		$7,844
15.231	Fish, Wildlife and Plant Conservation Resource Management		$69,976
15.232	Wildland Fire Research and Studies Program		
	Portland State University 204BAR456/L14AC00160		$8,907
15.236	Environmental Quality and Protection Resource Management		$379,529
15.238	Challenge Cost Share		$22,859
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		$1,694,686
15.252	Abandoned Mine Land Reclamation (AMLR) Program		$4,109,567
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination		$317,787
15.517	Fish and Wildlife Coordination Act		$33,590
15.524	Recreation Resources Management		$28,898
15.554	Cooperative Watershed Management Program		$48,604
15.608	Fish and Wildlife Management Assistance		$61,830

State of Montana
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		Amount to Subrecipients	Amount
15.615	Cooperative Endangered Species Conservation Fund	$95,994	$2,568,040
15.623	North American Wetlands Conservation Fund		$75,000
15.634	State Wildlife Grants	$17,076	$717,689
15.637	Migratory Bird Joint Ventures		$86,812
15.657	Endangered Species Conservation - Recovery Implementation Funds		$15,605
15.660	Endangered Species - Candidate Conservation Action Funds		$22,445
15.664	Fish and Wildlife Coordination and Assistance Programs		$46,424
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention		$125,780
15.669	Cooperative Landscape Conservation		$33,023
15.808	U.S. Geological Survey_ Research and Data Collection		$23,899
15.814	National Geological and Geophysical Data Preservation Program		$132
15.904	Historic Preservation Fund Grants-In-Aid	$80,000	$906,191
15.916	Outdoor Recreation_Acquisition, Development and Planning	$331,564	$354,401
15.944	Natural Resource Stewardship		$10,000
15.945	Cooperative Research and Training Programs - Resources of the National Park System		$28,092
15.954	National Park Service Conservation, Protection, Outreach, and Education		$39,633
		TOTAL	**$11,978,426**
Fish and Wildlife Cluster			
15.605	Sport Fish Restoration Program		$8,715,218
15.611	Wildlife Restoration and Basic Hunter Education		$13,166,926
		TOTAL	**$21,882,144**
		DEPARTMENT OF THE INTERIOR TOTAL	**$33,860,570**
DEPARTMENT OF TRANSPORTATION			
20.106	Airport Improvement Program		$805,116
20.200	Highway Research and Development Program	$87,990	$222,046
20.218	National Motor Carrier Safety		$1,693,220
20.232	Commercial Driver's License Program Improvement Grant		$4,425
20.233	Border Enforcement Grants		$552,462
20.237	Commercial Vehicle Information Systems and Networks		$679,739
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	$440,783	$532,039
20.509	Formula Grants for Rural Areas	$9,473,542	$10,423,811
20.515	State Planning and Research	$31,036	$30,142
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	$159,930	$716,778
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		$94,111

State of Montana
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		Amount to Subrecipients		Amount
20.700	Pipeline Safety Program State Base Grant			$133,463
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	$90,130		$117,185
			TOTAL	**$16,004,537**
Federal Transit Cluster				
20.500	Federal Transit_Capital Investment Grants	$4,042		$4,042
20.526	Bus and Bus Facilities Formula Program	$504,090		$504,090
			TOTAL	**$508,132**
Highway Planning and Construction Cluster				
20.205	Highway Planning and Construction	$12,618,162		$424,834,100
	Missoula County			$24,994
20.219	Recreational Trails Program	$1,092,709		$1,159,601
			TOTAL	**$426,018,695**
Highway Safety Cluster				
20.600	State and Community Highway Safety	$419,627		$2,196,040
20.611	Incentive Grant Program to Prohibit Racial Profiling	$34,115		$37,652
20.616	National Priority Safety Programs	$379,270		$1,829,516
			TOTAL	**$4,063,208**
Transit Services Programs Cluster				
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	$1,165,337		$1,237,860
20.516	Job Access And Reverse Commute Program	($48)		$1
20.521	New Freedom Program	$13,639		$15,042
			TOTAL	**$1,252,903**
			DEPARTMENT OF TRANSPORTATION TOTAL	**$447,847,475**
DEPARTMENT OF TREASURY				
21.UXX	Miscellaneous Non-Major Grants			$2,823
			TOTAL	**$2,823**
			DEPARTMENT OF TREASURY TOTAL	**$2,823**
DEPARTMENT OF VETERANS AFFAIRS				
64.014	Veterans State Domiciliary Care			$145,838
64.015	Veterans State Nursing Home Care			$6,733,278

State of Montana
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			Amount to Subrecipients	Amount
64.124	All-Volunteer Force Educational Assistance			$120,547
			TOTAL	**$6,999,663**
			DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$6,999,663**
ENVIRONMENTAL PROTECTION AGENCY				
66.039	National Clean Diesel Emissions Reduction Program			$1,336
66.040	State Clean Diesel Grant Program			$118,602
66.202	Congressionally Mandated Projects			$19,894
66.419	Water Pollution Control State, Interstate, and Tribal Program Support			$2,731
66.433	State Underground Water Source Protection			$106,235
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act			$9,311
66.454	Water Quality Management Planning			$69,492
66.460	Nonpoint Source Implementation Grants			$2,163,644
	Soil and Water Conservation Districts of Montana	C9-99833615		$1,349
	Soil and Water Conservation Districts of Montana	319 MINI GRANT MOU 2015		$476
66.461	Regional Wetland Program Development Grants			$252,009
66.514	Science To Achieve Results (STAR) Fellowship Program			$15,098
66.605	Performance Partnership Grants			$6,141,289
66.608	Environmental Information Exchange Network Grant Program and Related Assistance			$131,296
66.708	Pollution Prevention Grants Program			$229,861
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements			$2,223,426
66.804	Underground Storage Tank Prevention, Detection and Compliance Program			$353,082
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program			$461,018
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements			$165,923
66.817	State and Tribal Response Program Grants			$619,660
66.951	Environmental Education Grants		$7,366	$115,301
			TOTAL	**$13,201,033**
Clean Water State Revolving Fund Cluster				
66.458	Capitalization Grants for Clean Water State Revolving Funds			$221,842,294
			TOTAL	**$221,842,294**
Drinking Water State Revolving Fund Cluster				
66.468	Capitalization Grants for Drinking Water State Revolving Funds			$137,738,077
			TOTAL	**$137,738,077**
			ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$372,781,404**

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		Amount to Subrecipients	Amount
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.001	Employment Discrimination_Title VII of the Civil Rights Act of 1964		$208,607
		TOTAL	**$208,607**
		EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	**$208,607**
EXECUTIVE OFFICE OF THE PRESIDENT			
95.001	High Intensity Drug Trafficking Areas Program		$26,178
		TOTAL	**$26,178**
		EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	**$26,178**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		$95,784
39.011	Election Reform Payments		$111,862
		TOTAL	**$207,646**
		GENERAL SERVICES ADMINISTRATION TOTAL	**$207,646**
HOMELAND SECURITY			
97.007	Homeland Security Preparedness Technical Assistance Program		$2,793
97.012	Boating Safety Financial Assistance		$470,777
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		$171,223
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	$2,292,692	$2,373,903
97.039	Hazard Mitigation Grant	$751,690	$1,000,390
97.041	National Dam Safety Program		$330,383
97.042	Emergency Management Performance Grants	$1,879,365	$2,991,444
97.043	State Fire Training Systems Grants		$5,515
97.044	Assistance to Firefighters Grant		$88,400
97.045	Cooperating Technical Partners		$1,227,580
97.047	Pre-Disaster Mitigation	$203,990	$184,676
97.067	Homeland Security Grant Program	$3,316,432	$4,310,799
	Kalispell Police Department MOU		$5,003
		TOTAL	**$13,162,886**
		HOMELAND SECURITY TOTAL	**$13,162,886**

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		Amount to Subrecipients	Amount
LIBRARY OF CONGRESS			
42.UXX	Miscellaneous Non-Major Grants		$5,685
		TOTAL	**$5,685**
		LIBRARY OF CONGRESS TOTAL	**$5,685**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Science		$25,491
	Johns Hopkins University 106501; CLIN 1		$5,521
	University of Washington UWSC8987		$593
		TOTAL	**$31,605**
		NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$31,605**
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION			
89.003	National Historical Publications and Records Grants		$11,452
		TOTAL	**$11,452**
		NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	**$11,452**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.024	Promotion of the Arts_Grants to Organizations and Individuals		$46,159
	Arts Midwest 00014974		$25,000
45.025	Promotion of the Arts_Partnership Agreements	$383,919	$784,077
45.129	Promotion of the Humanities_Federal/State Partnership		
	Humanities Montana 16R023		$2,500
	Humanities Montana 16R011		$719
	Humanities Montana 14R022		$6,414
45.149	Promotion of the Humanities_Division of Preservation and Access		$15,071
	Idaho State Historical Society		$56,550
	Michigan State University RC103697 MONTANA STATE		$5
45.160	Promotion of the Humanities_Fellowships and Stipends		$47,155
45.163	Promotion of the Humanities_Professional Development		$237,014
45.301	Museums for America		$23,136
45.310	Grants to States		$1,113,236
45.312	National Leadership Grants	$42,887	$163,127
45.313	Laura Bush 21st Century Librarian Program		$69,234

State of Montana
Schedule of Expenditures of Federal Awards
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		Amount to Subrecipients	Amount
45.400	Peace Corps Global Health and PEPFAR Initiative Program		$10,962
		TOTAL	**$2,600,359**
		NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$2,600,359**
NATIONAL SCIENCE FOUNDATION			
47.076	Education and Human Resources		$411,754
	Salish Kootenai College 1102362		$6,535
		TOTAL	**$418,289**
		NATIONAL SCIENCE FOUNDATION TOTAL	**$418,289**
OTHER FEDERAL			
99.UXX	Miscellaneous Non-Major Grants		$32,320
		TOTAL	**$32,320**
		OTHER FEDERAL TOTAL	**$32,320**
SMALL BUSINESS ADMINISTRATION			
59.037	Small Business Development Centers		$693,677
59.058	Federal and State Technology Partnership Program		$79,067
59.061	State Trade and Export Promotion Pilot Grant Program		$372,794
		TOTAL	**$1,145,538**
		SMALL BUSINESS ADMINISTRATION TOTAL	**$1,145,538**
SOCIAL SECURITY ADMINISTRATION			
96.008	Social Security - Work Incentives Planning and Assistance Program	$29,435	$151,239
		TOTAL	**$151,239**
Disability Insurance/SSI Cluster			
96.001	Social Security_Disability Insurance		$7,322,794
		TOTAL	**$7,322,794**
		SOCIAL SECURITY ADMINISTRATION TOTAL	**$7,474,033**

State of Montana
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Research and Development Cluster	Amount to Subrecipients	Amount
DEPARTMENT OF AGRICULTURE		
10.683 National Fish and Wildlife Foundation		
Yellowstone to Yukon Conservation Initiative 15-01-UM		$4,051
10.960 Technical Agricultural Assistance		
Rutgers, The State University SUBAWARD NO. 5566		$55,546
Agricultural Research Service		
10.001 Agricultural Research_Basic and Applied Research		$34,855
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		$240,174
Economic Research Service		
10.250 Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		$47,582
Cornell Center for Behavioral Economics in Child Nutrition 77867-10660		$17,523
10.253 Consumer Data and Nutrition Research		
Cornell Center for Behavioral Economics in Child Nutrition 62140-10296		($59)
Forest Service		
10.652 Forestry Research	$40,200	$4,107,719
Portage, Inc. 2306S02		$20,844
10.676 Forest Legacy Program		$10,041
10.680 Forest Health Protection		$282,913
Salish Kootenai College 2015-38424-24031		$16,084
10.681 Wood Education and Resource Center (WERC)		$1,006
10.682 National Forest Foundation		$4,621
10.684 International Forestry Programs		$263,360
Miscellaneous		
10.RD Miscellaneous Research and Development		$402,403
Portage, Inc. 2306S01		$4,834
University of Wisconsin PO# 0000000666		$36,342
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		$19,983
North Dakota State University FAR0025837		$7,984
University of Idaho BAK308-SB-001		$5,002
University of Idaho BJKP36-SB-001		$13,257
University of Washington BPO-9517		$12,572

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Research and Development Cluster		Amount to Subrecipients	Amount
	University of Washington SC 734586		$14
10.202	Cooperative Forestry Research		$680,831
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act		$2,977,156
10.207	Animal Health and Disease Research		$62,723
10.212	Small Business Innovation Research		
	Sustainable Bioproducts SUSBIO-MSU-USDA		$154
10.215	Sustainable Agriculture Research and Education		
	University of Wyoming 1002627		$17,597
	Utah State University 140867054-135		$2,295
	Utah State University 150893-00001-207		$1,515
	Utah State University 140867038		$7,010
	Utah State University 140867034		$8,339
	Utah State University 130676003	$36,730	$65,104
	Utah State University 120833011		$10,608
	Utah State University 110892006		$56,210
	Utah State University 110892005		$29
	Utah State University SUBAWARD 120833024-127		$49,016
	Utah State University 140867026-233	$2,154	$68,365
	Western Region SARE Program 130676025		$4,209
	Western Region SARE Program SW12-108/110892011		$38,791
	Western Region SARE Program 120833025		$88,794
10.227	1994 Institutions Research Program		
	Aaniiih Nakoda College MCDERMOTT		$34,565
	Salish Kootenai College 2015-38424-22668		$22,795
	Salish Kootenai College 24-171-MSU-91		$52,138
	Salish Kootenai College MOA/HARMON		$2,324
10.303	Integrated Programs	$9,277	$81,333
10.304	Homeland Security_Agricultural		
	Kansas State University S13009		$26,930
10.307	Organic Agriculture Research and Extension Initiative	$41,149	$681,269
	National Center for Appropriate Technology BELASCO		$1,118
10.309	Specialty Crop Research Initiative		
	Cornell University 73999-10426		$43,144

State of Montana
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Research and Development Cluster		Amount to Subrecipients	Amount
10.309	Specialty Crop Research Initiative		
	University of Tennessee 8500042739		$30,907
10.310	Agriculture and Food Research Initiative (AFRI)	$161,994	$1,141,122
	Boston University 4500001196		$6,090
	Colorado State University G-70001-1		$69,914
	Colorado State University G-91600-2		$182,363
	Colorado State University G-91600-3		$83,405
	Colorado State University G-91600-4		$9,917
	Kansas State University S15184		$25,043
	North Carolina State University 2015-0097-05		$11,464
	University of California, Davis 201015718-18		$278,994
	University of Nebraska-Lincoln 25-6268-0005-004		$173,576
	University of Vermont 29034SUB51751		$41,772
	University of Wyoming 1002178-MSU		$6,697
	Washington State University 115808 G002983		$32,445
	Washington State University 115808 G002984		$123,572
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI):		
	Kansas State University S13098		$252,370
	University of Wyoming 1001828-MSU		$6,037
10.329	Crop Protection and Pest Management Competitive Grants Program		$147,197
10.500	Cooperative Extension Service	$21,061	$416,457
	Utah State University 120834002		$25,672
Natural Resources Conservation Service			
10.902	Soil and Water Conservation		$395,320
10.912	Environmental Quality Incentives Program		$49,974
Rural Housing Service			
10.446	Rural Community Development Initiative		
	Anaconda Local Development Corporation 1		$27,040
		DEPARTMENT OF AGRICULTURE TOTAL	**$14,230,361**
DEPARTMENT OF COMMERCE			
11.431	Climate and Atmospheric Research		$75,269

State of Montana
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Research and Development Cluster	Amount to Subrecipients	Amount
Economic Development Administration		
11.307 Economic Adjustment Assistance		$1,913
National Institute of Standards and Technology (NIST)		
11.620 Science, Technology, Business and/or Education Outreach		
Stone & Associates NIST-MEP-SA-01		$211,765
National Oceanic and Atmospheric Administration (NOAA)		
11.440 Environmental Sciences, Applications, Data, and Education		$7,886
National Telecommunications and Information Administration		
11.549 State and Local Implementation Grant Program		$121,224
	DEPARTMENT OF COMMERCE TOTAL	**$418,057**
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development		
Duke University 12-DARPA-1073		$206,372
Northwestern University SP0020412-PRJ005187		$1,560
Defense Logistics Agency		
12.002 Procurement Technical Assistance For Business Firms	$36,392	$533,000
Department of the Air Force, Materiel Command		
12.800 Air Force Defense Research Sciences Program	$203,672	$7,899,184
Bridger Photonics PT FA8560-14-M-1787		($17)
Colorado School of Mines P0154036 (SUBK: 400757-5801)		$26,749
University of Minnesota A001650202		$47,903
Department of the Army, Office of the Chief of Engineers		
12.114 Collaborative Research and Development		$725,254
Technology Assessment and Transfer, Inc. 6071-01		$30
Department of the Navy, Office of the Chief of Naval Research		
12.300 Basic and Applied Scientific Research		$481,743
S2 Corp S2-5504-15-01UC		$190,706
TPS Associates Inc. PO MSU-4631/4Y01-01		$52,713
University of Oklahoma 2011-20		$182,537

State of Montana
Schedule of Expenditures of Federal Awards
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Research and Development Cluster	Amount to Subrecipients	Amount
Miscellaneous		
12.RD Miscellaneous Research and Development	$619,593	$4,335,370
Aerodyne Research Incorporated ARI 10779-3		$19,368
Bridger Photonics		$88,588
EDAptive Computing, Inc. 080415-MILTECH		$60,000
Leidos PO10169067		$5,021
S2 Corp S2-14-0006-02		$152,832
Science Applications International Corporation P010200731		$76
Sierra Nevada Corporation PO: S15FNC204		$174,081
Spectral Molecular Imaging		$77,768
UES, Inc. S-875-040-009		$83
UES, Inc. S-111-024-001		$209
West Point Military Academy		$40,038
Wright Brothers Institute Inc WBSC 7255-MSU		$14,323
Office of the Secretary of Defense		
12.630 Basic, Applied, and Advanced Research in Science and Engineering		
Academy of Applied Science, Inc.		$21,839
Oklahoma State University AB-5-68050-UM		$3,603
U. S. Army Medical Command		
12.420 Military Medical Research and Development	$50,093	$298,431
U.S. Army Materiel Command		
12.431 Basic Scientific Research	$40,986	$1,947,864
University of Alabama W911NF-10-2-0025		($10,446)
	DEPARTMENT OF DEFENSE TOTAL	**$17,576,782**
DEPARTMENT OF EDUCATION		
Institute of Education Sciences		
84.305 Education Research, Development and Dissemination		
SRI International 51-001312		$33,812
Office of Elementary and Secondary Education		
84.299 Indian Education -- Special Programs for Indian Children		($223)
Little Big Horn College ILEAD		$9,586

State of Montana
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Research and Development Cluster		Amount to Subrecipients	Amount
84.367	Improving Teacher Quality State Grants		
	University of California, Berkeley 09-MT02-SEED2012		$10,066
Office of Postsecondary Education			
84.116	Fund for the Improvement of Postsecondary Education		
	Western Interstate Commission for Higher Education		$599
		DEPARTMENT OF EDUCATION TOTAL	**$53,840**
DEPARTMENT OF ENERGY			
81.049	Office of Science Financial Assistance Program	$1,057,267	$2,683,007
	Aerodyne Research, Inc. ARI 11129-2		$11,397
	Amethyst Research, Inc. AMETHYST-MSU		$9,032
	GroundMetrics, Inc. PO#: 389		$194
	Los Alamos National Security, LLC 187235		$2,339
	Montana Emergent Technologies MET-MSU		$277,168
	National Security Technologies, LLC 145485/DE-AC52-06NA25946		$44,271
	National Security Technologies, LLC SC 145485 TO 04		$17,367
	University of Southern California 159427/DE-SC0006813		($324)
	University of Wyoming DE-SC0012671		$270,005
81.086	Conservation Research and Development		$3,328,963
	Kootenai Tribe of Idaho 2002-011-00		$135,769
	Pacific States Marine Fisheries Commission 16-39G		$108,349
81.087	Renewable Energy Research and Development		
	Materia Inc		$49,658
	University of Toledo F-2013-30		$378,174
81.089	Fossil Energy Research and Development	$1,174,935	$3,695,888
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis		$2,945
81.135	Advanced Research Projects Agency - Energy		
	Donald Danforth Plant Science Center 21018-MT/21709-MT		$12,944
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis		
	American Indian Higher Education Consortium MSU-AISES RICH MACUR		($417)

State of Montana
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Research and Development Cluster		Amount to Subrecipients	Amount
Miscellaneous			
81.RD	Miscellaneous Research and Development		$1,609
	Aerodyne Research, Inc. ARI 11051-1		$190
	Aerodyne Research, Inc. ARI11138-1		$8,162
	Battelle Energy Alliance DE-AC07-05ID14517		$31,594
	Bonneville Power Administration 60312		$6,365
	Lawrence Berkeley National Lab DE-AC02-05CH11231	$8,000	$54,429
	Oregon Department of Fish and Wildlife ODFW AGREEMENT #323-14		$5,648
	Sandia National Laboratories 1562069		$70,247
	Sandia National Laboratories 1340328		$74,852
	Sandia National Laboratories 1663302		$39,009
		DEPARTMENT OF ENERGY TOTAL	**$11,318,834**
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.103	Food and Drug Administration_Research		$24,908
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research		$446,517
Administration for Community Living			
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	$33,412	$389,343
	The Institute for Rehabilitation and Research 8331104-2		$19,519
	University of Kansas H133B110006		$99,329
Centers for Disease Control and Prevention			
93.136	Injury Prevention and Control Research and State and Community Based Programs	$124,632	$195,474
	Mount Sinai School of Medicine 0254-5675-4609		$34,687
93.262	Occupational Safety and Health Program		
	Colorado State University G-00456-3		$5,000
Health Care Financing Administration			
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		
	Mineral Regional Health Center FMBHP-SC3		($6)
Health Resources and Services Administration			
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	$413,913	$647,479
93.155	Rural Health Research Centers	$5,271	$7,690
93.178	Nursing Workforce Diversity		$236,039

State of Montana
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Research and Development Cluster		Amount to Subrecipients	Amount
93.301	Small Rural Hospital Improvement Grant Program	$583,920	$672,950
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		$276,531
93.913	Grants to States for Operation of Offices of Rural Health		$31
Indian Health Service			
93.933	Demonstration Projects for Indian Health		
	Blackfeet Community College 2014-01-MSU		$72,348
93.970	Health Professions Recruitment Program for Indians		$326,743
Miscellaneous			
93.RD	Miscellaneous Research and Development		$165,583
	Cell Signaling Technology K-002052		$35,647
National Institutes of Health			
93.113	Environmental Health	$557,585	$1,991,069
	Scripps Research Institute 5-52250		$103,336
	University of New Mexico 3RY74		$92,257
93.121	Oral Diseases and Disorders Research		$188,316
93.172	Human Genome Research		
	Stanford University 60463995-29913-C		$82,583
93.173	Research Related to Deafness and Communication Disorders		$43,871
93.242	Mental Health Research Grants		$471,062
	Indiana University BL--4631228-UM		$83,505
93.279	Drug Abuse and Addiction Research Programs		$413,073
	Yale University M16A12253 (A10413)		$163,144
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	$216,075	$419,112
93.307	Minority Health and Health Disparities Research		$14,552
93.310	Trans-NIH Research Support		$105,168
93.351	Research Infrastructure Programs		$647,176
	GeneSearch, Inc. 1R42OD018404-01A1		$59,480
	Meadowlark Science and Education LLC MSE-001UM01		$157,573
93.389	National Center for Research Resources		$249,467
93.393	Cancer Cause and Prevention Research		$135,622
93.395	Cancer Treatment Research		$13,236

State of Montana
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Research and Development Cluster		Amount to Subrecipients	Amount
93.397	Cancer Centers Support Grants		
	University of Washington 75822		($1,686)
93.837	Cardiovascular Diseases Research		$170,703
	Cornell University 69020-10278		$173,280
	Methodist Hospital 15350004-93		$183,805
	Mount Sinai School of Medicine 0255-7875-4609		$25,558
	University of Maryland SUBAWARD 10015214		$19,510
93.838	Lung Diseases Research		$63,146
93.846	Arthritis, Musculoskeletal and Skin Diseases Research		$35,748
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	$51,316	$1,110,965
	Emory University T463034		$15,000
	The John B Pierce Laboratory SUBAWARD NO. 243-A		$166,494
93.855	Allergy and Infectious Diseases Research	$74,422	$2,990,905
	Corixa Corporation COA #5		$627,186
	Corixa Corporation COA #6		$652,833
	Indiana University PO 1464301/BL-4624889-MSU		($3,286)
	Indiana University PO#1544833 (BL-4647305-MSU)		$12,698
	Indiana University PO1464301		$174,818
	Sorrento Therapeutics Inc 4R42AI098182-04		$266,525
	University of Connecticut 50074		$178,952
	University of Connecticut KFS #5619100, 49814		$174,299
	University of Kentucky 3048111727-15-011		$25,517
93.859	Biomedical Research and Research Training	$1,467,341	$13,047,527
	Mountain West Research Consortium 15-746Q-MSU-PG21-00		$1,602
	Stanford University 60705124-111946		$74,052
	University of Nevada Las Vegas UNLV CTR-IN PA		$12,558
	University of Nevada, Las Vegas 16-746Q-UM-PG43-00		$50,617
	University of Nevada, Las Vegas 16-746Q-UMT-BS10-00/U54GM10494		$30,928
	University of Nevada, Las Vegas 16-746Q-UM-MG26		$8,065
	University of Nevada, Las Vegas 16-746Q-UM-GP46-00		$61,301
	University of Nevada, Las Vegas 16-746Q-MSU-PG51-00		$58,890
	University of Nevada, Las Vegas 15-746Q-UMT-PG28-00		$644
	University of Nevada, Las Vegas 15-746Q-UMT-B51-00		$8,426

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Research and Development Cluster		Amount to Subrecipients	Amount
	University of Nevada, Las Vegas 16-746Q-UMT-MG21-00		$9,768
	University of Nevada, Las Vegas 14-747X-C-01		$207,930
	University of Nevada, Las Vegas 14-746Q-UMT-MG8-00		$1,352
	University of Nevada, Las Vegas 16-746Q-MSU-BS13-00		$32,336
	University of Southern California Y82277 38763030		$120,701
	University of Washington 761999		$121,991
93.865	Child Health and Human Development Extramural Research	$18,002	$295,496
	Stanford University 60595107-49686		$222,513
93.866	Aging Research		$213,703
	Dermaxon LLC R41AG046987-SA01		$2
93.867	Vision Research		$37,838
	American Gene Technologies AGT CONTRACT		$72,001
	University of California, Berkeley 00008466		$80,575
Substance Abuse and Mental Health Services Administration			
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance		
	Community Connections		$29,821
	Harrison County Family Resource Network		$29,779
	Ohio County Substance Abuse Prevention Coalition		$29,779
	Potomac Highlands Guild		$29,769
	Prestera Center		$29,745
	Westbrook Health Services		$29,814
93.959	Block Grants for Prevention and Treatment of Substance Abuse		
	Oregon Department of Human Services 147702		$85,611
		DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$31,187,518**
DEPARTMENT OF JUSTICE			
National Institute of Justice			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		$130,957
Office for Victims of Crime			
16.582	Crime Victim Assistance/Discretionary Grants		$27,499
		DEPARTMENT OF JUSTICE TOTAL	**$158,456**

State of Montana
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Research and Development Cluster	Amount to Subrecipients	Amount
DEPARTMENT OF LABOR		
Employment Training Administration		
17.261 WIA/WIOA Pilots, Demonstrations, and Research Projects		$20,539
	DEPARTMENT OF LABOR TOTAL	**$20,539**
DEPARTMENT OF STATE		
Bureau of Educational and Cultural Affairs		
19.450 ECA Individual Grants		
Eurasia Foundation W16-1006		$2,500
Bureau of Near Eastern Affairs		
19.500 Middle East Partnership Initiative		$307,575
Miscellaneous		
19.RD Miscellaneous Research and Development		($1,655)
	DEPARTMENT OF STATE TOTAL	**$308,420**
DEPARTMENT OF THE INTERIOR		
15.232 Wildland Fire Research and Studies Program		$143,295
Bureau of Indian Affairs		
15.034 Agriculture on Indian Lands	$5,000	$69,941
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management		$140,087
15.225 Recreation Resource Management		$36,210
15.228 BLM Wildland Urban Interface Community Fire Assistance		$10,565
15.230 Invasive and Noxious Plant Management	$15,000	$33,946
15.231 Fish, Wildlife and Plant Conservation Resource Management		$171,996
15.236 Environmental Quality and Protection Resource Management		$221,376
15.238 Challenge Cost Share		$98,645
Bureau of Reclamation		
15.517 Fish and Wildlife Coordination Act		$68,198
Fish and Wildlife Service		
15.605 Sport Fish Restoration Program		
Wyoming Game and Fish Department 002243		$38,344

State of Montana
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Research and Development Cluster		Amount to Subrecipients	Amount
15.608	Fish and Wildlife Management Assistance		$24,834
	University of California, Santa Cruz S0184275		$7,610
15.611	Wildlife Restoration and Basic Hunter Education	$19,210	$686,254
	Idaho Department of Fish and Game IDFG-MA-2015109-VEG		$23,362
	Idaho Department of Fish and Game IDFG-MA-20151029		$56,588
	South Dakota Game, Fish and Parks 15-0600-012		$37,649
15.637	Migratory Bird Joint Ventures		$98,358
	Pheasants Forever 60181BJ653		$30,289
	Pheasants Forever PF2013-11		$47,618
15.650	Research Grants (Generic)		$266,734
	University of California, Santa Cruz S0183989		$30,032
15.654	Visitor Facility Enhancements - Refuges and Wildlife		$123,214
15.655	Migratory Bird Monitoring, Assessment and Conservation		$100,063
15.657	Endangered Species Conservation Recovery Implementation Funds		$434,398
15.660	Endangered Species - Candidate Conservation Action Funds		$12,339
	Western Association of Fish and Wildlife Agencies SC-C-13-01		$33,144
15.663	National Fish and Wildlife Foundation		$29,665
	National Fish and Wildlife Foundation 0103.13.038862	$23,954	$27,547
	Yellowstone to Yukon Conservation Initiative 15-02-WTI-P		$12,193
15.664	Fish and Wildlife Coordination and Assistance Programs		$6,320
15.669	Cooperative Landscape Conservation		$5
15.670	Adaptive Science	$15,000	$41,495
Miscellaneous			
15.RD	Miscellaneous Research and Development		$150,831
	Pheasants Forever 2014-08		$30,798
National Park Service			
15.915	Technical Preservation Services		$165,403
15.923	National Center for Preservation Technology and Training		$136
15.945	Cooperative Research and Training Programs Resources of the National Park System	$63,174	$1,222,736
15.948	National Fire Plan-Wildland Urban Interface Community Fire Assistance		$160
U.S. Geological Survey			
15.805	Assistance to State Water Resources Research Institutes		$112,043
15.808	U.S. Geological Survey_ Research and Data Collection		$366,283

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Research and Development Cluster		Amount to Subrecipients	Amount
15.810	National Cooperative Geologic Mapping Program		$201,836
15.812	Cooperative Research Units Program		$365,244
15.814	National Geological and Geophysical Data Preservation Program		$21,289
15.815	National Land Remote Sensing_Education Outreach and Research		
	America View Inc AV13-MT01		$33,035
	America View Inc AV13-MT02		$70,336
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)		$16,675
15.820	National Climate Change and Wildlife Science Center		
	America View Inc AVCSC13-MT01/PO 458357		$4,119
	Colorado State University G-8841-2		$10,634
	Colorado State University G-8892-1		$100,561
	Colorado State University G-8829-1/G13AC00392		$489
	Colorado State University G-50003-1		$8,241
	Colorado State University G-06108-1/G14AP00181		$145,389
	Colorado State University G-06104-2		$34,481
	Colorado State University G-8892-2		$19,492
	University of Idaho GNK-SB-002		$24,140
15.899	USDI/Geological Survey		$15,412
15.980	National Ground-Water Monitoring Network		$34,748
		DEPARTMENT OF THE INTERIOR TOTAL	**$6,316,825**
DEPARTMENT OF TRANSPORTATION			
20.109	Air Transportation Centers of Excellence		$131,091
20.514	Public Transportation Research, Technical Assistance, and Training		
	Aerodyne Research, Inc. ARI 11012-3		$28,232
Federal Highway Administration			
20.200	Highway Research and Development Program	$451,790	$1,451,449
	California Department of Transportation 65A0500		$50,917
	California Department of Transportation 65A0501		$101,126
	California Department of Transportation 65A0550		$56,722
	Idaho Department of Transportation 2016-01		$34,220
	Iowa Department of Transportation SPR-3(042) CONTRACT 16786		$2
	National Academies of Science HR 20-05(46-12) SUB0000608	$7,019	$21,941

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Research and Development Cluster		Amount to Subrecipients	Amount
	National Academies of Science HR 17-69 SUB0000545	$65,712	$122,175
	Nebraska Department of Roads SPR-1(16) 00730G		$11,190
	Washington State Department of Transportation T6737 TASK 07		$21,473
	Washington State Department of Transportation T6737 TASK 08		$10,376
	Washington State Department of Transportation T6737 TASK 09		$26,059
	Washington State Department of Transportation T6737-02		$49,788
	Washington State Department of Transportation T6737-05		$68,533
	Washington State Department of Transportation T6737-06		$2
	Western Governors Association 20-126-10	$5,735	$8,021
20.205	Highway Planning and Construction	$48,632	$2,790,069
	Hunter Research, Inc. 1535 TASK 12		$3,172
	Iowa Department of Transportation TPF-5(290) CONTRACT 17997		$21,272
	Kimley-Horn and Associates 191964000.4		$38,439
	Nevada Department of Transportation P531-13-803		$18,097
	South Dakota Department of Transportation SD2014-13		$48,213
	Southern Illinois University 767105-002 PO 120118		$7,317
	Wisconsin Department of Transportation 0092-15-12		$7,482
National Highway Traffic Safety Administration			
20.600	State and Community Highway Safety		
	Virginia Tech 451388-19060		$17,241
20.609	Safety Belt Performance Grants		
	Virginia Tech 451263-19060		$172
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		
	Virginia Tech 451336-19060		$172
Office of the Secretary (OST)			
20.701	University Transportation Centers Program	$187,381	$680,368
	University of Alaska Fairbanks UAF 14-0098 FP42825	$7,942	$135,107
Pipeline and Hazardous Materials Safety Administration			
20.724	Pipeline Safety Research Competitive Academic Agreement Program (CAAP)		
	Rutgers, The State University 00005805 PO S2269748		$31,282
		DEPARTMENT OF TRANSPORTATION TOTAL	**$5,991,720**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Research and Development Cluster		Amount to Subrecipients	Amount
ENVIRONMENTAL PROTECTION AGENCY			
Miscellaneous			
66.RD	Miscellaneous Research and Development		
	Clark Fork Coalition 36-3428665		$12,580
Office of Administration			
66.605	Performance Partnership Grants		
	Flathead County Health Department 515017		$28,781
Office of Air and Radiation			
66.001	Air Pollution Control Program Support		
	Idaho Department of Environmental Quality K124		$14,064
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		$342,864
Office of Chemical Safety and Pollution Prevention			
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		$43,935
66.717	Source Reduction Assistance		$17,050
Office of Research and Development			
66.509	Science To Achieve Results (STAR) Research Program		
	Little Big Horn College MSU-LBHC		$111,388
Office of Solid Waste and Emergency Response			
66.813	Alternative or Innovative Treatment Technology Research, Demonstration, Training, and Hazardous Substance Research Grants		
	Sustainable Bioproducts MSU-EPA-SUSTAINABLE BIOPRODUCT		$19
Office of Water			
66.419	Water Pollution Control State, Interstate, and Tribal Program Support		$282,918
66.461	Regional Wetland Program Development Grants		$223,149
		ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$1,076,748**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Science	$799,632	$5,985,537
	Johns Hopkins University 970066		$22,406
	Lockheed Martin Corporation 8100002702		$305,929
	Lockheed Martin Corporation SP02H3901R; LINE ITEM#2		$8

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Research and Development Cluster		Amount to Subrecipients	Amount
	Qualtech Systems Inc QSI-DSC-14-004		$114,501
	Rocky Mountain Research Station 15-JV-11221637-051		$28,366
	SETI Institute SC 3118		$28,869
	Smithsonian Astrophysical Observatory SV7-77003		$234,605
	South Dakota State University 3TB481		$142,035
	Southwest Research Institute H99053CO		$18,861
	University Corporation for Atmospheric Research Z16-19576		$17,254
	University of Alabama SUB2013-053		$15,183
	University of California, Berkeley SA1868-26308PG; BB00090555		$20,675
	University of California, Santa Barbara KK1301		$50,622
	University of Colorado 1552610 / NNA15BB02A		$112,990
	University of Southern California 55747174		$62,341
	University of Washington UWSC8879/BPA13182		$45,850
43.002	Aeronautics		$17,063
	Carnegie Institution of Washington DTM-3250-15 (PHASE E)		$79,998
43.008	Education	$36,927	$1,449,556
43.009	Cross Agency Support	$126,459	$282,878
Miscellaneous			
43.RD	Miscellaneous Research and Development		$223
	California Institute of Technology JPL 1422120		$112,352
	Southwest Research Institute E99044MO		$28,558
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		**$9,176,660**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.161	Promotion of the Humanities_Research		$60,717
Institute of Museum and Library Services			
45.312	National Leadership Grants		$14,234
National Endowment for the Humanities			
45.129	Promotion of the Humanities_Federal/State Partnership		
	Humanities Montana 15R038		$2,571
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		**$77,522**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Research and Development Cluster		Amount to Subrecipients	Amount
NATIONAL SCIENCE FOUNDATION			
47.041	Engineering Grants	$1,030	$880,284
	Advanced Microcavity Sensors LLC		$25,015
	Montana Bioagriculture Inc. 13-01		$302
	Sustainable Bioproducts SUSBIO-MSU-NSF		$21,403
47.049	Mathematical and Physical Sciences		$2,020,295
	S2 Corp S2-1330880-13-03		$39,655
	University of West Georgia 111554AUM		$16,675
	University of Wisconsin-Milwaukee 153405537		$88,577
47.050	Geosciences	$291,011	$2,124,100
	George Washington University 14-S17		$27,871
	University of Hawaii at Manoa MA130029/Z10045884		$7,220
	University of Southern California 51555903/PO 10204206		$29,106
	University of Southern California PO 10309251 OCE-0939564		$56,406
47.070	Computer and Information Science and Engineering	$23,000	$497,466
47.074	Biological Sciences	$1,175,050	$6,102,124
	Rocky Mountain Research Station 16-JV-11221633-029		$18,213
	The Samuel Roberts Noble Foundation Inc 2015-978-001		$8,646
	Washington State University 118996_G003357		$157,098
47.075	Social, Behavioral, and Economic Sciences		$493,534
	South Dakota State University 3CT649		$1,556
	Tufts University A130001		$67,922
47.076	Education and Human Resources	$152,726	$3,061,173
	Colorado State University 96702-5		$36,155
	George Mason University E2033191		$200,317
	Michigan State University RC104101MONTANA		$32,527
	Salish Kootenai College SKC ANLSAMP 5		$3,517
	Salish Kootenai College HRD-1262779		$6,617
	Salish Kootenai College SAG-16-UOM-002		$420
	Salish Kootenai College UM-SA03		$7,603
	University of California National Writing Project MT-SPECTRUM-NSF2014		$8,704
	University of Nebraska-Lincoln 25-0536-0015-004		$3
	University of Nebraska-Lincoln 25-0536-0019-002		$6,770

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Research and Development Cluster		Amount to Subrecipients	Amount
47.078	Polar Programs		$319,867
	University of Colorado SPO 1000046125/1548197		$62,739
47.079	Office of International Science and Engineering	$63,383	$569,427
	University of Nevada, Las Vegas 11-707D-G		$124
47.080	Office of Cyberinfrastructure	$12,000	$2,422,326
47.082	Trans-NSF Recovery Act Research Support		$6,125
		NATIONAL SCIENCE FOUNDATION TOTAL	**$19,427,882**
SMALL BUSINESS ADMINISTRATION			
59.058	Federal and State Technology Partnership Program		$328
	Defense Alliance of Minnesota ADT CLUSTERS 14_15		$21,928
	Defense Alliance of Minnesota ADT CLUSTERS 15_16		$37,407
		SMALL BUSINESS ADMINISTRATION TOTAL	**$59,663**
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT			
98.001	USAID Foreign Assistance for Programs Overseas		
	University of Georgia RC282-392/4942936		$35,868
		UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL	**$35,868**
		RESEARCH AND DEVELOPMENT CLUSTER TOTAL	**$117,435,695**
		SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL	**$3,396,849,678**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the state of Montana under programs of the federal government for the fiscal year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (referred to as the "Uniform Guidance"), and where applicable, Office of Management and Budget Circular A-133 requirements.

Because this schedule presents only a selected portion of the operations of the state of Montana, it is not intended to, and does not present, the financial positions, change in net assets, or cash flows of the state.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are recorded in the accounting period in which the liability is incurred.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds use the full accrual basis of accounting.

Loan and Loan Guarantees (Note 2), Federal Excess Personal Property (Note 6), and the Department of Defense Firefighting Property (Note 7) are presented on the basis of accounting described in each note. The Books for the Blind and Physically Handicapped Program (Note 8) is not presented on the Schedule of Expenditures of Federal Awards but is provided as additional information regarding the types of donations received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States. During fiscal year 2016, Montana distributed $1,040,625 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $10,647,333 in commodities in fiscal year 2016. The value at June 30, 2016 of commodities stored at the state's warehouse is $1,882,775, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities Research Program (CFDA #93.307) includes endowment funds of $9,375,000, along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2016. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2016, Montana received 172,687 vaccine doses valued at $10,328,582.

Note 2. Loan and Loan Guarantee Programs

The following loan and loan guarantee programs are reported on the Schedule of Expenditures of Federal Awards at their July 1, 2015 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2016:

CFDA #	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2016 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	$ 267,269,399
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$ 132,076,760
	Total Loan Programs	**$ 399,346,159**

CFDA #	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2016 Ending Balance
84.032	Federal Family Education Loans	$71,330,772
84.038	Federal Perkins Loan Program	$31,718,993
93.364	Nursing Student Loans	$2,166,740
93.264	Nurse Faculty Loan Program	$17,721
93.342	Health Professions Student Loans	$148,150
	Total Loan Programs	**$105,382,376**

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) is reported on the Schedule of Expenditures of Federal Awards at its June 30, 2016 ending loan balance. The amount of loans outstanding as of June 30, 2016 is $3,202,401.

The following loans, originally funded through federal programs, do not have any continuing federal compliance requirements imposed on the state, other than the loan repayments. These loans are not reported on the Schedule of Expenditures of Federal Awards:

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2016. The amount of the loan outstanding as of June 30, 2016 is $6,374,359.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "…a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is $2,990,129, and reimbursable interest during construction is $281,857. As of June 30, 2016, the loan outstanding is $2,019,679, and reimbursable interest during construction is $180,279.

Note 3. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2017 will be issued by March 31, 2018.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2017.

Note 4. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.UXX or **. RD. Also refer to Note 12.

Note 5. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 6. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by the state, which is determined to be 22.47% of the original acquisition cost of the property.

Property received under the federal Conservation Research and Development Program (CFDA #81.RD) is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2016. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 16 Amount	FY 16 Ending Inventory
10.203	Agricultural Experiment Stations	$0	$123,236
10.500	Cooperative Extension Service	$0	$3,039
10.664	Cooperative Forestry Assistance	($296,953)	$4,751,147
10.UXX	Agriculture Miscellaneous – Non-major	$0	$131,341
39.003	General Services Administration	($1,066)	$78,179
81.RD	Conservation Research and Development	$2,780	$5,150
43.UXX	NASA Miscellaneous – Non-major	$0	$640,395
47.UXX	NSF Miscellaneous – Non-major	$0	$184,639

Note 7. Department of Defense Firefighting Property

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 22.47% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2016.

CFDA #	Program	FY 16 Amount	FY 16 Ending Inventory
12.UXX	DOD Firefighter Program	$269,450	$2,341,811

Note 8. Books for the Blind and Physically Handicapped

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Books for the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2016 was $943,278.

Since this program is considered a federal “use of equipment” agreement, the accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 9. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	$112,639,696
Federal UI Expenditures	17,237,706
Total	$129,877,402

Note 10. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 11. Subgrants to Non-State Agencies

Federal assistance transferred from a Montana state agency or university to a non-state agency, such as a city, county, tribal government, or nonprofit organization, is identified in the Amount to Subrecipients column shown in the Schedule of Expenditures of Federal Awards.

Note 12. Federal Awards not having a CFDA Number

The following schedules contain contract or grant numbers associated with awards that did not have a CFDA number and were assigned either a **.UXX or **.RD number in the Schedule of Expenditures of Federal Awards. Not all **.UXX or **.RD awards reported on the SEFA had a grant or contract number. Also refer to Note 4.

Schedule of Unknown Federal CFDA Numbers (**.UXX)

Federal Agency		*State Agency*	*Contract or Grant Number*	*Amount*
DEPARTMENT OF AGRICULTURE				
	10.U01	Montana State University - Bozeman	13-CS-11015600-057	1,007.00
	10.U02		58-0510-4-039 N 7600043373	5,958.00
	10.U03	University of Montana - Montana Tech	12-CS-11015600-054	2,500.00
	10.U04	Department of Fish, Wildlife and Parks	09-PA-11011110-033	3,175.00
	10.U05		10-PA-11011100-041	10,898.00
	10.U06		11-CS-11010300-003	(3,682.00)
	10.U07		11-CS-11011000-037	20,706.00
	10.U08		11-CS-11011600-040	38,685.00
	10.U09		11-PA-11010200-050	5,715.00
	10.U10		12-CS-11011000-047	62,388.00
	10.U11		12-CS-11011000-063	(1,505.00)
	10.U12		12-CS-11011500-006	10,191.00
	10.U13		12-PA-11011600-040	560.00
	10.U14		13-CS-11011000-004	37,107.00
	10.U15		13-CS-11011100-008	2,735.00
	10.U16		13-CS-11011500-016	2,607.00
	10.U17		13-PA-11010800-005	652.00
	10.U18		13-PA-11011100-012	104,228.00
	10.U19		14-CS-11011200-013	40,886.00
	10.U20		14-PA-11010200-044	19,600.00
	10.U21		15-CS-11011100-070	2,496.00
	10.U22	Department of Natural Resources and Conservation	Challenge Cost Share Agreement 13-CS-11011000-047	34,835.00
	10.U23		Project Financial Plan 12-FI-11010800-012	2,175.00
	10.U24		Project Financial Plan 12-FI-11011100-049	2,183.00
	10.U25		Project Financial Plan 12-FI-11011200-022	628.00
	10.U26		Project Financial Plan 12-FI-11011600-003	1,935.00
	10.U27		Project Financial Plan 12-FI-11015200-015	32,701.00
	10.U28		Project Financial Plan 13-FI-11011400-013	1,000.00
	10.U29		Project Financial Plan 13-FI-11011600-045	348.00
	10.U30		Project Financial Plan 13-FI-11015200-007	396.00
	10.U31		Project Financial Plan 14-FI-11011400-011	2,556.00
	10.U32		Project Financial Plan 15-FI-11010200-001	224.00
DEPARTMENT OF DEFENSE				
	12.U01	Department of Natural Resources and Conservation	Unknown	453,477.00
DEPARTMENT OF EDUCATION				
	84.U01	Office of Public Instruction	ED-IES-14-C-0086	99,658.00
DEPARTMENT OF ENERGY				
	81.U01	Department of Environmental Quality	Unknown	3,721.00
	81.U02	Department of Natural Resources and Conservation	Unknown	5,701.00
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
	93.U01	Department of Public Health and Human Services	CPSC-W-15-0022	2,250.00
DEPARTMENT OF TREASURY				
	21.U01	Department of Administration	Unknown	892.00
	21.U02	Department of Commerce	PL110-161:95X1350	1,931.00
LIBRARY OF CONGRESS				
	42.U01	Montana Historical Society	Unknown	5,685.00
OTHER FEDERAL				
	99.U01	Judicial Branch	SJI-15T-039	32,320.00

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (**.RD)

Federal Agency	*State Agency*	*Contract or Grant Number*	*Amount*
DEPARTMENT OF AGRICULTURE			
10.RD	University of Montana - Montana Tech	05-CS-11010800-010	10,189.00
		07-CS-11015600-099	24,326.00
		2306S01	4,834.00
	Montana State University - Bozeman	PO# 0000000666	36,342.00
		Unknown	367,888.00
DEPARTMENT OF DEFENSE			
12.RD	University of Montana - Missoula	P010200731	76.00
		W9128F-14-2-0002 TO 0011	557,920.00
		W9128F-14-2-0002 TO 0016	34,234.00
		W9128F-14-2-0002, TO 0001	2,378,288.00
		W9128F-14-2-0002, TO 0002	408,673.00
		W9128F-14-2-0002. TO 0004	94,903.00
		W9128F-14-2-0002. TO 0005	479,095.00
		W9128F-14-2-0002. TO 0006	350,844.00
	Montana State University - Bozeman	080415-MILTECH	60,000.00
		ARI 10779-3	19,368.00
		PO: S15FNC204	174,081.00
		PO10169067	5,021.00
		S-111-024-001	209.00
		S2-14-0006-02	152,832.00
		S-875-040-009	83.00
		WBSC 7255-MSU	14,323.00
		Unknown	237,807.00
DEPARTMENT OF ENERGY			
81.RD	University of Montana - Montana Tech	1340328	74,852.00
		1562069	70,247.00
		1663302	39,009.00
		60312	6,365.00
		CR19476-429182	(1,171.00)
		DE-AC02-05CH11231	54,429.00
		DE-AC07-05ID14517	31,594.00
	Montana State University - Bozeman	ARI 11051-1	190.00
		ARI11138-1	8,162.00
		ODFW AGREEMENT #323-14	5,648.00
	Department of Fish, Wildlife and Parks	Unknown	2,780.00
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.RD	University of Montana - Missoula	K-002052	35,647.00
	University of Montana - Montana Tech	15IPA1518046	15,501.00
		211-2014-59580	54,642.00
	Department of Public Health and Human Services	BHSIS State Agreement REF# 283-07-4803 SAMSHA	65,688.00
		DASIS State Agreement with SAMSHA	29,752.00
DEPARTMENT OF STATE			
19.RD	University of Montana - Missoula	USIEF/OSI/2012/04	(1,655.00)
DEPARTMENT OF THE INTERIOR			
15.RD	University of Montana - Missoula	CHECK #1003	2,494.00
		P13AC00618	2,439.00
	University of Montana - Montana Tech	G15PX00943	5,979.00
		H1200090004	16,210.00
		H1580070001	67,334.00
		P14AC00408	(21,601.00)
	Montana State University - Bozeman	2014-08	30,798.00
		Unknown	77,976.00
ENVIRONMENTAL PROTECTION AGENCY			
66.RD	University of Montana - Missoula	36-3428665	12,580.00
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.RD	University of Montana - Missoula	1422120	112,352.00
		E99044MO	28,558.00
		NNX11AF18G	223.00

Auditor's Report & Findings

Auditor's Report and Findings

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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Legislative Audit Committee
of the Montana State Legislature:

Report on Compliance for Each Major Federal Program

We have audited the state of Montana's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the state of Montana's major federal programs for the two fiscal years ended June 30, 2017. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of state of Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and the Uniform Guidance, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the state of Montana's compliance.

Basis for Qualified Opinion on Medicaid Cluster

As described in Findings 2017-014, 2017-017, and 2017-019 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002	93.775 93.777 93.778	Medicaid Cluster	Cash Management
2017-014			Allowable Costs/Cost Principles
2017-017 2017-019			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Medicaid Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Medicaid Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Highway Planning and Construction Cluster

As described in Findings 2017-002, 2017-009, 2017-010, and 2017-028 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-009	20.205 20.219	Highway Planning and Construction Cluster	Cash Management
2017-010			Subrecipient Monitoring
2017-028			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Highway Planning and Construction Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in Findings 2017-002 and 2017-005 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-005	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in Findings 2017-002 and 2017-005 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-005	84.027 84.173	Special Education Cluster (IDEA)	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Cluster (IDEA)* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster (IDEA) for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on TANF Cluster
As described in Findings 2017-002, 2017-014, 2017-023, and 2017-024 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-014 2017-024	93.558	TANF Cluster	Allowable Costs/Cost Principles
2017-002			Cash Management
2017-023			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on TANF Cluster
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on TANF Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the TANF Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on CCDF Cluster
As described in Findings 2017-015 and 2017-022 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-015	93.575 93.596	CCDF Cluster	Cash Management
2017-022			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on CCDF Cluster
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on CCDF Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the CCDF Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Housing Voucher Cluster
As described in Findings 2017-002, 2017-012, and 2017-013 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-012	14.871	Housing Voucher Cluster	Cash Management
2017-013			Procurement and suspension and debarment

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Housing Voucher Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Housing Voucher Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Housing Voucher Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Forest Service Schools and Roads Cluster

As described in Finding 2017-001 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-001	10.665	Forest Service Schools and Roads Cluster	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Forest Service Schools and Roads Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Forest Service Schools and Roads Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Forest Service Schools and Roads Cluster for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Unemployment Insurance

As described in Findings 2017-002, 2017-003, and 2017-004 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-003	17.225	Unemployment Insurance	Cash Management
2017-004			Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Unemployment Insurance

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Unemployment Insurance* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in Findings 2017-002, 2017-005, and 2017-006 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-005	84.010	Title I Grants to Local Educational Agencies	Cash Management
2017-006			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Grants to Local Educational Agencies* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Title I Grants to Local Educational Agencies for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Low-Income Home Energy Assistance

As described in Findings 2017-002 and 2017-015 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-002 2017-015	93.568	Low-Income Home Energy Assistance	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Low-Income Home Energy Assistance

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Low-Income Home Energy Assistance* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Low-Income Home Energy Assistance for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Foster Care-Title IV-E

As described in Finding 2017-015 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-015	93.658	Foster Care-Title IV-E	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Foster Care-Title IV-E

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Foster Care-Title IV-E* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Foster Care-Title IV-E for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

As described in Findings 2017-002, 2017-014, 2017-020, and 2017-021 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-014	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Allowable Costs/Cost Principles
2017-002			Cash Management
2017-020 2017-021			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Formula Grants for Rural Areas

As described in Finding 2017-030 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-030	20.509	Formula Grants for Rural Areas	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Formula Grants for Rural Areas

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Formula Grants for Rural Areas* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Formula Grants for Rural Areas for the two fiscal years ended June 30, 2017.

Basis for Qualified Opinion on Immunization Cooperative Agreements

As described in Finding 2017-026 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2017-026	93.268	Immunization Cooperative Agreements	Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Immunization Cooperative Agreements

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Immunization Cooperative Agreements* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Immunization Cooperative Agreements for the two fiscal years ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the state of Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the two fiscal years ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs, as items 2017-011, 2017-025, 2017-027, 2017-029, and 2017-014 as it pertains to CFDA #93.667 and #93.767. Our opinion on each major federal program is not modified with respect to these matters.

The state of Montana's response to the noncompliance findings identified in our audit are described in the Schedule of Findings and Questioned Costs and the accompanying Corrective Action Plan. The state of Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the state of Montana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance

requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, listed in the following table, to be material weaknesses.

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2017-014	93.775, 93.777, 93.778	Medicaid Cluster	Allowable Costs/Cost Principles
2017-016 2017-019			Special Tests and Provisions
2017-028	20.205, 20.219	Highway Planning and Construction Cluster	Special Tests and Provisions
2017-014	93.558	TANF Cluster	Allowable Costs/Cost Principles
2017-015	93.575, 93.596	CCDF Cluster	Cash Management
2017-022			Special Tests and Provisions
2017-013	14.871	Housing Voucher Cluster	Procurement and suspension and debarment
2017-006	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions
2017-015	93.568	Low-Income Home Energy Assistance	Cash Management
2017-015	93.658	Foster Care-Title IV-E	Cash Management
2017-014	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Allowable Costs/Cost Principles
2017-020 2017-021			Special Tests and Provisions
2017-030	20.509	Formula Grants for Rural Areas	Reporting
2017-026	93.268	Immunization Cooperative Agreements	Allowable Costs/Cost Principles

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, listed in the following table, to be significant deficiencies.

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2017-002	93.775, 93.777, 93.778	Medicaid Cluster	Cash Management
2017-018			Reporting
2017-002	20.205, 20.219	Highway Planning and Construction Cluster	Cash Management
2017-007	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.342, 93.364	Student Financial Assistance Cluster	Cash Management
2017-008			Special Tests and Provisions
2017-002 2017-005	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Cash Management
2017-002 2017-005	84.027, 84.173	Special Education Cluster (IDEA)	Cash Management
2017-002 2017-015	93.558	TANF Cluster	Cash Management
2017-001	10.665	Forest Service Schools and Roads Cluster	Subrecipient Monitoring
2017-002 2017-003	17.225	Unemployment Insurance	Cash Management
2017-002	14.871	Housing Voucher Cluster	Cash Management
2017-002 2017-005	84.010	Title I Grants to Local Educational Agencies	Cash Management
2017-002	93.568	Low-Income Home Energy Assistance	Cash Management
2017-002	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Cash Management
2017-031	20.509	Formula Grants for Rural Areas	Procurement and suspension and debarment
2017-015	93.659	Adoption Assistance	Cash Management

The state of Montana's response to the internal control over compliance findings identified in our audit are described in the Schedule of Findings and Questioned Costs and the accompanying Corrective Action Plan. The state of Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 19, 2018

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section I – Summary of Auditor's Results

Basic Financial Statements
For Each of the Two Fiscal Years Ended June 30, 2017

	2016	2017
Type of report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	Unmodified
Internal control over financial reporting:		
◆ Material Weakness identified?	No	Yes
◆ Significant deficiencies identified?	No	Yes
Noncompliance material to the financial statements noted?	Yes	Yes

Federal Awards
For the Two Fiscal Years Ended June 30, 2017

	2016 and 2017
Internal control over major programs:	
◆ Material Weakness identified?	Yes
◆ Significant deficiencies identified?	Yes

Type of auditor's report issued on compliance for Major federal programs:

Unmodified for all major programs except for Medicaid Cluster; Highway Planning and Construction Cluster; Child Nutrition Cluster; Special Education Cluster (IDEA); TANF Cluster; CCDF Cluster; Housing Voucher Cluster; Forest Service Schools and Roads Cluster; Unemployment Insurance; Title I Grants to Local Education Agencies; Low-Income Home Energy Assistance; Foster Care – Title IV-E; Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Immunization Cooperative Agreements and, Formula Grants for Rural Areas, which are qualified.

Any audit findings disclosed that are required to be reported in accordance with federal regulation, 2 CFR 200.516(a)? Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children (WIC)
10.665**	Forest Service Schools and Roads Cluster
12.400	Military Construction National Guard
14.871	Housing Voucher Cluster
17.225	Unemployment Insurance
20.205 &20.219	Highway Planning and Construction Cluster
20.509	Formula Grants for Rural Areas
66.458	Clean Water State Revolving Fund Cluster
66.468	Drinking Water State Revolving Fund Cluster
81.042**	Weatherization Assistance for Low-Income Persons
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.342, & 93.364	Student Financial Assistance Cluster
84.010	Title I, Grants to Local Education Agencies
84.027 & 84.173	Special Education Cluster (IDEA)
84.367	Improving Teacher Quality State Grants
93.268	Immunization Cooperative Agreements
93.558	TANF Cluster
93.575 & 93.596	CCDF Cluster
93.568	Low-Income Home Energy Assistance
93.658	Foster Care-Title IV-E
93.659**	Adoption Assistance
93.775, 93.777, & 93.778	Medicaid Cluster

** High-risk Type B programs

Dollar threshold used to distinguish between Type A and Type B programs: $20,249,014

Auditee qualified as low-risk Auditee? No

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section II – Financial Statement Findings

Finding 2017-1: Various Federal Agencies
CFDA #Various
Grant #Not Applicable

Criteria: Article VIII, Section 15, of the Montana Constitution, requires public retirement systems to be funded on an actuarially sound basis. Section 19-2-409, Montana Code Annotated, requires each system to be funded on an actuarially sound basis. Actuarially sound basis means that contributions to each retirement plan must be sufficient to pay the full actuarial cost of the plan. For a defined benefit plan, the full actuarial cost includes both the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities over a scheduled period of no more than 30 years. For the defined contribution plan, the full actuarial cost is the contribution defined by law that is payable to an account on behalf of the member.

Condition: As of June 30, 2016, actuarial valuations indicated that two defined benefit pension plans, as well as the Public Employees' Retirement System Defined Contribution Disability Other Post Employment Benefit Plan (OPEB), continue to be actuarially unsound because they do not amortize within the 30-year time period. The Sheriffs' Retirement System (SRS), the Game Wardens' and Peace Officers' Retirement System (GWPORS), and the OPEB do not amortize.

As of June 30, 2017, actuarial valuations indicated that two defined benefit pension plans are actuarially unsound because they do not amortize within the 30-year time period. The GWPORS has an unfunded liability that will amortize in 70 years and the Highway Patrol Officers' system (HPORS) has an unfunded liability that will amortize in 37 years. The valuations indicated that the SRS amortizes in 25 years and the OPEB amortizes in 19 years. During the 2017 Legislative Session, bills were passed for the SRS that increased the funding status of the plan and decreased the amortization period. For the OPEB, the board entered into a new investment contract in fiscal year 2016 to diversify their investment asset allocation into longer term asset classes, which improved the plan's funding status.

Questioned Costs: No questioned costs identified.

Context: The Montana Public Employee Retirement Administration (MPERA) administers eight defined benefit retirement systems, two defined contribution plans, and an OPEB. As of June 30, 2016, three of these systems were not actuarially sound. As of the June 30, 2017, two of these systems were not actuarially sound. The Unfunded Actuarial Liability (UAL) and amortization periods are summarized in the table below.

Retirement System	UAAL as of June 30, 2016	Amortization Period as of June 30, 2016
SRS	$62.6 million	Does not amortize
GWPORS	$30.5 million	Does not amortize
OPEB	$473,000	Does not amortize

Retirement System	UAAL as of June 30, 2017	Amortization Period as of June 30, 2017
GWPORS	$41.3 million	70 years
HPORS	$78.2 million	37 years

The board continues to work with plan stakeholders and the Legislature to improve the funding status and decrease the amortization period for both systems that are not actuarially sound. Board officials have put forth effort to ensure all defined benefit plans are actuarially sound.

Effect: The retirement systems are not actuarially sound, which is not in compliance with Montana Constitution and state law.

Cause: Funding mechanisms in state law, as well as investment returns, have not been sufficient to achieve actuarial soundness for all retirement systems.

Repeat Finding: Over at least the last five audits, including this one, various systems have been reported as actuarially unsound. It has been reported as finding 2015-2 in the Single Audit report for the two fiscal years ended June 30, 2015, finding 2013-2 for the two fiscal years ended June 30, 2013, finding 1-1 for the two fiscal years ended June 30, 2011, finding 1-3 for the two fiscal years ended June 30, 2011, and finding 1-2 for the two fiscal years ended June 30, 2009.

Recommendation: We recommend the Public Employees' Retirement Board continue to take necessary actions to ensure actuarial soundness of the Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Highway Patrol Officers' Retirement System, and the Public Employees' Retirement System Defined Contribution Disability Other Post Employment Benefit plan.

Views of Responsible Officials and Corrective Action Plans: MPERA concurs with this recommendation. For additional information regarding MPERA's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section II – Financial Statement Findings

Finding 2017-2: Various Federal Agencies
CFDA #Various
Grant #Not Applicable

Criteria: Montana Operations Manual Policy, 302, in part, states, "State agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles (GAAP) are recorded in Statewide Accounting, Budgeting, and Human Resources System (SABHRS) before fiscal year-end."

Montana Operations Manual Policy, 399, in part, defines internal control as a coordinated set of policies and procedures used by managers and line workers to ensure their agencies, programs, or functions operate efficiently and effectively in conformance with applicable laws and regulations, and that related transactions are accurate, properly recorded, and executed in accordance with management's directives. Policy further requires management to establish and maintain internal controls, including internal controls over financial reporting, and indicates "agency management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as any deficiencies."

Condition: The Montana Board of Investments (board) administers the state's Unified Investment Program (UIP), as well as the state's Economic Development Bonds Act (EDB) and Municipal Finance Consolidation Act (MFC) programs. The EDB and MFC programs are collectively referred to by the board, and throughout this report section, as the Enterprise Fund Program. The board is required to prepare separate financial statements and related note disclosures for the UIP and Enterprise Fund Program, in accordance with generally accepted accounting principles (GAAP). Portions of that information is incorporated into the state's basic financial statements. Additionally, as the administrator of the UIP, the board records transactions in the state's investment trust fund, related to local government participation in the state's investment pools.

Board staff made errors during the financial statement and note disclosure preparation process for the UIP and Enterprise Fund Program, as well as errors in recording local government participant purchases and sales activity on the accounting records for the investment trust fund. The board's review procedures did not identify these errors.

Questioned Costs: No questioned costs identified.

Context: For the Enterprise Fund Program, the Statement of Cash Flows incorrectly reported cash flows associated with a Bond Anticipation Note (BAN). Under GAAP, the cash inflows of $7.3 million and outflows of $8.5 million associated with the BAN should have been reported as two separate line items within the Non-Capital Financing Activities section of the Statement of Cash Flows. Instead, the board reported the cash flows as a net outflow of $1.2 million in the Investing Activities section. Additionally, under GAAP, the notes to the financial statements should have disclosed information about the BAN debt activity during the year, including a schedule outlining the beginning balance, increases, decreases, and ending balance of the debt. This note disclosure was not included in the notes provided as part of the audit. The Enterprise Fund Program at the board comprises all of the Economic Development Bonds major fund in the state's basic financial statements.

For the UIP, errors in financial reporting included a $1.7 billion misclassification of assets between cash and cash equivalents, a $362.3 million overstatement of realized gains, and incorrectly placing supplementary information within the financial statements. Additionally, participant purchase and sale activity was overstated by approximately $326.1 million on the UIP financial statements; approximately $48.6 million of this error was associated with local government participant purchases and sales activity the board incorrectly recorded on the accounting records for the investment trust fund. For the state's basic financial statements, the activity of the UIP is presented within the funds that own the investments. This presentation is based on transactions the board records on the state's primary accounting records for those funds. Our analysis only identified errors in the state's primary accounting records for local government participant purchases and sales in the investment trust fund.

Effect: There were errors in the financial statements and note disclosures for the Enterprise Fund Program for fiscal year 2017. While the board adjusted its financial presentation for these errors, the board's internal control procedures should be enhanced to allow management to prevent, or detect and correct, such errors. Additionally, there were errors in the underlying accounting records for the Investment Trust Fund, that could not be corrected, given the fiscal year 2017 accounting records were closed at the time the error was discovered.

Cause: For the Enterprise Fund Program, established financial reporting processes did not direct staff to consider GAAP requirements for new or unusual activity for the program. For the Investment Trust Fund, the recorded amounts were determined, in part, by analysis of transactions recorded on the state's accounting system. The board's analysis did not consider some intricacies of the transactions recorded throughout the year, including transactions that recorded activity in less detail than was necessary to prepare the financial statements and transactions recorded to correct prior errors.

Recommendation: We recommend the Montana Board of Investments:

A. Update the procedures for preparing and reviewing the Unified Investment Program financial statements, to reflect the current pool structure and reporting format, and to include an independent review by staff knowledgeable with program operations and generally accepted accounting principles, and

B. Update the procedures for preparing the Enterprise Fund Program financial statements, to include review of requirements in generally accepted accounting principles for new program activity.

Views of Responsible Officials and Corrective Action Plans: The board concurs with this recommendation. For additional information regarding the board's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-001: U.S. Department of Agriculture
CFDA #10.665, Schools and Roads – Grants to States
Grant #Not applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Administration (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 2 CFR 200.331(b), requires the department to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate sub-recipient monitoring.

Federal regulation, 2 CFR 200.331(d), require the department to monitor the activities of the subrecipient as necessary to ensure the subaward is used for authorized purposes.

Federal regulation, 2 CFR 200.331(f), requires the department to verify that subrecipients are audited in accordance with the requirements in Uniform Guidance Subpart F.

Federal regulation, 2 CFR 200.512(a), requires subrecipients to submit a Single Audit or Program Specific Audit within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Federal regulation, 2 CFR 200.521(a), requires management decisions to clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given.

Federal regulation, 2 CFR 200.521(d), requires pass-through entities to issue management decisions within six months of acceptance of the audit report.

State law, §17-3-213(5), Montana Code Annotated, requires counties to distribute the federal funds received for this program 66 2/3 percent to roads and 33 1/3 percent to schools.

Condition: In fiscal years 2016 and 2017, the department received and distributed $15.9 million and $2.2 million, respectively, of federal funds to counties for the Schools and Roads - Grants to States program. These funds (Title I, Title II, and Title III) are received from the harvest of timber on national forests within the boundaries of the state and distributed to counties in which the national forest lands are located. Title I funds must be used for public roads and public schools of the county or counties in which the national forest is situated. Title II funds are used for special projects on the federal land and on non-federal land where projects would benefit the resources on the federal land. Title III funds provide resources to homeowners in fire-sensitive ecosystems, reimbursing the participating county for county search and rescue and other emergency services performed on the federal land or to develop community wildfire protection plans.

Amounts payable to individual counties are calculated by the federal government. The department is considered a pass-through entity as it receives funds directly from the U.S. Department of Agriculture and provides the funds to a subrecipient to carry out part of a federal program. The counties are considered the subrecipients. Each county expending a total amount of federal awards equal to or in excess of a certain dollar amount are required to have a single audit or a program-specific audit. Due to the implementation of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance) the threshold was increased from $500,000 in fiscal year 2015 to $750,000 in fiscal year 2016. We reviewed the department's subrecipient monitoring procedures for all counties. The following paragraphs summarize the results of our review.

Fiscal Year 2016

- *Counties Only Subject to During the Award Monitoring*

  We noted the following instances of noncompliance with during the award monitoring for the counties that do not receive a single or program-specific audit.

  - ◊ The department did not conduct during the award monitoring for any of these counties.
  - ◊ The department did not have adequate controls in place to ensure the counties receiving Title III federal funds hold a 45-day public comment period before the use of funds.
  - ◊ The department did not have adequate controls in place to ensure the counties submitted a certification that the funds were used for authorized expenditures, including a description of the amounts and their uses.

- *Counties With Single or Program-Specific Audits*

  We noted instances of noncompliance with during the award monitoring for the counties that receive a single or program-specific audit. The department did not issue a management decision to the counties with deficiencies identified in their audits within the required six-month time frame. It was not clearly stated whether or not the audit findings were sustained or the reasons for the decision. Furthermore, the department did not provide a timetable for the auditee to follow-up on the management decisions.

- *All Counties*

  In addition, the department did not evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Fiscal Year 2017

- *All Counties*

  We noted instances of noncompliance with during the award monitoring for all counties receiving these federal funds. The department did not conduct monitoring to provide reasonable assurance that the counties appropriately split the funds 66 2/3 percent to roads and 33 1/3 percent to schools as required. Furthermore, the department does not monitor the use of the federal awards.

- *Counties With Single or Program-Specific Audits*

  We noted instances of noncompliance with during the award monitoring for the counties that receive a single or program-specific audit. The department did not have adequate controls in place to ensure that required single or program-specific audits were completed within nine months of the end of the subrecipient's audit period or to issue a management decision within the required six-month time frame.

Questioned Costs: No questioned costs identified.

Context: While all 34 counties receiving these federal funds are subject to during the award monitoring, only 18 meet the threshold requiring a single or program-specific audit in fiscal year 2016 and 19 in fiscal year 2017. The following paragraphs summarize the number of instances of noncompliance we identified.

Fiscal Year 2016

- *All Counties*

  The department did not evaluate the subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring for all 34 counties receiving these federal funds.

- *Counties Only Subject to During the Award Monitoring*

  We noted the instances of noncompliance with during the award monitoring for all 16 counties not receiving a single or program-specific audit.

- *Counties With Single or Program-Specific Audits*

  The department did not issue a management decision to 2 of the counties within the required six-month time frame.

Fiscal Year 2017

- *All Counties*

  We noted 27 of the 34 counties did not appropriately split the funds as required by state law. Of the $2.3 million distributed, $483 was not allocated in accordance with state law. Furthermore, the department does not monitor the use of the federal awards.

- *Counties With Single or Program-Specific Audits*

  We noted 4 of the 19 counties did not complete the required audit within nine months of the end of their audit period. Furthermore, the department did not issue a management decision to 2 of the counties within the required six-month time frame.

Effect: The department is not complying with the federal regulations stated above. Additionally, the subrecipients are not in compliance with the state law stated above, which may result in questioned costs for those entities.

Cause: Department staff stated they do not consider during the award monitoring or conducting risk assessments for the subrecipients to be cost beneficial. The department believes tracking the intended use and receiving the receipts of the Schools and Roads funds from the counties meets the monitoring requirement. In addition, the department stated they rely on county auditors to follow-up on audit recommendations, citing the lack of federal administrative funds for the award as the basis for their process.

Repeat Finding: This is a repeat finding, initially reported as finding 2015-001 in the Single Audit report for the two fiscal years ended June 30, 2015.

Recommendation: We recommend the Department of Administration implement internal controls and comply with federal regulations related to subrecipient monitoring for the Schools And Roads - Grants to States program to ensure:

A. Risk assessments are conducted for purposes of determining the appropriate subrecipient monitoring procedures, and

B. Subrecipients use federal Schools and Roads - Grants to States funds for allowable purposes by conducting during the award monitoring, issuing management decisions within the six-month time frame, with all required elements, and conducting follow-up on audit findings.

Views of Responsible Officials and Corrective Action Plans: As of November 29, 2016, the department concurs with the recommendation to conduct annual subrecipient risk assessments and will implement controls to ensure they are performed. However, the department only partially concurs with the remaining portions of the recommendation. The department does not consider during the award monitoring to be cost beneficial, and, instead performs pre- and post-award monitoring of all counties. Additionally, the department will periodically monitor audit submissions for findings

regarding this program and will implement controls so that management decisions are issued within six months with the correct information and that timely and appropriate corrective action is taken.

As of March 6, 2018, the department personnel indicated they prepared a comprehensive risk assessment of subrecipients to determine appropriate monitoring procedures. Through regular contact (telephone interviews), the department followed up with three high risk counties on processes and federal and state compliance with this program during fiscal year 2017 and will continue to follow up with an appropriate number of counties either through telephone interviews or site visits. The department considers the risk assessment process and regular contact with the subrecipient to be during the award monitoring. Prior to fiscal year 2017 the department required a certification from each county that the funds were "expended" in accordance with state and federal law. During fiscal year 2018, the department added line items for the amount expended for roads, and the amount expended for schools on its annual certification statement. Counties have reported this information. During fiscal year 2018, the department worked with Montana Association of Counties (MACo) and updated the template to the actual statutory split. The department instructed the counties to use the latest form that is on the MACo website.

For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-002: U.S. Department of Agriculture
CFDA #10.551, 10.561, SNAP Cluster
Grant #Not Applicable

CFDA #10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant #Not Applicable

CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children
Grant #Not Applicable

U.S. Department of Defense
CFDA #12.401, National Guard Military Operations and Maintenance (O&M) Projects
Grant #Not Applicable

U.S. Department of Housing and Urban Development
CFDA #14.195, Section 8 Project-Based Cluster
Grant #Not Applicable

CFDA #14.871, Housing Voucher Cluster
Grant #Not Applicable

U.S. Department of the Interior
CFDA #15.605, 15.611, Fish and Wildlife Cluster
Grant #Not Applicable

U.S. Department of Labor
CFDA #17.225, Unemployment Insurance
Grant #Not Applicable

U.S. Department of Transportation
CFDA #20.205, 20.219, Highway Planning and Construction Cluster
Grant #Not Applicable

U.S. Department of Education
CFDA #84.010, Title I Grants to Local Educational Agencies
Grant #Not Applicable

CFDA #84.027, 84.173, Special Education Cluster
Grant #Not Applicable

U.S. Department of Health and Human Services
CFDA #93.558, TANF Cluster
Grant #Not Applicable

CFDA #93.568, Low-Income Home Energy Assistance
Grant #Not Applicable

CFDA #93.767, Children's Health Insurance Program
Grant #Not Applicable

CFDA #93.775, 93.777, 93.778, Medicaid Cluster
Grant #Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Administration (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The United States Treasury and the state of Montana enter into an annual TSA in order to minimize the time between payment of expenditures and drawing funds from the federal government and to set disbursement patterns. The TSA defines the terms for the transfer of financial assistance funds between the federal government and the state of Montana as prescribed under the Cash Management Improvement Act of 1990 (CMIA). The funding techniques, clearance patterns, and methods of interest rates for federal programs that meet the threshold are outlined in the TSA. The specific CFDA #s included in the TSA for fiscal years 2016 and 2017 are: 10.551, 10.555, 10.557, 12.401, 14.195, 14.871, 15.611, 17.225F, 17.225S, 20.205, 84.010, 84.027, 93.558, 93.568, 93.767, and 93.778. An annual report must be submitted on the accounting for state and federal interest liabilities of the state's most recently completed fiscal year. After the TSA draft is submitted each year, the department creates a spreadsheet for each agency to determine state and federal interest liability based on federal

cash receipts and expenditures for each federal program that meets the threshold. The spreadsheets are adjusted to reflect work days, holidays and any changes made to the funding techniques per the new TSA. State accounting policy states the department will prepare CMIA program interest calculation spreadsheet templates for agencies by June 30 before the fiscal year begins. The agencies are responsible for inputting information into the spreadsheets, which calculates the interest liability used to create the annual report submitted to the federal government by the department. The department does not have adequate internal controls in place to ensure compliance with federal regulations and the Treasury State Agreement (TSA).

During fiscal year 2016, we noted the percentages used for the clearance pattern on the Unemployment Insurance program spreadsheet were incorrect. During fiscal year 2017, we identified several errors in the spreadsheets. The spreadsheet for the National Guard Military Operations and Maintenance (O&M) Projects program did not include the direct administrative costs and the average clearance days were incorrect for the O&M warrant payments. The spreadsheet for Title I Grants to Local Educational Agencies program (also see 2017-005) listed an incorrect clearance pattern. The spreadsheet for the Unemployment Insurance program (also see 2017-003) contained incorrect warrant clearance percentages from July 1, 2016, through February 1, 2017.

Questioned Costs: No questioned costs identified.

Context: 15 out of 348 federal programs administered by the state were included in the TSA for fiscal year 2016, and 17 out of 346 federal programs were included for fiscal year 2017. During the audit we reviewed the department's procedures for preparing the CMIA spreadsheets and annual report. Additionally, during fiscal year 2017, we completed a sample of five of the 17 spreadsheets and noted clearance pattern errors in three of them. This was not a statistically valid sample.

Effect: The department is not in compliance with federal regulations and is unable to ensure the reported interest is correct on the annual report. The incorrect spreadsheets resulted in the department calculating and submitting a $50 overstatement in the amount of interest owed by the federal government on the fiscal year 2015 annual report; which was submitted during fiscal year 2016. However, as we did not review all spreadsheets used in the interest calculation, the potential exists for there to be a larger error in the calculated interest amount.

Cause: Department staff stated errors in the spreadsheet formulas were not caught and corrected until the annual report was compiled. In addition, the department stated they rely on the individual agencies to input the information correctly and there is only a high level review of the activity conducted as part of compiling the annual report.

Recommendation: We recommend the Department of Administration:

A. Enhance internal controls to ensure the Cash Management Improvement Act spreadsheets are accurate, and

B. Comply with the Cash Management Improvement Act by including accurate clearance pattern and percentage on the spreadsheets.

Views of Responsible Officials and Corrective Action Plans: As of November 29, 2016, the department concurs with this recommendation and will improve its internal control of the accuracy of the spreadsheets by reviewing templates used by agencies and by continuing to review the agency completed spreadsheets for consistency and reasonableness. However, the department does not believe it is their responsibility to audit all of the underlying data provided by the agencies. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-003: U.S. Department of Labor
CFDA #17.225, Unemployment Insurance
Grant #UI-279873-18-55-A-30 (2016), UI-298527-18-55-A-30 (2017)

Criteria: Federal regulation, 31 CFR 205.14, requires the Department of Labor and Industry to request cash for the benefit payments in compliance with the Treasury State Agreement (TSA) between the United States Treasury and the state of Montana. The agreement is intended to minimize the time between payment of expenditures by the state and receiving federal funds to ensure the draws are interest neutral for both the state and federal governments.

Federal regulation, 2 CFR 200.303, requires the department to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with statutes, regulations, and the terms and conditions of the federal award.

Condition: The Department of Administration administers the TSA and maintains a spreadsheet template specific to each federal program subject to the TSA. The Department of Labor and Industry (department) uses the Unemployment Insurance (UI) specific spreadsheet template which should result in compliance with a 20-day estimated clearance pattern based on history of when UI benefit warrants are cashed. For most of the audit period, the cash draws were in accordance with the spreadsheet, but the spreadsheet contained an incorrect estimated clearance pattern. The estimated clearance pattern shows the percentage of benefit payments that will be cashed over a 20-day period. The difference between the template percents and TSA percents is noted in the following table.

Estimated Clearance Pattern Differences			
	Spreadsheet Template %	TSA %	over(under) drawn
Day1	3.66%	14.16%	(10.50%)
Day2	22.80%	33.70%	(10.90%)
Day3	32.05%	22.22%	9.83%
Day4	17.96%	13.07%	4.89%
Day5	7.87%	5.97%	1.90%
Day6	3.76%	2.73%	1.03%
Day7	2.65%	1.81%	0.84%
Day8	2.21%	1.42%	0.79%
Day9	1.54%	0.97%	0.57%
Day10	1.24%	0.69%	0.55%
Day11	1.08%	0.53%	0.55%
Day12	0.61%	0.46%	0.15%
Day13	0.51%	0.38%	0.13%
Day14	0.41%	0.25%	0.16%
Day15	0.27%	0.24%	0.03%
Day16	0.17%	0.16%	0.01%
Day17	0.17%	0.14%	0.03%
Day18	0.17%	0.13%	0.04%
Day19	0.87%	0.97%	(0.10%)
Day20	0.00%	0.00%	0.00%

Source: Compiled by the Legislative Audit Division from department records.

Questioned Costs: No questioned costs were identified.

Context: While the total amount drawn over each 20 day period is correct, the amount drawn each day is incorrect. For fiscal year 2018, the department has already created new procedures to ensure that the UI spreadsheet received on an annual basis from the Department of Administration is correct and in accordance with the TSA.

Effect: The department is not in compliance with the TSA and federal regulations. The Department of Administration will complete a calculation to determine if the state owes any interest earned to the federal government. However, we completed a calculation for just the UI program which indicates the department will not owe interest.

Cause: The department did not have controls in place to verify the spreadsheet contained the clearance pattern in the approved TSA.

Recommendation: We recommend the Department of Labor and Industry:

A. Comply with the Treasury State Agreement and federal regulations by drawing according to the approved clearance pattern in the Treasury State Agreement, and

B. Implement developed procedures to ensure the spreadsheet provided by the Department of Administration contains the approved clearance pattern in the Treasury State Agreement.

Views of Responsible Officials and Planned Corrective Actions: The department concurs with this recommendation. As of July 2017, controls have been put in place to verify the accuracy of the holidays and that "state only" holidays are excluded from the spreadsheet. As of July 2017, the department implemented new procedures to ensure the Cash Management Improvement Act spreadsheet received annually from the Department of Administration is correct and in accordance with the TSA established by the Federal Government. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-004: U.S. Department of Labor
CFDA #17.225, Unemployment Insurance
Grant #UI-279873-18-55-A-30 (2016), UI-298527-18-55-A-30 (2017)

Criteria: The Unemployment Insurance Data Validation Handbook (ETA), May 2013, approved by the Office of Management and Budget requires the Department of Labor and Industry (department) to validate four sets of data used for the Overpayment Detection and Recovery Activities (ETA 227) report, an Unemployment Insurance report.

Condition: Since fiscal year 2010, the department has been unable to validate all required data for the ETA 227 report. Between fiscal years 2010 and 2012, new reporting elements were added to the ETA 227 report and the federal system had issues causing the environment to be unstable. After February of 2012, the department began working on programming changes to the Montana Integrated System to Improve Customer Service (MISTICS), the department's Unemployment Insurance (UI) benefit information system, which were necessary to validate all required data. The department made several unsuccessful attempts at validation. Department personnel noted the data in the department's computer system is accurate, the data issues are in how the data rolls up on the report, therefore requiring programming changes.

Questioned Costs: No questioned costs were identified.

Context: The report includes five sections, of which four must be validated. During the current audit covering fiscal years 2016 and 2017, the department validated one of the four required sections. Examples of issues remaining with the other three sections include the quarterly ending balance not carrying forward to the next quarter and the number of decimal places carried out in the data resulting in rounding differences.

Effect: The department is not in compliance with federal regulations. The data validation process is important to ensure systematic data errors do not exist in the data contained in the report.

Cause: The programming changes required were larger than anticipated causing the resolution date to move from March 31, 2017, to December 1, 2017. As of August 2017, the department indicated

they were able to successfully validate the first and second quarter 2017 reports. Since this occurred subsequent to our audit period, we were not able to review these submissions.

Repeat Finding: This is a repeat finding, initially reported as finding 2015-025 in the Single Audit report for the two fiscal years ended June 30, 2015.

Recommendation: We recommend the Department of Labor and Industry update the coding in MISTICS related to the compiling of the ETA 227 report data to ensure it is able to validate all sections of the report.

Views of Responsible Officials and Planned Corrective Action Plans: The department concurs with this finding, and was able to successfully update the ETA 227 report coding into MISTICS. The ETA 227 report was successfully updated as of August 2, 2017 for the 1st Quarter of 2017 and 2nd Quarter of 2017. The three populations requiring validation have been completed and passed both Report Validation and Sample Element Validation successfully. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-005: U.S. Department of Education
CFDA #84.010, Title I Grants to Local Educational Agencies
Grant #S010A140026, S010A150026, S010A160026
CFDA #84.027, 84.173, Special Education Cluster (IDEA)
Grant #H027A140096, H027A150096, H027A160096

U.S. Department of Agriculture
CFDA #10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant #201616N109943, 201717N109943

Criteria: Federal regulation, 31 CFR 205, implements the Cash Management Improvement Act (CMIA). The CMIA provides requirements and procedures for the transfer of federal financial assistance from federal agencies to the states, and specifies the terms and conditions under which an interest liability would be incurred.

The Cash Management Improvement Act Treasury-State Agreement (TSA) for 2017, states "The State shall request funds weekly on Wednesdays such that they are deposited on the date of receipt from the appropriate federal agency. The amount of the request shall be based on the amount of actual program costs incurred during the prior week, Wednesday through Tuesday." The TSA for 2016 required the office to complete "actual clearance" draws for benefits in the Title I (CFDA #84.010), Special Education (CFDA #84.027), and the Child Nutrition Cluster (CFDA #10.555).

Federal regulation, 2 CFR 200.303, requires the Office of Public Instruction (office) establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award

Condition: The Office was not in compliance with the TSA in either fiscal year 2016 or 2017. In fiscal year 2016, there was no evidence the office was requesting draws based on actual clearance. Although changes were made to the 2017 TSA, when we reviewed the office's draws for fiscal year 2017 we noted there were times the office drew more often than once a week, contrary to the 2017 TSA.

Questioned Costs: No questioned costs identified.

Context: The office has three federal programs that are part of Montana's TSA: Title I, National School Lunch Program (NSLP), and IDEA B. The 2017 TSA was updated to reflect the office's general practice of requesting draws on Wednesdays. The weekly pattern is interest neutral. In the School Lunch program, there were 3 weeks with an extra cash draw. In the Title I program, there were 5 weeks with two draws in one week. In the Special Ed program, there were 11 weeks with more than 1 draw and 2 draws that were not in compliance with the TSA because they were early.

Effect: By intentionally conducting draws more than once per week, the office was not in compliance with the TSA for fiscal year 2017 or fiscal year 2016.

Cause: The TSA agreement had not yet been updated in fiscal year 2016. The office was drawing more than once a week to avoid negative cash balances in the federal fund as a whole for more than seven days, as required by state law.

Repeat Finding: This is a repeat finding, initially reported as finding 2015-027 in the Single Audit report for the two fiscal years ended June 30, 2015.

Recommendation: We recommend the Office of Public Instruction:

A. Comply with the Treasury State Agreement as required by federal regulations, and

B. Design and implement internal controls to ensure compliance with the Treasury State Agreement.

Views of Responsible Officials and Corrective Action Plans: The office partially concurred with the finding. They stated, "A. Since the TSA can only be updated July 1st of each year, the office was unable to update the TSA until fiscal year 2017. Due to this fact, the office concurs the draw pattern was in noncompliance for 2016. As stated in the report, the office did complete weekly draws as allowed in the 2017 TSA agreement. Since the TSA agreement does not specify that additional draws are unallowable, the office did not consider this activity to be noncompliance. Therefore, the office does not concur with the noncompliance finding for 2017. B. As stated in the audit report, the office has various internal controls in place to effectively manage federal cash activity and to ensure federal cash management compliance. The office contends the additional draws do not constitute a lack of internal controls over the office's compliance with the TSA. Therefore, the office does not concur with the finding for 2017." For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: The office's current practice is to draw more than once a week if needed but the technique in the TSA does not allow this practice. According to the TSA, "The State shall request funds weekly on Wednesdays such that they are deposited on the date of receipt

from the appropriate federal agency. The amount of the request shall be based on the amount of actual program costs incurred during the prior week, Wednesday through Tuesday." In addition, the office's response noted the TSA can only be updated on July 1st of each year but the TSA is required to be amended when changes in funding techniques occur. We maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-006: U.S. Department of Education
CFDA #84.010, Title I Grants to Local Education Agencies
Grant #S010A140026, S010A150026, S010A160026.

Criteria: Federal regulation, 2 CFR 200.303, requires the Office of Public Instruction (office) to establish and maintain effective internal control over federal Grants that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

The Elementary and Secondary Education Act, Section 111(b)(3)(C)(iii), requires the office to establish and maintain an assessment system which uses testing to provide data used to measure student achievement. Student testing must be valid, reliable, and consistent with relevant professional and technical standards. In order to ensure the tests are valid and reliable, the office must have policies and procedures in place to ensure local education agencies are maintaining test security.

Condition: During the audit, we noted the office's current procedures for ensuring local education agencies are maintaining test security were incomplete. Information regarding test security was distributed to Montana's K-12 schools. However, the office has not yet developed a plan to monitor school level implementation of security procedures. In addition, the office did not discuss the American College Testing (ACT), which is a required test in the security procedure.

Questioned Costs: No questioned costs identified.

Context: There are six required assessments in Montana including Smarter Balanced Assessment Test, Access for English Language Learners, the Science Criterion-Referenced Test, the Science Criterion-Referenced Test-Alternate, the Multi-State Alternate Assessment, and the ACT. The office's test security policy requires Montana's K-12 schools to electronically certify they are abiding by the office's policies. We tested schools' submissions. Eight out of 56 schools had not submitted their certifications at the time of our audit. The office had not reviewed any submissions prior to the audit process. Requirements to monitor test security are not new, but are new to the scope of our audit.

Effect: State assessments are important in securing federal funding like Title I. They also allow teachers and parents to identify needs for each individual student. Without oversight, there is the possibility of unfair testing or inaccurate data.

Cause: The process of how to monitor school implementation of the security agreement was not planned prior to the audit process.

Recommendation: We recommend the Office of Public Instruction's Title I Program:

A. Update their assessment security procedure to include discussion of all required state assessments, including the American College Testing (ACT), as required by federal regulations, and

B. Design and implement control procedures to monitor Montana's K-12 schools' implementation of the assessment security process.

Views of Responsible Officials and Corrective Action Plans: The office concurs with the recommendation and plans to develop and implement further procedures to monitor the assessment security process. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-007: U.S. Department of Education
CFDA #84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.342, 93.364, Student Financial Assistance Cluster
Grant #Not applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the University of Montana-Missoula (university) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 34 CFR 668.166, defines excess cash to be any amount of title IV, HEA program funds, other than Federal Perkins Loan Program funds, that an institution does not disburse to students by the end of the third business day following the date the institution received those funds from the Secretary; or deposited or transferred to its Federal account previously disbursed title IV, HEA program funds, such as those resulting from award adjustments, recoveries, or cancellations. An institution may maintain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the institution drew down in the prior award year. The institution must return immediately to the Secretary any amount of excess cash over the one-percent tolerance and any amount remaining in its account after the seven-day tolerance period.

Condition: The University of Montana–Missoula (university) receives funding from the Department of Education (ED) for the Student Financial Assistance program (SFA) through various grants. The objective of this program is to provide financial assistance to students pursuing postsecondary education. The Direct Loan program makes interest subsidized or unsubsidized Stafford loans available to students, or PLUS loans to graduate or professional students or to parents of dependent students, to pay for the cost of attending postsecondary educational institutions. The Federal Pell Grant program provides grants to students enrolled in eligible undergraduate programs and certain eligible post-baccalaureate teacher certificate programs, and is intended to provide a foundation of financial aid. The ED provides funds to the university under the advance payment method, which allows institutions to draw down funds prior to disbursing funds to eligible students and parents. However, the university has chosen to distribute the funds to the students and then request reimbursement from ED. When a student withdraws from the university after accepting financial assistance, a portion of the assistance is considered "unearned" and must be returned to ED. The university calculates the amount to return

based on several factors, including attendance of classes and official withdrawal dates. Excess cash for any amount or time frame over that allowed in the tolerance provisions is noncompliance with the cash management requirements and can lead to the university reimbursing ED for any interest accrued in providing that excess cash. There were several instances where the university had excess cash.

Questioned Costs: No questioned costs identified.

Context: During the audit we reviewed the activity for fiscal year 2016 and 2017, which included 216 and 213 days of activity, respectively. We found six instances where the university held excess cash that exceeded the tolerance provision defined above for the Direct Loans and Pell Grants, as shown in the table below. These instances of excess cash could be the result of not returning funds timely or receiving reimbursements for amounts greater than needed. The table presents each day the university held excess cash for more than three days.

Noncompliance With SFA Cash Management Requirements

SFA Program	Days Where Instances of Noncompliance Identified	Excess Cash*
FY2017 Direct Loan Program	July 11 and July 13	$9,183
	September 20-23	$1,523,014
FY2017 Pell Grant Program	July 12-14 and July 18-19	$10,940
	December 6-9 and December 12-13	$14,388
	January 3-4, January 6, January 9	$98,504
FY2016 Pell Grant Program	May 17-19, May 24-26, and May 31	$82,368

Source: Compiled by the Legislative Audit Division.

* The excess cash in the table represents the highest amount of cash at a point in time within that consecutive span of noncompliance.

Effect: The controls in place at the university do not allow the staff to ensure requesting reimbursement and returning funds to ED are completed timely and in compliance with cash management requirements.

Cause: University staff stated the excess cash balance primarily occurred because there is a timing difference in the process for returning funds due to when that information is entered into Banner, the university's accounting and information system. This delay allows reimbursement requests to occur which do not consider funds being returned.

Recommendation: We recommend the University of Montana-Missoula strengthen internal controls to ensure compliance with cash management requirements for reimbursement requests and return of funds to the Department of Education for the Direct Loan and Pell Grant programs.

Views of Responsible Officials and Corrective Action Plans: The university concurs with this recommendation. Effective early in 2017, the university's Business Services personnel refined their cash

monitoring procedures for Direct Loan and Pell Grant programs to ensure funds have been returned in a timely manner. For additional information regarding the university's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-008: U.S. Department of Education
CFDA #84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.342, 93.364, Student Financial Assistance Cluster
Grant #Not applicable

Criteria: Federal regulation, 2 CFR 200.303, require the University of Montana-Missoula (university) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: Banner is the university's accounting and information system. It is used to process essentially all financial transactions, determine eligibility for Student Financial Assistance (SFA), and process payroll transactions by using a series of tables and validation or rule forms. Banner is critical in supporting the university's operations, and as such, access to the system should be restricted to those individuals who have a business need. Access to Banner is based on classes or profiles and granted using an Electronic Banner Account Request Form, which allows for access to be initiated and approved electronically. The University of Montana–Missoula (university) has a security plan that outlines potential risks, incompatible duties and profiles by module for the Banner system. The university's internal control matrix documents the need for the security plan to be reviewed and updated annually, which includes a review of current users and their security profiles. The security plan was last updated in September 2015, and the last annual security review over access to Banner was performed in March 2015. During the audit we reviewed user access to tables that affect the financial activity and compliance with federal regulations over SFA activity and found inappropriate access to the system.

Questioned Costs: No questioned costs identified.

Context: We reviewed access to approximately 20 tables in Banner that effect the financial activity and compliance with federal regulations over SFA activity. We identified 4 individuals whose access allowed them to make changes or modify information in the system which was not necessary for their job responsibilities. The supervisors of these staff were unaware this access was given.

Effect: Although our audit did not identify any unauthorized transactions or inappropriate changes made by the individuals, in order to protect the system and data from unauthorized activity the university should review access in a timely manner. The controls in place at the university do not allow the staff to detect and prevent inappropriate access and modifications to Banner tables.

Cause: University staff stated the manual process utilized for this review in past years was labor intensive and cumbersome. In calendar year 2017, an automated process was developed and final testing will be completed at the end of July 2017. Staff further stated the inappropriate access has been removed and there were no inappropriate changes made by these staff.

Recommendation: We recommend the University of Montana-Missoula maintain internal controls, in accordance with federal regulations, to conduct annual security reviews in accordance with its internal control policy to ensure appropriate access is granted as documented in the security plan.

Views of Responsible Officials and Corrective Action Plans: The university concurs with this recommendation. The UM-Missoula management determined that the manual process utilized for this review had become too labor intensive and cumbersome. In FY 17, personnel developed an automated process. A review of access and transactions made in Banner by the individuals in question provided reasonable assurance that no unauthorized transactions have occurred. For additional information regarding the university's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-009: U.S. Department of Transportation
CFDA #20.205, 20.219, Highway Planning and Construction Cluster
Grant #NRT2015 and NRT 16 (001)

Criteria: Federal regulation, 31 CFR 205.33, requires the Department of Fish, Wildlife & Parks (department) to use a draw technique designed to minimize the time between funds leaving the state treasury to pay subrecipients and the time funds are received from the federal government.

Federal regulation, 2 CFR 200.303(a), requires the department to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The department administers the Recreational Trails Program (RTP) for CFDA #20.219, which is funded from the Federal Highway Trust Fund and overseen by the Federal Highway Administration (FHWA). This program provides grants to subrecipients throughout the state to develop and maintain recreational trails and trail-related facilities. Subrecipients can include federal, tribal, state, county or city agencies, private associations and clubs. During the audit period, the department issued approximately $2.3 million in grants to 64 different subrecipients. The RTP is a reimbursement based program, which means subrecipients expend funds for projects outlined in grant agreements and then request reimbursement from the department. When a subrecipient requests reimbursement, department staff review and approve the reimbursement requests and then send the request to FHWA. Once the request is reviewed and approved by FHWA staff, the department records the expenditures on the state's accounting system and pays the subrecipient. Once the department has reimbursed subrecipients, the state can then request reimbursement from the federal government for that amount. Prior to January 2017, department staff requested reimbursement from FHWA each time they reimbursed a subrecipient. Beginning in January 2017, department staff requested reimbursement from FHWA monthly, based on the expenditures for subrecipient reimbursements recorded in the previous month. The department records the revenue on the state's accounting system at the time the request is made. The department does not consider the amount of cash on hand when calculating the amount of the federal reimbursement request.

Questioned Costs: No questioned costs identified.

Context: We reviewed the department's pattern of recording expenditures and revenues for the RTP to determine if it minimized the time between payments to subrecipients and reimbursements from the federal government. In our analysis, we considered the time between payments to subrecipients and reimbursements from the federal government to be minimized if the difference between expenditures and revenues recorded existed for no more than five days. The results of our analysis are summarized in Table 1 below:

Table 1
Recreational Trails Program Draw Analysis for the Two Fiscal Years Ended June 30, 2017

	Expenditures Exceeded Revenues				Revenues Exceeded Expenditures			
Fiscal Year	Instances	Range of Days	Highest Amount	RTP Fund Average Cash Balance	Instances	Range of Days	Highest Amount	RTP Fund Average Cash Balance
2016	3	26 to 103	$313,621	$261,164	3	10 to 98	$72,120	$169,581
2017	2	24 to 211	$358,724	($101,153)	3	8 to 27	$86,832	($75,405)

Source: Compiled by the Legislative Audit Division from SABHRS records.

Effect: The department is not in compliance with federal regulations. Additionally, without considering cash balances when determining draws, the potential exists that the department is drawing more funds than necessary.

Cause: Department staff stated they use the expenditures that are processed to determine what needs to be drawn instead of the cash balance because they manage the cash balance by fund type, not individual funds during the year.

Recommendation: We recommend the Department of Fish, Wildlife & Parks:

A. Strengthen internal controls to ensure compliance with federal cash management requirements for the Recreational Trails Program, and

B. Minimize the time between cash requests and distributions for the Recreational Trails Program as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with these recommendations. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-010: U.S. Department of Transportation
CFDA #20.205, 20.219, Highway Planning and Construction Cluster
Grant #NRT2015 and NRT 16 (001)

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Fish, Wildlife & Parks (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulations, 2 CFR 25.110 and Appendix A, require the department to collect subrecipients' Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application, or, if not, before the award.

Federal regulation, 2 CFR 200.331(a)(1), requires the department to identify the Federal Award information to subrecipients at the time of the subaward.

Federal regulations, 2 CFR 200.331(d) and (f) and OMB Circular A-133.400(d)(4)-(5), require the department to monitor subrecipients' audits, including following up on all deficiencies.

Federal regulations, 2 CFR 200.521 and OMB Circular A-133.405(a), require the department to issue management decisions for any deficiencies identified in subrecipients' audit reports within six months.

Federal regulation, 2 CFR 200.331(b), requires the department to evaluate each subrecipient's risk of noncompliance to determine the appropriate level of monitoring.

Condition: The department administers the Recreational Trails Program (RTP) for CFDA #20.219, which is funded from the Federal Highway Trust Fund and overseen by the Federal Highway Administration (FHWA). This program provides grants to subrecipients throughout the state to develop and maintain recreational trails and trail-related facilities. Subrecipients can include federal, tribal, state, county or city agencies, private associations and clubs. During the audit period, the department issued approximately $2.3 million in grants to 64 different subrecipients. The department

is considered a pass-through entity as it provides federal funds to a subrecipient to carry out part of a federal program and the individual entities receiving RTP grants to develop and maintain recreational trails and trail-related facilities are considered the subrecipients. We reviewed the department's procedures to monitor subrecipients of RTP grants and identified several areas where the department did not meet its subrecipient monitoring responsibilities:

- *Determining Subrecipient Eligibility:* The department did not collect the DUNS number, or make sure the entity was registered in the System for Award Management, prior to awarding a project during calendar years 2016 and earlier. For projects awarded during calendar year 2017, the department obtained the DUNS numbers as part of the contract signing process.
- *Award Identification:* The department only provided the CFDA title to subrecipients for projects awarded during calendar years 2015 and earlier and for projects awarded during calendar years 2016 with contracts prepared and signed prior to September 2016. For projects awarded during calendar year 2016 with contracts prepared and signed beginning in September 2016 and for projects awarded during calendar year 2017, the department provided all of the specific award information to subrecipients using a standard contract cover form.
- *Subrecipient Audits:* The department does not have any controls in place to ensure subrecipients receive the required audit nor does it review the audit reports for subrecipients who do receive an audit.
- *Evaluate Risk:* For projects awarded during calendar year 2016, the department did not assess the risk of noncompliance for each subrecipient. For projects awarded during calendar year 2017, the department completed a subrecipient risk assessment to determine the extent of monitoring required before a contract was signed with each subrecipient. This risk assessment identifies each subrecipient as low, medium, or high risk. Per department staff, they will adjust the amount of monitoring each subrecipient receives based on the results of this risk assessment. We were unable to confirm whether the department adjusted the amount of monitoring based on the completed risk assessments as the projects awarded during calendar year 2017 had not reached the point where the department had completed monitoring during our audit.

Questioned Costs: No questioned costs identified.

Context: The department awarded 46 projects in calendar year 2016 and 54 projects in calendar year 2017 to various subrecipients. The department made payments of approximately $2.3 million to 64 subrecipients during fiscal years 2016 and 2017.

Effect: The department is not in compliance with federal regulations.

Cause: Department staff stated there has historically not been enough staff to complete all of the federal subrecipient monitoring requirements for the RTP and they were not aware of all of the requirements.

Recommendation: We recommend the Department of Fish, Wildlife & Parks:

A. Implement internal controls to ensure compliance with federal subrecipient monitoring requirements, and

B. Comply with federal subrecipient monitoring requirements for the Recreational Trails Program.

Views of Responsible Officials and Corrective Action Plans: The department concurs with these recommendations. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-011: U.S. Department of Homeland Security
CFDA #97.042, Emergency Management Performance Grants
Grant #EMW2013SS00064, EMW2015SS00005, EMW2014SS00019

CFDA #97.047, Pre-Disaster Mitigation
Grant #EMD-2014-PC-0001

CFDA #97.067, Homeland Security Grant Program
Grant #Various

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Military Affairs (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with statutes, regulations, and the terms and conditions of the federal award.

Condition: The department internal control procedures do not ensure the costs it is approving for reimbursement are allowable per the agreement between the department and the subgrantees and the federal grant requirements.

Questioned Costs: We question $12,213 and $34,956 in grant reimbursement costs charged to CFDA #97.042 in fiscal year 2015 and 2016 and $8,017 to CFDA #97.067 in fiscal year 2015. We estimate there are additional likely questioned costs to these grants as well as likely questioned costs in excess of $25,000 for CFDA #97.047 in fiscal years 2015 and 2016.

Context: The department reimbursed $11.3 million to subgrantees in 2016. We determined the department's procedures did not ensure reimbursements were made only for allowable costs. We reviewed a sample, which was not a statistically valid sample, of 32 grant reimbursements and identified the following issues:

- Four instances where there was no evidence of review of the reimbursement requests supporting documentation.

- Five instances where the reimbursement amount was not supported by documents submitted to the department by the subgrantees.
- One instance where the subgrantee's expenditures were incurred outside the subgrant agreement period but were still reimbursed by the department.

Effect: Because the department does not have adequate internal controls in place over the Disaster & Emergency Services Division grant reimbursement process, they are at increased risk of reimbursing subgrantees for unallowable costs. Known reimbursements made for unallowable costs are approximately $20,200 and $35,000 with a potential of up to $734,400 and $968,400 in fiscal years 2015 and 2016, respectively.

Cause: Department staff responsible for reviewing and approving reimbursement requests stated they were new to their positions during the audit period and because there are no written procedures for the grant reimbursement process, they independently developed their own processes for reviewing and approving the reimbursements.

Recommendation: We recommend the Department of Military Affairs improve controls over the grant reimbursement process in the Disaster & Emergency Services Division to ensure the expenditures are allowable under the grant awards.

Views of Responsible Officials and Corrective Action Plans: The department concurs with the recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-012: U.S. Department of Housing and Urban Development
CFDA #14.871, Housing Voucher Cluster
Grant #Various

Criteria: Federal regulation, 31 CFR 205, implements the Cash Management Improvement Act (CMIA). The CMIA requires the state to enter into agreements that prescribe specific methods of drawing down Federal funds, the details of which are included in the annual Treasury State Agreement (TSA) between the state and the Federal government.

The TSA in effect for fiscal year 2016 requires the Department of Commerce (department) to disburse funds to landlords by Electronic Fund Transfer so that the settlement date is the first business day of the month.

Condition: The department did not comply with the TSA during fiscal year 2016.

Questioned Costs: No questioned costs identified.

Context: We identified 54 instances, totaling $713,386, where individual payments to landlords were made at times other than the first business day of the month, which does not comply with the TSA for fiscal year 2016. We tested compliance for fiscal year 2017 and determined the department was in compliance in fiscal year 2017 because the TSA was modified to reflect the department's business practices.

Effect: The department is not in compliance with federal cash management requirements in fiscal year 2016.

Cause: The department did seek an amendment to the 2016 TSA, but was informed that state initiated amendments only occur at the end of every fiscal year. The department continued with its established business practices which rendered it noncompliant with federal cash management regulations in fiscal year 2016.

Repeat Finding: This is a repeat finding, initially reported as finding 2015-020 in the Single Audit report for the two fiscal years ended June 30, 2015.

Recommendation: We recommend the Department of Commerce continue to monitor its business practices and amend the Treasury State Agreement as needed to ensure compliance with federal cash management regulations for the Section 8 Housing Choice Vouchers program.

Views of Responsible Officials and Corrective Action Plans: The department concurs. Department personnel contacted the Department of Administration as soon as they were aware of the noncompliance and were notified the TSA was amended once a year. The Department of Administration amended the TSA in June 2016. The department was not in compliance for fiscal year 2016 but was in compliance for fiscal year 2017. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-013: U.S. Department of Housing and Urban Development
CFDA #14.871, Housing Voucher Cluster
Grant #Various

Criteria: Federal regulation, 2 CFR 200.317, requires the Department of Commerce (department) to follow the same policies and procedures used for non-federal funds when procuring property and services under a federal award.

State law, §18-4-306, Montana Code Annotated, specifies that a contract may be awarded without competition if the department verifies in writing there is only one source for the service.

Federal regulation, 2 CFR 200.303, requires the department establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The department contracts annually with eleven organizations to perform administrative field services for operation of the Section 8 Housing Choice Vouchers program (program) for CFDA #14.871. The department considers these contracts sole source procurements, but it does not have documentation supporting a sole source designation.

Questioned Costs: We question $1,291,564 and $1,424,914 in procurement costs charged to CFDA #14.871 in federal fiscal years 2016 and 2017, respectively.

Context: The department negotiated eleven contracts in each fiscal year 2016 and 2017, for a total of 22 contracts during the audit period. None of the contracts have justification for a sole source procurement. The total amounts awarded were approximately $1.85 million in each of the fiscal years 2016 and 2017.

Department personnel stated the Department of Administration had granted an exemption through the department's delegation agreement prior to 2007. The department no longer has the documentation for this exemption and has not documented a sole source justification since that time.

Effect: The department is not in compliance with federal procurement regulations for fiscal years 2016 and 2017, resulting in questioned costs.

Cause: Department personnel stated the department has not documented a sole source justification or solicited competition for field agent services since 2007.

Recommendation: We recommend the Department of Commerce implement internal controls to ensure sole source justification for its Section 8 Housing Choice Vouchers field service contracts is documented and approved in order to comply with federal procurement requirements.

Views of Responsible Officials and Corrective Action Plans: The department concurs. In fiscal year 2018, the department completed the sole source requirement and is now in compliance. The department has implemented new internal controls to verify the sole source status upon renewal of the contracts. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-014: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Grant #2015IW100643, 201616W1100643, 201717W100643

U.S. Department of Health and Human Services
CFDA #93.558, TANF Cluster
Grant #1302MTTANF, 1402MTTANF, 1502MTTANF, 1601MTTANF, 1702MTTANF

CFDA #93.667, Social Services Block Grant
Grant #G1601MTCWSS, G1701MTCWSS

CFDA #93.767, Children's Health Insurance Program (CHIP)
Grant #1505MT5021, 1605MT5021, 1705MT5021, 1705MT0301

CFDA #93.775, 93.777, 93.778, Medicaid Cluster
Grant #1505MT5MAP, 1505MT5ADM, 1505MTHITA, 1605MT5MAP, 1605MT5ADM, 1605MTHITA, 1705MT5MAP, 1705MT5ADM, 1705MTHITA

Criteria: Federal regulation, 2 CFR 200.303, states that the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 2 CFR 200 Appendix VI, in part, requires the state public assistance agency to develop, document, and implement a public assistance cost allocation plan in accordance with federal regulations.

Federal regulation, 2 CFR 200.416, in part, requires there to be a process whereby central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis.

Condition: We identified the following exceptions to compliance with the cost allocation plan, some of which led to questioned costs:

- Expenses for the *Business and Financial Services Division Administrator Indirect Cost Pool* were allocated equally to four programs, including approximately $92,800 to Medicaid, while the cost allocation plan specified equal allocation to three programs, not including Medicaid.
- Costs for the *Communicable Disease Control Bureau Chief Indirect Cost Pool, the Disability Services Division Developmental Disability Formula IV Indirect Cost Pool* (DD Formula IV), and the *Chronic Disease and Health Promotions Bureau Chief Indirect Cost Pool* are each being allocated as separate indirect cost pools, but none are listed as a separate cost pool in the cost allocation plan. The DD Formula IV cost pool allocated approximately $18,200 to the Medicaid program and approximately $43,800 to the Social Services Block Grant program during the audit period.
- The cost allocation plan includes, as an indirect cost pool, the *Technology Services Division's Document Management System Indirect Cost Pool*. While the description discusses the Children's Health Insurance Program (CHIP) as a participant, the allocation methodology outlined in the plan does not include CHIP. The department allocated approximately $6,300 to CHIP during the audit period.
- The cost allocation plan lists the *Senior Epidemiologist Direct Cost Pool*, but the department treated this cost pool as an indirect pool and allocated approximately $5,000 monthly costs in this pool to 55 projects for the month tested. Individual monthly project allocations ranged from $7 to $565.
- Costs for *Business and Financial Services Division Cars Indirect Cost Pool* were allocated based on the use of four cars maintained in Helena, while the cost allocation plan specifies costs associated with this pool be allocated based on county office vehicle mileage reports.

Some of the allocation methods have been in use for a period of several years but those changes are not reflected in the cost allocation plan.

Questioned Costs: We question $111,000 of costs for the Medicaid Cluster (CFDA #93.775, 93.777, 93.778); $43,800 of costs for the SSBG program (CFDA #93.667); and $6,300 for the CHIP program (CFDA #93.767). Questioned costs are reported in total for fiscal years 2016 and 2017.

Based on the number of discrepancies between the approved cost allocation plan and the department's allocation of indirect costs, additional discrepancies not identified in our sample likely exist. In addition, these discrepancies could include additional unallowable costs and could potentially impact all programs administered by the department.

Context: The current cost allocation plan includes over 100 indirect cost pools, each of which specify the costs included and the method for allocation to specific federal and state programs. Composition of each pool varies, but could include costs for salaries, fringe benefits, travel, and other operational costs. During the audit, we reviewed one month's allocation methodology for 24 indirect cost pools, and compared the allocation to the cost allocation plan. The sampling plan was not statistically valid.

The cost allocation process is a recurring monthly cycle. If procedures to allocate costs are established in a manner inconsistent with the approved cost allocation plan, unauthorized allocation is likely to recur for the following periods. Additionally, as the department makes organizational changes, if the cost allocation plan is not also changed timely, the various programs are over- or under-allocated costs from which the programs are benefitting from. Without explicit permission from the federal government to make changes to allocation methodologies, the department should apply only those methodologies in its most recently approved cost allocation plan.

Effect: The department is not in compliance with its federally approved cost allocation plan, resulting in questioned costs.

Cause: The department indicated their normal process is to make incremental changes to the cost allocation plan. When waiting for the most recently submitted cost allocation plan to be approved, the department continues to make business process changes that could also change the allocation of indirect costs. The department says changes to cost allocation methodologies are tracked and submitted with the next version of the cost allocation plan.

Department staff point to a variety of reasons for inconsistencies in applying the cost allocation plan requirements, including the complexity in the document and difficulty in keeping up with changes as the department staff responsibilities change.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Review all cost pools to ensure department procedures align with cost allocation plan requirements specified in federal grant award letters, and

B. Allocate costs as specified in the cost allocation plan, as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-015: U.S. Department of Health and Human Services
CFDA #93.558, TANF Cluster
Grant #1302MTTANF, 1402MTTANF, 1502MTTANF, 1601MTTANF, 1702MTTANF

CFDA #93.568, Low Income Housing Energy Assistance Program
Grant #14B1MTLIEA LIEA14, 15BMTLIEA LIEA15, 16B1LIEA LIEA16, 17B1LIEA LIEA17

CFDA #93.575 and 93.596, CCDF Cluster
Grant #1401MTCCDF, 2015G999004, 2016G996004, 2016G996005, 1501MTCCDF, 1601MTCCDF, 1701MTCCDF, 2017G996005

CFDA #93.658, Foster Care—Title IV-E
Grant #1501MTFOST, 1601MTFOST, 1701MTFOST

CFDA #93.659, Adoption Assistance
Grant #1501MTADPT, 1601MTADPT, 1701MTADPT

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 31 CFR 205, implements the Cash Management Improvement Act (CMIA). The CMIA provides requirements and procedures for the transfer of federal financial assistance from federal agencies to the states, and specifies the terms and conditions under which an interest liability would be incurred, the details of which are included in the annual Treasury State Agreement (TSA) between the state and the Federal government.

For federal awards not included in the TSA, federal regulation 31 CFR 205.33 specifies a state must minimize the time between the drawdown of federal funds and their subsequent disbursement for

Federal program purposes. For these awards, department policy is to seek reimbursement when the department has incurred $20,000 in federal program costs, or at least quarterly.

Condition: The department has not complied with federal requirements to minimize the time between incurring expenditures and receiving federal reimbursement funds, including adhering to the requirements of the TSA. For purposes of this recommendation, Federal programs included in the TSA were LIHEAP and TANF (CFDA #93.558), while Federal programs subject to department policy were the Child Care and Development Block Grant (CCDF), Foster Care, and Adoption.

Specifically for the LIHEAP Federal award, the department used a four-day clearance pattern for warrants rather than the 5-day clearance pattern specified in the TSA.

During the audit period, the department did not complete reconciliations of spreadsheets to the state's accounting records. The spreadsheets are used to demonstrate compliance with the TSA for the LIHEAP or TANF programs. While a type of reconciliation was completed for TANF, it did not accomplish the purpose of the reconciliation.

Questioned Costs: No questioned costs identified.

Context: For the department's Federal programs included in the TSA, we sampled three cash draws from fiscal years 2016 and 2017, for a total of six cash draws per program. This was not a statistically valid sample.

The department's CCFD, Foster Care, and Adoption programs are subject to department policy for cash draws. For these programs, we performed a sample of non-TSA cash draws to determine whether the program's cash balance was considered, and whether the amount of the federal draw request was supported. We also analyzed daily cash balances for each of the programs and noted instances where federal draw requests resulted in excess cash on the state's accounting records for a period of time. In addition, we identified instances where the cash balance in the federal program account was negative $20,000, but a reimbursement request was not executed by the department. For all instances where federal draws were not executed, we confirmed federal grant authority existed on the federal draw system indicating a timely cash draw could have occurred. The number of instances where the time between payment of expenditures and receipt of federal funds was not minimized for non-TSA awards is summarized in the table below:

	Excess Cash Draws			Insufficient Cash Draws		
Program	Instances of Excess Cash	Range of Days of Excess Cash	Highest Amount of Excess Cash Within Range	Instances of Expenditures in Excess of $20,000 with no Cash Draw	Range of Days of Negative Cash	Highest Amount of Negative Cash Within Range
Adoption	3	6 to 19	$110,820	1	12	$77,310
Foster Care	2	30 to 31	$345,400	3	6 to 13	$1,485,070
CCDF	5	7 to 15	$1,673,670	9	5 to 53	$1,739,430

Source: Compiled by the Legislative Audit Division from department records.

For TSA awards, we also conducted reviews to determine whether the cash flow activity was properly recorded on spreadsheets provided by the Department of Administration to demonstrate statewide compliance with the TSA. For the LIHEAP program, we found most expenditure transactions were not recorded on the spreadsheets for the correct day. The department routinely recorded the expenditures on the day the revenue was received rather than when expenditures were incurred. Accurate completion of the spreadsheets is important because the spreadsheets are used to calculate whether the state or federal government is owed interest from their annual cash transactions.

Effect: Inconsistent and inaccurate application of the department's cash draw processes are evidence of a breakdown in internal controls for cash management. For non-TSA awards, if the department is unwilling or unable to minimize the time between the drawdown and disbursement of federal funds, the Federal government may require the affected program be subject to the TSA. For TSA awards, if a state repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, the Federal government may deny the state payment or credit for the resulting Federal interest liability.

Cause: Department staff point to several reasons for the inconsistent and inaccurate application of their cash draw processes, including issues related to staff turnover and vacant positions. According to the department, the division in charge of these cash flow processes has experienced significant turnover during the past two years, including two employee retirements and four voluntary employment terminations or changes. Other than two staff with 8 years of experience, the remaining five staff each have 1.5 or less years of experience with the division.

Regarding TSA requirements for the LIEHAP Federal award, the staff were not aware of the requirements outlined in the TSA.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Establish procedures to ensure staff are properly cross-trained in order to execute cash reimbursement requests for its federal programs in a timely manner, as required by the Treasury State Agreement and federal regulations,

B. Establish procedures to ensure staff are properly trained regarding the completion of Treasury State Agreement cash spreadsheets, and

C. Comply with the Treasury State Agreement for the Low Income Home Energy Assistance Program, as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with the recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-016: U.S. Department of Health and Human Services
CFDA #93.775, 93.777, 93.778, Medicaid Cluster
Grant #1505MT5MAP, 1505MT5ADM, 1505MTHITA, 1605MT5MAP, 1605MT5ADM, 1605MTHITA, 1705MT5MAP, 1705MT5ADM, 1705MTHITA

Criteria: Federal regulation, 2 CFR 200.303, requires the Department of Public Health and Human Services (department) to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 42 CFR 431.107, in part, requires the state Medicaid agency to have an agreement with each provider or organization furnishing services under the Medicaid state plan. As part of the agreement, the provider must disclose information about its ownership and control, business transactions, and persons convicted of crimes.

Condition: The department could not readily produce Medicaid provider agreements when initially requested. Improvements are needed in the department's internal controls to obtain agreements or disclosures required for providers or organizations furnishing Medicaid services.

Questioned Costs: No questioned costs identified.

Context: Using a statistically valid plan to determine whether the provider agreements existed and whether the required disclosures were included in the documents, a sample of twenty provider agreements were selected from a list of nearly 1,000 Medicaid providers. When support was requested in late June 2017, the department was not able to provide us with the agreements for twelve of the twenty Medicaid providers tested. In mid-August, we communicated these exceptions in writing, and in early October the department provided all but one of the Medicaid provider agreements. At that time, two other agreements did not contain the federally required disclosures. Just prior to the completion of the audit in October 2017, the final pieces of information were delivered.

Effect: Because the department could not readily produce the provider agreements, it is possible that the information required does not exist for all providers. This means there is risk that providers are improperly receiving payment for services provided under the Medicaid program.

Cause: The department's internal control procedures are not adequate to ensure that the provider agreements and required federal disclosures are maintained.

Recommendation: We recommend the Department of Public Health and Human Services enhance internal controls to ensure provider agreements are obtained and include disclosures regarding ownership and control, business transactions, and persons convicted of crimes, as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with the recommendation. The department stated that it will review and enhance internal controls to ensure compliance with federal regulations related to provider agreements and disclosures. For additional information regarding the department's planned corrective action see Corrective Action plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-017: U.S. Department of Health and Human Services
CFDA #93.775, 93.777, 93.778, Medicaid Cluster
Grant #1505MT5MAP, 1505MT5ADM, 1505MTHITA, 1605MT5MAP, 1605MT5ADM, 1605MTHITA, 1705MT5MAP, 1705MT5ADM, 1705MTHITA

Criteria: Federal regulations, 42 CFR 455.15 and 455.21, require the Department of Public Health and Human Services (department) to refer all cases of suspected provider fraud to Medicaid Fraud Control Unit (MFCU) if the findings of a preliminary investigation give the department reason to believe an incident of fraud or abuse by a Medicaid provider has occurred.

Federal regulation, 42 CFR 455.23, states that the department must suspend all Medicaid payments to a provider after the department determines there is a credible allegation of fraud.

The agreement between the department's Surveillance Utilization Review Section (SURS) unit and MFCU specifies referrals to the MFCU be in writing.

Condition: Cases of suspected fraud identified by SURS were not referred to the Medicaid Fraud Control Unit.

Questioned Costs: No questioned costs identified.

Context: When SURS identifies overpayments greater than $5,000, the case is discussed by the department's Medicaid Review Committee. Overpayments could be due to either error or fraud. We obtained and reviewed the minutes of all Medicaid Review Committee meetings held during the audit period. Of the 37 cases discussed, 8 cases were questioned by meeting attendees for fraud and only 1 of these questioned cases was referred to MFCU. For the remaining cases that were questioned for fraud, the meeting minutes indicate they were not referred to MFCU because they determined there was no credible allegation of fraud. This is contrary to federal regulations which require referral to the MFCU when fraud is suspected.

There is a substantive difference between the threshold level of certainty or proof necessary to refer the suspected fraud to MFCU and a threshold for suspension of payments based on a determination of a credible allegation of fraud.

Effect: The department did not comply with federal regulations.

Cause: Department staff indicated the MFCU personnel participation in the Medicaid Review Committee meetings was verbal referral which met the federal requirements. However, there is no indication in the Medicaid Review Committee minutes that MFCU staff considered these discussions to be verbal referral. Rather, the August 2016 minutes specifically document MFCU staff saying referral was not taking place at this time.

Recommendation: We recommend the Department of Public Health and Human Services refer all suspected cases of Medicaid fraud to the Medicaid Fraud Control Unit, as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-018: U.S. Department of Health and Human Services
CFDA #93.775, 93.777, 93.7778, Medicaid Cluster
Grant #1505MT5MAP, 1505MT5ADM, 1505MTHITA, 1605MT5MAP, 1605MT5ADM, 1605MTHITA, 1705MT5MAP, 1705MT5ADM, 1705MTHITA

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The department does not have adequate controls to ensure amounts reported for Medicaid are complete and accurate.

Questioned Costs: No questioned costs identified.

Context: We reviewed four of eight CMS-64 reports submitted for the Medicaid program during the audit period. Of these four reports, two were submitted timely, but were later resubmitted at a much later date due to significant errors identified by the federal government in their review. This was not a statistically valid sample. Errors in the CMS-64 are summarized in the following table:

Quarterly Report and Incorrect Elements	Original Submission	Corrected Submission	Difference
December 2015			
Total Medicaid Assistance Payments	$55,895,910	$270,297,146	$214,401,236
Federal Share	$38,354,496	$182,790,166	$144,435,670
September 2016			
Federal Share	$262,580,380	$234,792,059	$27,788,321

Effect: If the data submitted in the CMS-64 reports is not reliable, the department risks noncompliance with federal regulations.

Cause: During the time that these reports were submitted, there was turnover in the staff responsible for the completion and submission. Additionally, complex modifications to standard department procedures used to compile expenditure data were necessary to implement reporting requirements for the Affordable Care Act population.

Repeat Finding: This is a repeat finding, initially reported as finding 2015-008 in the Single Audit report for the two fiscal years ended June 30, 2015.

Recommendation: We recommend the Department of Public Health and Human Services document internal control procedures to ensure accuracy of CMS-64 reporting for Medicaid.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-019: U.S. Department of Health and Human Services
CFDA #93.775, 93.777, 93.778, Medicaid Cluster
Grant #1505MT5MAP, 1605MT5MAP, 1705MT5MAP, 1505MT5ADM, 1605MT5ADM, 1705MT5ADM, 1505MTHITA, 1605MTHITA, 1705MTHITA

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 45 CFR 95.621(f)(3), in part, requires the department review the Automated Data Processing (ADP) system security of installations involved in administration of U.S. Department of Health and Human Services (HHS) programs on a biennial basis, including, at a minimum, an evaluation of physical and data security operating procedures and personnel practices.

Condition: A biennial review of Automated Data Processing (ADP) systems used to administer Medicaid and other federal programs was not completed, as required by Federal regulations.

Questioned Costs: No questioned costs identified.

Context: The department implemented a more formalized risk assessment process and identified over 100 ADP systems in use. Approximately 70 of those systems contain electronic public health information.

From the department's list of 70 completed ADP system reviews, we selected seven for testing. This was not a statistically valid sample. We found documentation was missing or incomplete for six of the reviews. Without documentation to confirm each element of the review was conducted, department staff were unable to demonstrate those portions of the ADP review were completed. In addition, we identified at least five systems used in the administration of HHS programs that did not receive an ADP review during the biennium.

Effect: The department did not comply with federal regulations. Additionally, the lack of review puts the department at risk of making inappropriate eligibility determinations or benefit calculations for a variety of federal programs.

Cause: Due to limited staff resources, department staff represented they focused on the 70 ADP systems which contain electronic public health information.

Repeat Finding: This is a repeat finding, initially reported as finding 2015-012 in the Single Audit report for the two fiscal years ended June 30, 2015. We consider the recommendation to be partially implemented.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Modify internal controls to ensure documentation supporting Automated Data Processing reviews contains all necessary information, and

B. Comply with federal regulations by completing biennial reviews of all Automated Data Processing systems used in administering programs on behalf of the federal Department of Health and Human Services.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-020: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Grant #201515W100643, 201616W1100643, 201717W100643

Criteria: According to the WIC state plan, voided program benefits will be rejected by the WIC bank. Federal regulation, 7 CFR 246.3, requires the state to follow its WIC state plan.

Federal regulation, 7 CFR 246.12(k)(1), requires, in part, the Department of Public Health and Human Services (department) design and implement a system to review food instruments and cash vouchers submitted by vendors for redemption to ensure compliance and to detect questionable food instruments, suspected vendor overcharges, and other errors.

Federal regulation, 7 CFR 246.12(q), in part, requires the department to account for the disposition of all food instruments and cash-value vouchers as either issued or voided.

Federal regulation, 2 CFR 200.303, requires the department to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: During the audit, we obtained a listing of all food instruments and cash-value vouchers (food instruments) issued between July 1, 2015, and April 10, 2017. We analyzed the data and identified 731 voided benefits not rejected by the WIC bank, totaling approximately $20,000. Of these, over 500 food instruments were voided 8 days or more prior to being cashed. Assuming a steady rate of occurrence for the audit period, we project total voided, yet subsequently redeemed, benefits at approximately $22,800 during the period under audit.

Questioned Costs: We question approximately $22,800 in costs charged to CFDA #10.557 for the period of July 1, 2015 through April 10, 2017.

Context: The analysis we conducted was a comparison of the date voided and the date the food instrument was cashed. Our procedures included the entire population of food instruments issued between July 1, 2015 and April 10, 2017.

Effect: The department is not in compliance with federal regulations.

Cause: Program staff indicate they do not review WIC benefit data for these types of issues.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Develop internal controls to ensure voided benefits for the Special Supplemental Nutrition Program for Women, Infants, and Children are not subsequently paid by the WIC bank, as required by the state plan and federal regulations.

B. Reimburse the WIC bank only for valid food instruments, as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-021: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Grant #201515W100643, 201616W1100643, 201717W100643

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 7 CFR 246.12(q), requires the department to account for the disposition of all food instruments and cash-value vouchers as either issued or voided, and as either redeemed or unredeemed. Further classification of redeemed food instruments and cash-value vouchers as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment and issuance records is also required.

Condition: The program does not determine and account for the ultimate disposition of WIC benefits.

Questioned Costs: No questioned costs identified.

Context: We analyzed all WIC food instruments and cash-value vouchers issued between July 1, 2015, and April 10, 2017. Lack of classification of the ultimate disposition of WIC benefits is a systemic issue for this time period.

Identifying the ultimate disposition of WIC benefits helps ensure that complete and accurate data is being reported, and also provides a mechanism to aid the department in identifying inappropriate or fraudulent benefit payments. Complete identification of food instrument disposition would also allow the department to identify patterns in the data, such as repeated requests for duplicate food instruments, which could be an indicator of fraudulent benefit payments.

Effect: The department is not in compliance with federal regulations. In addition, without procedures in place to identify and review the ultimate disposition of all food instruments, there is an increased risk that inappropriate or fraudulent benefit payments will not be detected by department staff. Also,

the department may be liable to the federal government for any claims against them for not accounting for the disposition of all redeemed food instruments.

Cause: Department staff were either unaware of the disposition classification requirements or determined the information would not be useful for program monitoring purposes because the expiration date would render the food instrument unredeemable. The department also pointed to limitations of their information system which is used to track food instruments, including the fact that the system does not have a field where status is recorded. WIC program personnel indicated the new electronic benefit transaction system, implemented September 2017, will change how redemption data is accounted for.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Develop internal controls to account for the disposition of all food instruments and cash-value vouchers as required by federal regulations.

B. Account for the disposition of food instruments and cash-value vouchers as either issued or voided, redeemed or unredeemed, including applicable subclassifications, in accordance with federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2017-022: U.S. Department of Health and Human Services
CFDA #93.575, 93.596, CCDF Cluster
Grant #1401MTCCDF, 2015G999004, 1501MTCCDF, 2016G996005, 2016G999004, 1601MTCCDF, 2017G996005, 1701MTCCDF

Criteria: Federal regulation, 2 CFR 200.303, states that the Department of Public Health and Human Services (department) must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal regulation, 45 CFR 98.60(i) requires the department to recover child care payments that are the result of fraud.

Condition: During the audit period, CCDF staff identified a total of eight overpayments ranging from $131 to $2,292 resulting from fraud. The department did not follow their policy and did not seek recovery for all fraudulent child care overpayments identified.

Questioned Costs: We question $2,669 and $3,741 in program costs charged to CFDA #93.575 and #93.596 in state fiscal year 2016 and 2017, respectively.

Context: We considered the entire population of overpayments identified by the department. Of the eight overpayments identified by the department, we noted four instances where recovery was not sought.

Effect: The department is not in compliance with federal regulations.

Cause: Program personnel indicated their policy is to report all overpayments to the Business and Financial Services Division (BFSD). BFSD in turn applies its accounts receivable procedures to obtain repayment from the client. For the instances where recovery was not sought, the information was not reported to BFSD as required by department policy.

Recommendation: We recommend the Department of Public Health and Human Services comply with federal regulations by:

A. Developing internal control procedures to ensure coordination between program and Business and Financial Services Division staffs for recovering Child Care Development Fund overpayments resulting from fraud, and

B. Seek timely recovery for all identified fraudulent child care overpayments as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-023: U.S. Department of Health and Human Services
CFDA #93.558, TANF Cluster
Grant #1302MTTANF, 1402MTTANF, 1502MTTANF, 1601MTTANF, 1702MTTANF

Criteria: Federal regulation, 45 CFR 205.56, requires the Department of Public Health and Human Services (department) use the information obtained under federal regulation, 45 CFR 205.55, in conjunction with other information, for determining individuals' eligibility for assistance under the State plan and determining the amount of assistance. In addition, the state agency must review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the eligibility or assistance amount determinations.

Condition: The department obtains the required Internal Revenue Service (IRS) information through a download twice per year. However, the information is not subsequently used by the department in evaluating eligibility and assistance amounts.

Questioned Costs: No questioned costs identified.

Context: Current procedures are to download the IRS information onto a laptop computer which is then locked in a file cabinet until the information is destroyed without any review of the information.

During the audit period, the department disbursed over $50 million in federal funds to the Temporary Assistance for Needy Families (TANF) recipients.

Effect: The department's failure to review and use the IRS income information resulted in noncompliance with federal regulations and increases the risk that improper eligibility assessments, as well as improper levels of assistance, occurred during fiscal years 2016 and 2017.

Cause: Department staff indicate the IRS informed them they were required to download the information but did not need to further utilize it. However, the TANF program is governed by the federal Administration for Children & Families, a division of the federal Health and Human Services agency, whose rules do require use of the IRS data. In addition, the department cited staff shortages as a reason they chose to follow the IRS advice.

Recommendation: We recommend the Department of Public Health and Human Services comply with federal regulations for the Temporary Assistance for Needy Families program by comparing income information obtained from the Internal Revenue Service to information contained in individual case records in order to determine the effect, if any, on individuals' eligibility or amount of assistance.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-024: U.S. Department of Health and Human Services
CFDA #93.558, TANF Cluster
Grant #1302MTTANF, 1402MTTANF, 1502MTTANF, 1601MTTANF, 1702MTTANF

Criteria: Federal regulation, 2 CFR 200.317, requires the state to follow the same policies and procedures used for non-Federal funds when procuring property and services under a federal award.

Federal regulation, 2 CFR 75.329, further specifies the type of procurement methods the state must follow for its public welfare programs.

Federal regulation, 2 CFR 200.88, requires a competitive process for all procurements in excess of $150,000.

The department is delegated certain purchasing authority from the Department of Administration's Procurement Bureau. Under the delegation agreement, the department may use the following purchasing methods:

- Small Purchases – for total contract value of $5,000 or less, the department may choose a purchasing technique that best meets its needs.
- Limited Solicitations – for total contract value between $5,001 and $25,000, the department must obtain and document prices from a minimum of three viable sources.
- Formal Competition – for total contract value between $25,001 and $200,000, the department must use either an invitation for bid or request for proposal process.
- Sole Source – for total contract value up to $200,000, the department determines whether a purchase qualifies as sole source.

Condition: As allowed by federal regulations, the department can use a portion of TANF funds to pay costs associated with children in Foster Care. During the audit period, the department did not follow federal regulations and state procurement policies when incurring approximately $2.7 million in total costs from all funding sources for nonmedical services for the Foster Care program. We reviewed the service code documentation for the three vendors, and determined the services were for one-on-one supervision of youth, chemical dependency evaluations, urine analyses, and support services for a child in placement for the Foster Care program. Although there is a statutory exception for services

from health care providers, the costs incurred do not fall under the exception because the services are not provided by health care providers.

Questioned Costs: We identified unallowable federal costs for services without a contract totaling approximately $274,300 for CFDA #93.558. However, for all 91 vendors paid without an underlying agreement, total expenses incurred by CFDA #93.558 were approximately $640,900. Total questioned costs for CFDA #93.558 could be as high as $640,900 if other vendors were compensated for services for which there is not an exclusion under state law.

Context: During the audit, department staff disclosed they had identified approximately $2.7 million in payments from its Child and Family Services Division to 91 vendors without underlying service contracts. These costs were paid from the treasury using both state and federal funds. We requested and reviewed the information for the three top paid vendors which were individually paid between $187,000 and $505,000 during fiscal year 2017.

Effect: By not following applicable procurement procedures, payments to these vendors are not an allowable use of federal TANF funds.

Cause: Department staff are uncertain why these vendors were used to provide services without following the state's procurement laws and policies.

Recommendation: We recommend the Department of Public Health and Human Services comply with state law and federal regulations by following state procurement policies to obtain services for the Temporary Assistance for Needy Families and Foster Care programs.

Views of Responsible Officials and Corrective Action Plans: The department does not concur with the recommendation as they believe the services in question are exempt from procurement requirements based on state statute. For additional information regarding the department's planned corrective action see Corrective Action plan starting on page D-1.

Rebuttal for Views of Responsible Officials: The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

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Section III – Federal Award Findings and Questioned Costs

Finding 2017-025: U.S. Department of Education
CFDA #84.126, Rehabilitation Services – Vocational Rehabilitation Grants to States
Grant #FFY15-H126A150038, FFY16-H126A160038, FFY17-H126A170038

Criteria: Federal regulations, 2 CFR 200.403, specifies in order to be allowable, costs must be necessary and reasonable for the performance of the Federal award.

Federal regulations, 2 CFR 200.404, specifies costs to federal programs are reasonable if they do not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Condition: In July 2017, two department staff were placed on paid administrative leave while the department conducted an investigation of the Vocational Rehabilitation program. From July to mid-October 2017, approximately $58,270 in wages for these employees were charged to the federal Vocational Rehabilitation program because no changes were made to how the employees' payroll was processed. As of mid-October, there has been no change in employee status recorded in the state's accounting system, and the employees continue to be paid partially with federal funds.

Questioned Costs: We question an estimated $58,270 in payments made for two employees placed on administrative leave charged to CFDA #84.126 in state fiscal year 2018 through October 2017. Questioned costs will continue to accumulate until salaries for these staff are no longer charged to the program.

Context: Department administration believe the Vocational Rehabilitation program was mismanaged because the department continued to record approximately $4.6 million in expenditures in the federal special revenue fund when no further federal funds were available. By the end of fiscal year 2017, the department identified alternative funding authority and moved the $4.6 million to the General Fund; this did not include the questioned costs identified above for fiscal year 2018.

There is no benefit to the Vocational Rehabilitation program for the staff who are on paid administrative leave because the department is paying other staff, effective July 2017, to administer the program. As such, we do not consider long-term administrative leave to be necessary for the program.

Effect: The costs associated with staff on administrative leave are not an allowable use of federal funds, resulting in questioned costs.

Cause: Department staff believe these administrative costs are a normal and reasonable charge, which the department says is a standard and regular occurrence for the agency.

Recommendation: We recommend the Department of Public Health and Human Services discontinue using federal Vocational Rehabilitation funds to pay the cost of wages associated with staff placed on administrative leave.

Views of Responsible Officials and Corrective Action Plans: The department does not concur with this recommendation. The department believes administrative leave is a normal and reasonable charge, and is a cost effective alternative to more complicated administrative processes that would also be charged to the federal program. For additional information regarding the department's planned corrective action see Corrective Action plan starting on page D-1.

Rebuttal of Views of Responsible Officials: The department's views do not contain any information not already considered during the audit. As such, we maintain our position as reported.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-026: U.S. Department of Health and Human Services
CFDA #93.268, Immunization Cooperative Agreements
Grant #NH23IP000755-05-02 (formerly 5H23IP000755-03)

Criteria: Federal regulation, 2 CFR 200.403(b) states, in part, except where otherwise authorized by statute, costs must conform to any limitations or exclusions set forth in the federal award.

The grant award letter for the Immunization Cooperative Agreements (Immunization) award for the period April 2017 to June 2018 specifies indirect costs for the Immunization program are limited to $9,049.

Condition: Although program staff have been working to obtain modifications to the grant award letter, as of June 2017 authority for indirect costs remained limited. Between April and June 2017, as part of the regular cost allocation process, the department recorded $76,011 in indirect costs to this Immunization grant.

Questioned Costs: We question $66,962 in unallowable indirect costs charged to CFDA #93.268 between April 1, 2017, and June 30, 2017.

Context: Indirect costs are specifically limited in each the original and updated Immunization award for the period April 2017 to June 2018. Immunization award letters for previous years contained language allowing participation in the department's cost allocation process.

Effect: The department is not in compliance with federal grant award limitations for federal indirect costs as of June 2017, resulting in questioned costs. Although our audit only identified the limitation for the Immunization program, without specifically considering individual grant award letter content the department risks charging unallowable costs to all federal awards it administers.

Cause: After the initial award notification was received, the department began negotiations for higher indirect costs for the Immunization grant. As of the end of fiscal year 2017, the department had not successfully negotiated for indirect costs. While documented cost allocation procedures include monthly consideration of the newly identified limitations in individual grant award letters, the

limitation specified in the Immunization grant award letter was not put into place as part of the April, May, or June allocation processes.

Recommendation: We recommend the Department of Public Health and Human Services allocate costs as specified in the cost allocation plan and federal grant award letter restrictions, as required by federal regulations.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-027: U.S. Department of Transportation
CFDA #20.205, 20.219 Highway Planning and Construction Cluster
Grant #Not Applicable

Criteria: Federal law, 23 USC 112(1), requires construction for each project under CFDA #20.205 be performed by contract awarded by competitive bidding.

Federal regulations, 23 CFR 635.109, requires standard contract language be incorporated into each construction contract related to significant changes in the character of work, and contains standard contract language defining a significant change as occurring when one or more of the following circumstances occurs:

- When the character of work differs materially in kind or nature from that involved or included in the original proposed construction; or
- When a major item of work, as defined in the contract, is increased or decreased in excess of 25 percent of the one original quantity in the contract.

The Montana Department of Transportation's (department) Standard Specification for Road and Bridge Work (spec book), Section 104.02.3, defines a significant change as occurring when one or more of the following circumstances occurs:

- When the character of work differs materially in kind or nature from that involved or included in the original proposed construction; or
- When a major item of work, defined as an item of work comprising at least 5 percent of the initial bid on the contract, is increased or decreased in excess of 25 percent of the one original quantity in the contract; or
- When an item of work, not defined as a major, has a quantity change in excess of 50 percent.

Condition: The department's mechanism to amend a construction contract is to enter into a change order with the contractor. The department did not issue contract change orders in accordance with requirements in the spec book and federal regulations.

Questioned Costs: We question $900,000 of direct, and associated indirect, costs inappropriately charged to CFDA #20.205 in state fiscal years 2016 and 2017.

Context: As part of our audit, we planned to perform a statistically valid sample of 30 projects from the 286 projects closed during the audit period, to determine whether the total quantities of items paid to the contractor were consistent with the contract and any associated change orders, based on the requirements in the spec book. While testing the third item in the sample, we identified a quantity change in excess of 50 percent for a non-major item of work, with no corresponding contract change order.

Through our follow-up on this sample item, we discovered the department's practices for issuing change orders were inconsistent with the spec book. Instead of completing the sample, we performed alternative procedures to quantify the impact of these inconsistencies. Through this work, we identified two types of situations in which change orders required under the spec book were not issued.

- **Changes in Quantities for Major Items of Work**

  The department uses its project management system, SiteManager, to track the quantity of bid items paid to contractors. Consistent with federal regulations and the spec book, the department has programmed SiteManager to require a change order when a major item of work has a quantity change in excess of 25 percent. During the audit period, department staff overrode this change order requirement in SiteManager for 16 projects.

- **Changes in Quantities for Non-Major Items of Work**

  The department has programmed SiteManager to require change orders for non-major items of work only after quantity changes exceed 999 percent. This is inconsistent with the spec book, which defines changes in excess of 50 percent as significant for these items. Additionally, during the audit period, department staff overrode SiteManager change order requirements for 12 projects with quantity overruns in excess of 999 percent for non-major items of work.

For these projects, the department did not document changes and additional costs through a formal change order, and paid the contractors for the quantity overruns. Because these costs were incurred without an amendment to the contract, they are considered unallowable uses of federal funds. Approximately half of the question costs outlined above were attributed to one project.

Effect: The costs paid without a change order were inappropriately charged to the federal program, resulting in questioned costs. The department may have an obligation to repay the Federal Highway Administration for these costs.

Cause: Documentation on file indicates staff overrode the change order requirements in SiteManager for most of the projects we reviewed because either: 1) the incremental quantity overruns in excess of what would require a change order were small; or 2) the cost to negotiate a bid item price reduction, which would have allowed the department to pay the actual quantities used within the original contract amount, would have exceeded the potential cost savings from negotiating a lower price on the bid item. However, federal regulations requiring contract adjustments do not establish exceptions for these types of situations.

Additionally, department management indicated they do not believe all quantity changes in excess of 25% for major items and 50% for non-major items result in an actual significant change in the kind or nature of the work being performed on a project. In cases where management does not believe a significant change in the kind or nature of work being performed has actually occurred as a result of a change in quantity, they do not obtain change orders. This is inconsistent with the spec book and federal regulations, which define a significant change within the context of either changes in quantities of goods used or changes in the kind or nature of work being performed.

Recommendation: We recommend the Montana Department of Transportation:

A. Issue contract amendments for changes in contract quantities that are considered significant, as required by department policy and federal regulations governing the Highway Planning and Construction Program, and

B. Analyze the current definition of significant change in the Standard Specifications for Road and Bridgework, as it relates to non-major items of work, and if considered appropriate, request approval from the Federal Highways Administration to modify the definition to more closely mirror federal regulations and department business practices.

Views of Responsible Officials and Corrective Action Plans: The department partially concurs with this recommendation. The department management interpret the federal regulations and spec book as a two-step process, where the first step is identifying if a significant change in quantities has occurred and the second step is determining whether significant changes in quantities cause a significant change in the character of work. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: As indicated in the finding, the department's two-step process is inconsistent with federal regulations and the spec book. The requirements of those regulations and department policy, as described in the finding, are accurate. We maintain our position as reported.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-028: U.S. Department of Transportation
CFDA #20.205, 20.219 Highway Planning and Construction Cluster
Grant #Not Applicable

Criteria: Federal regulations, 2 CFR 200.303(a), require the Montana Department of Transportation (department) establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Federal law, 40 USC 3142, requires contractors and subcontractors to pay prevailing wages to laborers and mechanics for work completed under federally-funded contracts in excess of $2,000.

Federal regulation, 29 CFR 5.5, establishes contract language requiring contractors to submit payrolls to the department, along with a statement of compliance that all laborers and mechanics employed on the contract during the payroll period have been paid not less than the applicable wage rates for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

Federal regulation, 29 CFR 5.6, prohibits payment to contractors unless there is on file with the contracting agency, a certification by the contractor stating the contractor and its subcontractors have complied with the provisions of 29 CFR 5.5.

Condition: The department has assigned the responsibility for obtaining and reviewing certified payrolls to the Engineering Project Manager in the district who is responsible for the project. Staff in Helena also complete a final audit of the payrolls received in the district, in order to verify prevailing wages were paid to the contractor's or subcontractor's employees. These procedures did not ensure all certified payrolls were received for construction projects active during the audit period.

Questioned Costs: No questioned costs were identified.

Context: As part of our audit, we planned to perform a statistically valid sample of 30 projects from the 210 projects with active construction during the audit period, to determine whether the

department received the required certified weekly payrolls. After testing four projects in the sample, we identified two projects in different districts for which not all certified payrolls were obtained. Department staff in both Helena and the districts were unaware of the missing certified payrolls, and indicated the payrolls were likely overlooked because of the large size of the projects. The missing certified payrolls for these projects constitute noncompliance with federal regulations, and indicate the department's process to ensure all certified payrolls are remitted is not working as intended. The department has many active construction projects each year, and project managers may be assigned to multiple, concurrently-running projects at once. Given this, we believe there are likely other instances of noncompliance, and we did not test the remaining projects in our sample.

Effect: The department is not in compliance with federal regulations requiring the receipt of certified payrolls prior to issuing payments to contractors. There is also risk the department will not identify, through its final payroll audit or other monitoring procedures, instances where contractors or subcontractors do not pay their employees prevailing wages.

Cause: Department staff indicated they believe the contractor is ultimately responsible for ensuring all certified payrolls are submitted. The department is responsible for contract management and ensuring compliance with federal regulations, and as such, should have a process in place designed to ensure all payrolls are remitted.

Recommendation: We recommend the Montana Department of Transportation:

A. Enhance internal controls to ensure the department receives all required certified payrolls, and

B. Comply with requirements governing the Highway Planning and Construction Program by obtaining certified weekly payrolls from contractors and subcontractors for all active construction projects.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-029: U.S. Department of Transportation
CFDA #20.205, 20.219 Highway Planning and Construction Cluster
Grant #Not Applicable

Criteria: Federal regulations, 2 CFR 200.441, 421, and 467, consider costs incurred for fines, penalties, damages, and other settlements, as well as costs for advertising and public relations and selling and marketing, to be unallowed costs that are not eligible for federal reimbursement.

Condition: The Montana Department of Transportation (department) included unallowed costs in the calculation of the fiscal year 2016 federal indirect cost rate, resulting in over collection of indirect costs for CFDA #20.205.

Questioned Costs: We question approximately $143,000 in indirect costs collected for CFDA #20.205 in state fiscal year 2016.

Context: Annually, the department negotiates an indirect cost rate with the Federal Highway Administration. The negotiated rate is applied to every dollar of direct Highway Planning and Construction Program expenditures incurred, and the department is federally reimbursed for these costs. The department calculates its indirect cost rate by dividing total indirect costs by direct program costs for the department as a whole.

The department included expenditures for separation allowances, settlement costs, and promotional aides, in its calculation of the indirect cost rate for fiscal year 2016. We consider these types of costs to fall under the exclusions in 2 CFR 200.441, 421, and 467. Because these costs were inappropriately included in the rate calculation, the resulting indirect cost rate was 0.04 percent higher than it should have been. Under this higher rate, the department charged approximately $143,000 more in indirect costs to the Highway Planning and Construction Program than should have been charged.

We reviewed the rate calculation for fiscal year 2017 as part of the audit, and noted no ineligible costs included in the calculation. Additionally, department staff noted the rate calculation process includes

a step to account for over or under collections from prior years, so the error in the 2016 rate will self-correct in future years.

Effect: The department is not in compliance with federal requirements, resulting in questioned costs.

Cause: Department staff indicated the expenditures for these ineligible activities were inadvertently overlooked during the calculation process, and noted procedures were updated to identify and exclude these types of expenditures in future rate calculations.

Recommendation: We recommend the Montana Department of Transportation comply with federal regulations by including only allowable costs in its indirect cost rate calculation.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-030: U.S. Department of Transportation
CFDA #20.509, Formula Grants for Rural Areas
Grant #MT-18-X064, MT-2017-002

Criteria: Federal law, 49 USC 5311(b)(4), requires the Department of Transportation (department) to submit an annual report containing information on capital investment, operations, and services provided with funds received under section 5311, including total annual revenue, sources of revenue, total annual operating costs, total annual capital costs, fleet size and type, fleet related facilities, revenue vehicle miles, and ridership.

Federal regulations, 2 CFR 200.303(a), require the department establish and maintain effective internal control over federal awards that provide reasonable assurance that the department is managing the federal award in compliance with federal statues, regulations, and the terms and conditions of the federal award.

Condition: The department's internal controls did not ensure accurate federal reporting of recipient financial information for the Formula Grants for Rural Areas (5311) program. We identified three instances of inaccurate reporting during the audit period.

Questioned Costs: No questioned costs were identified.

Context: The department is responsible for submitting the annual report, via the National Transit Database (NTD) to the Federal Transit Administration (FTA) on behalf of the state and its subrecipients. Several line items of the NTD report contain critical information the FTA uses in administering the 5311 Program, including: total annual operating expenses, local operating assistance, annual capital costs, and vehicle trips.

Approximately 39 subrecipients received 5311 Program funds through the department each fiscal year. As part of our audit, we reviewed the amounts the department reported in NTD for 5311 Program activity, for critical line items for eight subrecipients, to determine whether the information submitted was complete and accurate. This is not a statistically valid sample. Our review covered the reporting completed during our audit period, which included financial data for fiscal years 2015 and 2016.

Of the eight subrecipients reviewed, we identified one subrecipient for which the department could not support the amount of reported annual capital costs. We expanded our testing, to review annual capital costs reported for three additional subrecipients, and identified two additional errors in reported amounts. See below for more information.

- Subrecipient 1 – The subrecipient had capital costs approximating $92,000 for 5311 Program-funded vehicles delivered in fiscal year 2015. The department was unable to provide evidence that these capital costs were reported through NTD.
- Subrecipient 2 – The subrecipient had capital costs approximating $78,000 for 5311 Program-funded vehicles delivered in fiscal year 2016 that were not reported through NTD. Additionally, the department incorrectly reported approximately $142,000 of capital costs incurred for vehicles purchased with non-5311 Program FTA funds as 5311 Program capital costs for fiscal year 2016.
- Subrecipient 3 – The department incorrectly reported approximately $111,000 of capital costs incurred for vehicles purchased with non-5311 Program FTA funds as 5311 Program capital costs for fiscal year 2016.

Effect: The department reported incorrect data.

Cause: Department staff stated fiscal year 2015 was the first year in which NTD reporting was done electronically, and noted the department and FTA both had issues in implementing the new electronic reporting system. Staff further explained training over the submission of NTD reports is not regularly available, and NTD reporting guidance from the FTA changed frequently during the audit period. While the department faced these challenges, it is still obligated to report accurate and complete data.

Recommendation: We recommend the Montana Department of Transportation:

A. Implement internal controls to ensure the completeness and accuracy of information submitted to the National Transit Database for the Formula Grants for Rural Areas program, and

B. Comply with federal regulations by reporting complete and accurate data for the Formula Grants for Rural Areas program in the National Transit Database report.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-031: U.S. Department of Transportation
CFDA #20.509, Formula Grants for Rural Areas
Grant #MT-18-X064, MT-2017-002

Criteria: Federal regulations, 2 CFR 200.303(a), require the Department of Transportation (department) to establish and maintain effective internal control over federal awards that provide reasonable assurance that the department is managing the federal awards in compliance with federal statues, regulations, and the terms and conditions of the federal awards.

Condition: The department's internal controls should be enhanced to ensure transit vehicles are procured from eligible manufacturers. The department's vehicle procurement process does not include a step to determine whether the manufacturer of the vehicles it purchases are transit vehicle manufacturers (TVMs) subject to U.S. Department of Transportation (DOT) Disadvantaged Business Enterprises (DBE) federal regulations. Additionally, the procurement process is not designed to confirm a TVM has been approved by the Federal Transit Administration (FTA), when the DBE regulations are applicable to the purchase.

Questioned Costs: No questioned costs were identified.

Context: Through the Formula Grants for Rural Areas (5311) Program, the department provides qualified organizations with grant funding for capital purchases, such as vehicles to be used in providing transit services to the organizations' clientele. The department purchases vehicles on behalf of grant recipients. During the audit period, the department issued and purchased 5311 Program-funded vehicles through six invitations for bids, for a total of 22 vehicles. The department purchased some of the vehicles directly from a factory dealership, while others were purchased by a third-party dealership in the transit industry.

Effect: Without effective internal controls over compliance, there is risk the department will purchase vehicles from ineligible manufactures. While we did not question any vehicle purchases during the audit period, federal regulations provide the FTA with authority to pursue formal enforcement action

or impose sanctions against the department for failure to comply with DBE requirements. For this reason, department verification of compliance is important.

Cause: Department staff indicated they rely on the knowledge and industry expertise of the staff at the non-factory dealership from which the vehicles are purchased, to know whether the DBE requirements are applicable and if so, whether the TVM is in compliance with those requirements. The department obtains a compliance certification from the dealership, which department staff consider to be a sufficient internal control. This certification is required under federal regulations, but is not sufficient to verify the applicability of DBE requirements and the TVM's compliance with them.

Recommendation: We recommend the Montana Department of Transportation enhance internal controls over compliance with transit vehicle procurement regulations by:

A. Determining whether the manufacturers of the vehicles it purchases are subject to Disadvantaged Business Enterprises federal requirements.

B. Confirming the vehicle manufacturers have been approved by the Federal Transit Administration, if applicable.

Views of Responsible Officials and Corrective Action Plans: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see Corrective Action Plan starting on page D-1.

Corrective Action Plan

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OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

March 21, 2018

RECEIVED
MAR 22 2018
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena MT 59620-1705

Re: Corrective Action Plan
Montana Single Audit Report #16-02
For the Two Fiscal Years Ended June 30, 2017

Dear Mr. Maciver:

In accordance with Uniform Guidance requirements, the state of Montana is responsible for follow-up and corrective action on all audit findings identified in the Montana Single Audit Report. As part of this responsibility, the state is required to prepare a corrective action plan to address each financial or federal audit finding included in this report. The Office of Budget and Program Planning compiles this information on behalf of the state and oversees the implementation status of these audit findings.

Attached is the State of Montana's Corrective Action Plan for the two fiscal years ended June 30, 2017. This summary document, which was prepared by each agency or university with a finding in this report, provides the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date. As you can see from the attached summary, the corrective actions for most of the findings identified have either been already completed or will be finalized within the next few months. The exception is those findings requiring legislation or related to agency review processes that are updated on an annual basis.

Sincerely,

Dan Villa
Budget Director

cc: Sonia Powell, Single Audit Coordinator

TELEPHONE: (406) 444-3616 FAX: (406) 444-4670

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2017-1	Various	**Amortization of Certain Retirement Systems** - After working closely with plan stakeholders throughout the legislative interim, the Montana Public Employees' Retirement Administration (MPERA) introduced House Bill 136 during the 65th Legislative Session to increase the funding status and overall actuarial soundness of the Game Wardens' and Peace Officers' Retirement System (GWPORS). The provisions of the bill would have increased contributions for GWPORS employees by .44% and for GWPORS employers by 2%. As noted in the fiscal note accompanying the bill, such an increase would have brought the amortization period of the system below 30 years. On March 30, 2017, the bill passed the House by a vote of 55 to 45 but was eventually voted down by the Senate Finance and Claims Committee on April 12, 2017 and failed to become law. As required by law, MPERA will continue to work with plan stakeholders during the legislative interim and will again be proposing a separate funding bill for GWPORS during the 66th Legislature's 2019 Session. The purpose of this bill will be to increase the funding status of the GWPORS system in order to improve the actuarial soundness of the plan and to decrease the plan's amortization period. Sheriffs' Retirement System - After working closely with plan stakeholders throughout the legislative interim, MPERA, with the support of plan stakeholders, introduced House Bill 383 during the 65th Legislative Session to increase the funding status and overall actuarial soundness of the Sheriffs' Retirement System (SRS). This bill was formally passed by the Montana Legislature on April 20, 2017 and was signed into law by Governor Bullock on May 4, 2017. With an effective date of July 1, 2017, the bill increased contributions for SRS employees by 1.25% and for SRS employers by 3%. As reflected in the June 30, 2017 actuarial valuation of SRS, due to the successful implementation of this legislation, the SRS system now amortizes in 25 years. DCRP Disability OPEB Funding - On April 4, 2016, the Public Employees' Retirement Board and the Montana Board of Investments entered into a separate contract with Blackrock Institutional Trust Company N.A. to manage and diversify the investment asset allocation of the DCRP Disability OPEB plan into longer-term asset classes with higher rates of return in order to get this plan under the 30 years of amortization. As reflected in the June 30, 2017 actuarial valuation, the number of years to amortize the unfunded actuarial liability decreased to 19 years from not amortizing at June 30, 2016. The funded status of the plan increased to 87.14% from 86.83% at June 30, 2017.	Dore Schwinden, Executive Director Public Employees' Retirement Administration	Ongoing
		Highway Patrol Officers' Retirement System - As required by Mont. Code Ann. § 19-2-405(5), MPERA's actuary, Cavanaugh Macdonald Consulting LLC, conducted an actuarial experience study for the six-year period ending June 30, 2016. On May 11, 2017, the Public Employees' Retirement Board adopted the actuarial assumption changes recommended in this experience study. These assumption changes, which included lowering the actuarial assumed rate of return for defined benefit systems, had the net result of increasing the actuarial accrued unfunded liability of the Highway Patrol Officers' Retirement System (HPORS), and in turn, the period necessary to amortize this liability from 28 to 37 years. Due to this funding status change, and as required by law, MPERA will be working with HPORS plan stakeholders during the legislative interim to propose a separate funding bill for HPORS during the 66th Legislature's 2019 Session. The purpose of this bill will be to increase the funding status of HPORS in order to improve the actuarial soundness of the plan and to decrease the plan's amortization period.		
2017-2	Various	**Financial Statement Reporting Errors** - The Board of Investments will do the following: 1) Update existing procedures to comply with the latest accounting standards as established by the Governmental Accounting Standards Board where needed; 2) Where the board now uses a different presentation format from the previous year, the board will establish and document procedures in preparing and reviewing the Unified Investment Program financial statements; 3) The board will adhere to a specific work flow requirement to include an independent review by staff knowledgeable with program operations and generally accepted accounting practices; 4) At least annually, staff will update the board on quality control in preparing our financial statements and footnotes; and 5) No later than June 29, 2018, the board will submit a report to the Legislative Auditor addressing this matter.	David Ewer, Executive Director Montana Board of Investments	6/30/2018
2017-001	10.665	**Subrecipient Monitoring Procedures** - The department has implemented internal controls so that an annual risk assessment is performed. In addition, the department has conducted during-the-award interviews with three counties chosen based on the annual risk assessment. The department has developed procedures to monitor county audit submissions and complete timely management decisions.	Mark Bruno, Financial Manager Director's Office of Finance and Budget Department of Administration	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2017-002	Various	**Cash Management Improvement Act** - The department updated the template used by agencies for the interest calculation. Completed spreadsheets were submitted by agencies, and reviewed by the department, prior to completing the fiscal year 2017 Annual Report.	Cheryl Grey, Administrator State Financial Services Division Department of Administration	Completed
2017-003	17.225	**Treasury State Agreement** - As of July 2017, new procedures have been implemented by the Department of Labor and Industry to insure that the Cash Management Improvement Act spreadsheet received annually from the Department of Administration is correct and in accordance with the Treasury State Agreement established by the federal government.	Brenda Nordlund, Administrator Unemployment Insurance Division Department of Labor and Industry	Completed
2017-004	17.225	**Overpayment Detection and Recovery Activities Report Validation** - The Department of Labor and Industry was able to successfully update the Overpayment Detection and Recovery Activities report (ETA 227) coding into the Montana Integrated System to Improve Customer Service. The ETA 227 report was successfully updated as of 08/02/17.	Brenda Nordlund, Administrator Unemployment Insurance Division Department of Labor and Industry	Completed
2017-005	10.553 10.555 10.556 10.559 84.010 84.027 84.173	**Treasury-State Agreement** - The Office of Public Instruction partially concurs with this recommendation. During the Treasury State Agreement (TSA) process in March 2018, the office will work with the Department of Administration to verify its understanding is accurate, and if not, language in the TSA will be updated as applicable.	Jay Phillips, Administrator Centralized Services Division Office of Public Instruction	3/30/2018
2017-006	84.010	**State Assessments** - The Office of Public Instruction will include all assessments, including the American College Testing, in the security procedures beginning with the spring 2018 assessment process. The office will also confer with the U.S. Department of Education to determine control procedures that would be acceptable with respect to fulfilling the state's responsibility to monitor the assessment security process. At that point, procedures will be developed and implemented.	Jessica Eilertson, State Assessment Director State Assessment Division Office of Public Instruction	12/31/2018
2017-007	84.007 84.033 84.038 84.063 84.268 84.379 93.264 93.342 93.364	**Direct Loan and Pell Grant Programs** - Effective early in fiscal year 2017, the University of Montana - Missoula's Business Services personnel refined their cash monitoring procedures for Direct Loan and Pell Grant programs to ensure funds were returned in a timely manner.	Tara Scott, Financial Manager Business Services University of Montana - Missoula	Completed
2017-008	84.007 84.033 84.038 84.063 84.268 84.379 93.264 93.342 93.364	**Banner Security** - The University of Montana - Missoula's management determined that the manual process utilized for their annual review had become too labor intensive and cumbersome. In fiscal year 2017, personnel developed an automated process, and final testing has been completed. The annual security audit occurs in the fall of the preceding fiscal year, so the fiscal year 2017 review was completed in fall 2017.	Karen Moore, Banner Coordinator University of Montana - Missoula	Completed
2017-009	20.205 20.219	**Cash Management Improvement Act** - During the period under audit, the Department of Fish, Wildlife & Parks' Recreational Trails Program endured several programmatic changes. One of these changes was related to cash management and draw techniques. Some of these duties were being performed within the Parks Division, rather than the Administration Division, which resulted in temporary discrepancies within the accounting records. The Administration Division took over these procedures in January 2017 and will continue to develop strong internal controls surrounding cash management. The division now reconciles and requests cash as needed in this fund monthly and will continue to improve the cash management process.	Jennifer Thompson, Accounting Bureau Chief Administration Division Department of Fish, Wildlife & Parks	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2017-010	20.205 20.219	**Subrecipient Monitoring Procedures** - As noted within the discussion of the finding, the Department of Fish, Wildlife & Parks identified the need to establish internal controls and adhere to compliance requirements surrounding subrecipient monitoring. In January 2017, the department hired a grants and contracts coordinator and has implemented procedures and internal controls to bring the department into compliance with the majority of the federal subrecipient monitoring requirements for the Recreational Trails Program going forward. The department will develop controls and documentation regarding the federal requirements associated with subrecipient audits.	Adam Brooks Federal Aid and Compliance Bureau Chief Administration Division Department of Fish, Wildlife & Parks	8/31/2018
2017-011	97.042 97.047 97.067	**Subgrantee Reimbursements** - The Department of Military Affairs improved internal controls over the grant reimbursement process in the Disaster and Emergency Services Division to ensure the expenditures are allowable under the grant awards.	Delila Bruno DES Administrator Department of Military Affairs	Completed
2017-012	14.871	**Treasury State Agreement** - The Department of Commerce's Housing Division worked with the Department of Administration to amend the Treasury State Agreement.	Bruce Brensdal, Administrator Housing Division Montana Department of Commerce	Completed
2017-013	14.871	**Sole Source Procurement** - A formal sole source justification was completed by the Department of Commerce's Housing Division in fiscal year 2017. Going forward, on an annual basis, the division's Housing Bureau staff will verify and document that the current Section 8 Housing Choice Vouchers' field service contractors are the only available providers. At the end of each seven-year contract period, formal sole source justifications will be completed before entering into new contracts.	Bruce Brensdal, Administrator Housing Division Montana Department of Commerce	Completed
2017-014	10.557 93.558 93.667 93.767 93.775 93.777 93.778	**Cost Allocation Plan** - The department has reviewed all cost pools for alignment with the cost allocation plan and compliance with indirect cost limitations. Areas of the cost allocation plan that need to be updated to align with departmental procedures have been identified and will be submitted for approval. New procedures to ensure the cost allocation plan is reviewed regularly, and updated timely, have been implemented. The revised cost allocation plan is in the final review cycles and will be submitted by 03/30/2018 to the U.S. Department of Health and Human Services.	David Crowson, Administrator Business and Financial Services Division Department of Public Health and Human Services	3/31/2018
2017-015	93.558 93.568 93.575 93.596 93.658 93.659	**Cash Management Improvement Act** - The Department of Public Health and Human Services has updated procedures detailing the Cash Management Improvement Act (CMIA) cash spreadsheet and cash reimbursement requests and will ensure staff who prepare the CMIA reconciliations are properly trained. Training specific to CMIA cash management will be added, and any changes to CMIA requirements will be incorporated into ongoing training of existing staff. The department is currently complying with the Treasury State Agreement, as required by federal regulations, for the Low Income Home Energy Assistance Program.	David Crowson, Administrator Business and Financial Services Division Department of Public Health and Human Services	3/31/2018
2017-016	93.775 93.777 93.778	**Provider Agreements and Disclosures** - The Department of Public Health and Human Services is in compliance with federal regulations specific to provider agreements and disclosures.	Marie Matthews, Branch Manager Medicaid and Health Services Department of Public Health and Human Services	Completed
2017-017	93.775 93.777 93.778	**Medicaid Fraud Control Unit Referrals** - The Department of Public Health and Human Services has conferred with the Medicaid Fraud Control Unit (MFCU) and reviewed federal regulations. The department has revised the current agreement with MFCU, and current processes and documentation requirements, to ensure cases of suspected provider fraud are being referred and documented in accordance with the federal regulations.	Erica Johnston, Branch Manager Operations Services Department of Public Health and Human Services	Completed
2017-018	93.775 93.777 93.778	**CMS-64 Reporting** - The Department of Public Health and Human Services has implemented internal control procedures for the accurate reporting of the CMS-64 and has had several successful reporting cycles since implementation. Staff responsible for completing the CMS-64 will be cross-trained on all aspects of the report to ensure ongoing, timely, and accurate CMS-64 reporting.	David Crowson, Administrator Business and Financial Services Division Department of Public Health and Human Services	Completed
2017-019	93.775 93.777 93.778	**Automated Data Processing Reviews** - The Department of Public Health and Human Services will modify procedures and internal controls to ensure documentation supporting Automated Data Processing reviews contains all the necessary information. A revised quality assurance review process has been implemented to ensure security controls are completed. The revised bi-annual assessment list will be compiled and completed by December 31, 2017, as part of the 2018 security assessment work plan.	Stuart Fuller, Chief Information Officer Technology Services Division Department of Public Health and Human Services	6/30/2019

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2017-020	10.557	**Food Instruments and Cash-Value Vouchers** - The Special Supplemental Nutrition Program for Women, Infants, and Children's (WIC) electronic benefit transfer (EBT) has been implemented by the Department of Public Health and Human Services. The new EBT system will allow WIC to monitor and prevent the issues identified through the audit.	Todd Harwell, Administrator Public Health and Safety Division Department of Public Health and Human Services	Completed
2017-021	10.557	**Disposition of WIC Benefits** - The Special Supplemental Nutrition Program for Women, Infants, and Children's (WIC) electronic benefit transfer (EBT) has been implemented by the Department of Public Health and Human Services. The new EBT system will allow WIC to monitor and prevent the issues identified through the audit.	Todd Harwell, Administrator Public Health and Safety Division Department of Public Health and Human Services	Completed
2017-022	93.575 93.596	**Child Care Overpayments** - The Department of Public Health and Human Services has updated business processes to include coordination between programs. Additional training will occur for staff and eligibility contractors to inform them of business processes and standards to ensure referral of overpayments for timely recovery.	David Crowson, Administrator Business and Financial Services Division Department of Public Health and Human Services	Completed
2017-023	93.558	**Income Information Comparison** - The business process is in place at the Department of Public Health and Human Services to process the file from the Internal Revenue Service once received. The department process is to check in with the Technology Services Division to determine if any data has been received to date, and none has at this time from the Internal Revenue Service.	Jamie Palagi, Administrator Human and Community Services Division Department of Public Health and Human Services	Completed
2017-024	93.558	**Health Care Provider Services** - The Department of Public Health and Human Services does not concur with this recommendation. The department is following state procurement law with regard to the purchase of these services. The Montana Procurement Act specifically exempts the services of "health care providers," such as those whose services were obtained (Section 18-4-132(3)(f)(ii), MCA).	Erica Johnston, Branch Manager Operations Services Department of Public Health and Human Services	N/A
2017-025	84.126	**Administrative Leave** - The Department of Public Health and Human Services does not concur with this recommendation. Federal regulations allow for allocation of these costs, including periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, and administrative leave. The department contends that administrative leave is a normal and reasonable charge, and that these questioned costs are appropriately recorded and allocated through the Public Assistance Cost Allocation Plan. While other departmental staff has been assigned the responsibility and oversight formerly provided by the two staff in question, the federal grant is not being dually charged for this temporary reassignment of duties.	Erica Johnston, Branch Manager Operations Services Department of Public Health and Human Services	N/A
2017-026	93.268	**Federal Indirect Costs** - The Department of Public Health and Human Services has reviewed all cost pools for alignment with the cost allocation plan and compliance with indirect cost limitations. Areas of the cost allocation plan that need to be updated to align with departmental procedures have been identified and will be submitted for approval. New procedures to ensure the cost allocation plan is reviewed regularly, and updated timely, have been implemented. The revised cost allocation plan is in the final review cycles and will be submitted by 03/30/2018 to the U.S. Department of Health and Human Services.	David Crowson, Administrator Business and Financial Services Division Department of Public Health and Human Services	3/31/2018

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2017-027	20.205 20.219	**Construction Contract Amendments** - The Montana Department of Transportation (MDT) partially concurs with this audit recommendation. MDT does not concur with part A of the recommendation due to the fact that we adjust the contract in accordance with 23 CFR 635.109 and MDT standard specification 109.03 to document the actual incorporated quantities accepted on the project. 23 CFR 635.109 (3) (ii) states, "If the alterations or changes in quantities significantly change the character of work under the contract…. an adjustment will be made to the contract." Based on the department's interpretation, we believe the federal regulations and the MDT spec book do not require an amendment to the contract for the adjusted quantities. MDT interprets the specification as a two-step process. The first step is identifying if a significant change in quantities has occurred. When a significant change in quantities has occurred (as defined by the specification, 25% change for major items and 50% change for non-major items), then the second step is to determine if there has been a significant change in the character of work. The term "character of work" refers to the contractor's means and methods for completing the activity. If the character of work significantly changes from the original bid plan, then they are due a price adjustment (which can be positive or negative). If it is determined that the character of work has been changed due to the increased/decreased quantities, a change order is initiated and the unit price is adjusted for the quantity greater than 25% (major item) or 50% (non-major item) or the entire quantity if it has decreased by the appropriate percentage. The audit finding reference to the federal regulations and MDT's spec book is not accurate, as both only reference "significant change" and do not include the wording "in the character of work." MDT is recognizing the potential for other interpretations of the specification and will work with MDT Legal, the Federal Highway Administration, and the Montana Contractors' Association to look at potential revisions to the specification.	Dwane Kailey, Administrator, Highways and Engineering Division Montana Department of Transportation	12/31/2018
2017-028	20.205 20.219	**Certified Payrolls** - It is the responsibility of the contractors to submit certified weekly payrolls to the department when working on a Montana Department of Transportation (MDT) construction project. The department's internal control is that the Engineering Project Managers (EPMs) ensure certified payrolls are received each week for their contracts. The EPMs then submit the payrolls to the contractor compliance specialist for compliance testing. MDT will increase its education of this requirement to contractors, as well as enhance our training to EPMs. Additionally, MDT is in the process of implementing a new module for Site Manager that will allow the contractors to submit the certified payrolls electronically. This will assist in improving compliance. Finally, MDT Audit Services will add a step to review this process as part of their annual Construction Project Audits.	Dwane Kailey, Administrator, Highways and Engineering Division Montana Department of Transportation Vickie Murphy, Audit Manager Audit Services Montana Department of Transportation	12/31/2018
2017-029	20.205 20.219	**Federal Indirect Costs** - The Montana Department of Transportation agrees that some costs that were unallowable were inadvertently left in the calculation of the fiscal year 2016 indirect cost rate. As mentioned in the audit finding, the indirect cost worksheet used to calculate the rate was updated to ensure these costs would be eliminated from future rate calculations. The associated questioned costs are being repaid to the federal government through the carryforward (over/under recovery) amount factored into the fiscal year 2018 indirect cost rate. Per 2 CFR 200, the department is required to compare estimated costs to actual costs once these amounts become known. If the actual costs are greater than estimated, this under-recovery is added to the next rate. If actual costs are less than estimated, this over-recovery is subtracted from the next rate. The department under-recovered indirect costs of approximately $58,000 in fiscal year 2016. The department will ensure only allowable costs, as defined in 2 CFR 200, are included in its indirect cost rate calculation.	Larry Flynn, Administrator Administration Division Montana Department of Transportation	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

Finding #	CFDA #	CAP - Corrective Action Plan	Person Responsible for CAP	Target Date
2017-030	20.509	**National Transit Database Report** - Enhanced internal controls have been implemented by the Montana Department of Transportation (MDT). As of March 2018, MDT Transit has enhanced its internal controls through development of a spreadsheet for tracking vehicles as they are delivered to ensure they are entered into the National Transit Database (NTD) in the appropriate year. In addition, during fiscal year 2016, MDT implemented a new internal process for reporting that identifies the required data on a single spreadsheet, which is pulled from the current grant application system, to ensure complete and accurate data reporting. At this time, capital purchases are being reported accurately in NTD.	Lynn Zanto, Administrator Rail, Transit & Planning Division Montana Department of Transportation	Completed
2017-031	20.509	**Transit Vehicle Manufacturer Approval** - The Montana Department of Transportation will add a step to its procurement process to confirm a Transit Vehicle Manufacturer (TVM) has been approved by the Federal Transit Authority (FTA). The department will adopt the process outlined in the FTA's Best Practices Procurement Manual, and prior to contract award, will confirm a TVM's certification by checking the list published on the FTA's website. If the TVM is not listed online, the department will contact the FTA for confirmation of the TVM's eligibility. The department will withhold award until confirmation is received and will document this confirmation step.	Larry Flynn, Administrator Administration Division Montana Department of Transportation Lynn Zanto, Administrator Rail, Transit & Planning Division Montana Department of Transportation	6/30/2018

Summary Schedule of Prior Audit Findings

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OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

March 21, 2018

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena MT 59620-1705

Re: Summary Schedule of Prior Audit Findings
Montana Single Audit Report #16-02
For the Two Fiscal Years Ended June 30, 2017

Dear Mr. Maciver:

In accordance with Uniform Guidance requirements, the state of Montana is responsible for follow-up and corrective action on all audit findings identified in the Montana Single Audit Report. As part of this responsibility, the state is required to prepare a summary schedule reporting the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards. The Office of Budget and Program Planning compiles this information on behalf of the state and oversees the implementation status of these audit findings.

Attached is the State of Montana's Summary Schedule of Prior Audit Findings for the two fiscal years ended June 30, 2017. This summary identifies the implementation status of all prior audit findings, except for those findings that have been fully corrected, are no longer valid, or do not warrant further action on the part of the state.

Sincerely,

Dan Villa
Budget Director

cc: Sonia Powell, Single Audit Coordinator

TELEPHONE: (406) 444-3616 FAX: (406) 444-4670

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various Federal Agencies - Financial Statement Findings							
Various	Various Federal Agencies	1-2 2013-2 2015-2	Actuarial soundness of the Public Employees' Retirement System.	None	2	2006-07	Discussed as part of Finding 2017-1.
Various	Various Federal Agencies	2013-1 2015-1	Insufficient controls and documentation over Comprehensive Annual Financial Report procedures.	None	1	2012-13	This audit finding was fully implemented as of fiscal year 2015.
Various	Various Federal Agencies	2015-3	Errors made in calculating the state's Other Post Employment Benefits liability.	None	1	2014-15	This audit finding was fully implemented as of fiscal year 2015.
Various Federal Agencies - Federal Compliance Findings							
Various	Various	2015-007	Insufficient documentation of fiscal manager grant transaction reviews.	None	1	2014-15	This prior audit finding was fully implemented.
Various	Various	2015-015	Lack of documentation for quarterly grant expenditure review.	None	1	2014-15	This prior audit finding was fully implemented.
Environmental Protection Agency							
66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds Capitalization Grants for Drinking Water State Revolving Funds	2015-002	Noncompliance with Federal Funding Accountability and Transparency Act reporting requirements.	None	1	2014-15	This prior audit finding was fully implemented.

Category of Corrective Action Taken

1 - Finding has been fully corrected. 2 - Finding has not been corrected or partially corrected.

3 - Corrective action taken is significantly different than reported. 4 - Finding is no longer valid.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
U.S. Department of Agriculture							
10.555	National School Lunch Program	2013-012	Lack of oversight and insufficient documentation for Local Education Agency audits.	None	1	2012-13	This prior audit finding was fully implemented.
10.665	Schools and Roads - Grants to States	2015-001	Insufficient subrecipient monitoring procedures.	None	2	2014-15	Discussed as part of Finding 2017-001.
10.551 10.561	SNAP Cluster	2015-010	Noncompliance with federal Supplemental Nutrition Assistance Program reporting requirements.	None	1	2014-15	This prior audit finding was fully implemented.
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2015-013	Noncompliance with Federal Funding Accountability and Transparency Act requirements.	None	1	2014-15	This prior audit finding was fully implemented.
10.555	National School Lunch Program	2015-027	Noncompliance with federal Cash Management Improvement Act requirements.	None	2	2014-15	Discussed as part of Finding 2017-005.
U.S. Department of Education							
84.010 84.027 84.367	Title 1 Grants to Local Education Agencies Special Education - Grants to States	2013-012	Lack of oversight and insufficient documentation for Local Education Agency audits.	None	1	2012-13	This prior audit finding was fully implemented.

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
84.027 84.173 84.391 84.392	Special Education Cluster (IDEA)	2013-013	Lack of controls over inclusion of consolidations in allocation calculations.	$10,794	1	2012-13	This prior audit finding was fully implemented.
84.367	Improving Teacher Quality State Grants	2013-014	Errors in allocation calculations.	Less than $10,000	1	2012-13	This prior audit finding was fully implemented.
84.007 84.033 84.038 84.063 84.268	Federal Supplemental Educational Opportunity Federal Work-Study Program Federal Perkins Loan - Federal Capital Contributions Federal Pell Grant Program Federal Direct Student Loans	2015-003	Return of Title IV program funds not completed within federally-prescribed time frames.	None	1	2014-15	This prior audit finding was fully implemented.
84.268	Federal Direct Student Loans	2015-004	Noncompliance with federal direct loan data file reconciliation requirements.	None	1	2014-15	This prior audit finding was fully implemented.
84.063 84.268 84.038	Federal Pell Grant Program Federal Direct Student Loans Federal Perkins Loan - Federal Capital Contributions	2015-005	Insufficient controls to ensure exit packages and grace period notices were provided to all students.	None	1	2014-15	This prior audit finding was fully implemented.
84.038	Federal Perkins Loan - Federal Capital Contributions	2015-006	Untimely enrollment reporting and noncompliance with federal loan exit counseling requirements.	None	1	2014-15	This prior audit finding was fully implemented.
84.038	Federal Perkins Loan - Federal Capital Contributions	2015-017	Insufficient controls to ensure exit packages and grace period notices were provided to all students.	None	1	2014-15	This prior audit finding was fully implemented.

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
84.063 84.268	Federal Pell Grant Program, Federal Direct Student Loans	2015-018	Insufficient procedures to identify and resolve unsubstantiated student loan balances.	None	1	2014-15	This prior audit finding was fully implemented.
84.010 84.027 84.367	Title 1 Grants to Local Education Agencies Special Education - Grants to States (IDEA, Part B) Improving Teacher Quality State Grants	2015-023	Misallocations in Maintenance of Effort calculations.	None	1	2014-15	This prior audit finding was fully implemented.
84.268	Federal Direct Student Loans	2015-024	Noncompliance with federal direct loan data file reconciliation requirements.	None	1	2014-15	This prior audit finding was fully implemented.
84.010 84.027	Title 1 Grants to Local Education Agencies Special Education - Grants to States (IDEA, Part B)	2015-027	Noncompliance with federal Cash Management Improvement Act requirements.	None	2	2014-15	Discussed as part of Finding 2017-005.
U.S. Department of Health and Human Services							
93.558 93.714 93.716	Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund for TANF (ARRA) TANF Supplemental Grants (ARRA)	2-14 2015-011	Insufficient review of TANF eligibility information resulting in benefit overpayments.	Less than $10,000 $326,410	1	2010-11	This prior audit finding was fully implemented.
93.778 93.767	Medical Assistance Program Children's Health Insurance Program (CHIP)	2-20	Controls not adequate to identify suspended or debarred contractors.		1	2010-11	This prior audit finding was fully implemented.
93.558	Temporary Assistance for Needy Families (TANF)	2013-005 2015-011	Noncompliance with federal reimbursement requirements for unallowable expenditures.	$166,198 $326,410	1	2012-13	This prior audit finding was fully implemented.

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.775 93.777 93.778 93.767	Medicaid Cluster Children's Health Insurance Program	2015-008	Insufficient controls over completeness and accuracy of CMS-64 reports.	None	2	2014-15	Discussed as part of Finding 2017-018.
93.775 93.777 93.778 93.767	Medicaid Cluster Children's Health Insurance Program	2015-009	Noncompliance with federal Cash Management Improvement Act procedures.	None	1	2014-15	This prior audit finding was fully implemented.
93.775 93.777 93.778	Medicaid Cluster	2015-012	Noncompliance with federal risk analyses and Automated Data Processing systems reviews.	None	2	2014-15	Discussed as part of Finding 2017-019.
93.568 93.575 93.596 93.658 93.959	Low-Income Home Energy Assistance CCDF Cluster Foster Care - Title IV-E Block Grants for Prevention and Treatment of Substance Abuse	2015-013	Noncompliance with Federal Funding Accountability and Transparency Act requirements.	None	1	2014-15	This prior audit finding was fully implemented.
93.658	Foster Care - Title VI-E	2015-014	Noncompliance with federal subrecipient monitoring requirements.	None	2	2014-15	This prior audit finding was partially implemented. Because the department intends to include the required subrecipient language in their fiscal year 2018 agreements, no further recommendation is being made at this time.
93.859	Biomedical Research and Training	2015-016	Unallowable equipment purchase.	$48,997	1	2014-15	This prior audit finding was fully implemented.

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2017

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.558	Temporary Assistance for Needy Families	2015-026	Improvements needed in department's Combined Healthcare Information and Montana Eligibility System's - Enterprise Architecture to ensure accuracy of eligibility determinations and benefit payments.	None	2	2014-15	This prior audit finding was partially implemented. Because the department continues to make improvements, no further recommendation is being made at this time.
U.S. Department of Housing and Urban Development							
14.871	Section 8 Housing Choice Vouchers	2015-019	Payments made to ineligible recipients.	$63,664	1	2014-15	This prior audit finding was fully implemented.
14.871	Section 8 Housing Choice Vouchers	2015-020	Noncompliance with federal Cash Management Improvement Act requirements.	None	2	2014-15	Discussed as part of Finding 2017-012.
U.S. Department of Labor							
17.225	Unemployment Insurance	2015-025	Noncompliance with federal data validation requirements for Overpayment Detection and Recovery Activities report.	None	2	2014-15	Discussed as part of Finding 2017-004.
U.S. Department of Transportation							
20.205 20.509	Highway Planning and Construction Formula Grants for Rural Areas	2015-021	Noncompliance with Federal Funding Accountability and Transparency Act reporting requirements.	None	2	2014-15	This prior audit finding was partially implemented. Because the department has implemented procedures, and reported timely, in fiscal year 2018, no further recommendation is being made at this time.
20.509	Formula Grants for Rural Areas	2015-022	Noncompliance with federal equipment sale proceeds requirements.	None	1	2014-15	This prior audit finding was fully implemented.

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