



A REPORT
TO THE
MONTANA
LEGISLATURE

FEDERAL SINGLE AUDIT

Montana Single Audit Report

*For the Two Fiscal Years Ended
June 30, 2021*

JUNE 2022

LEGISLATIVE AUDIT
DIVISION

20-02

FEDERAL SINGLE AUDIT

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

Government Auditing Standards, the Single Audit Act Amendments of 1996, and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports. This 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 and many staff members hold Certified Public Accountant (CPA) certificates.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

June 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report for the state of Montana for the two fiscal years ended June 30, 2021. 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, 2021 (page A- 5), and June 30, 2020 (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-17 through C-194). The Independent Auditor's Reports on pages A-1 and B-1 summarize instances of material noncompliance and control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 also identifies compliance issues which resulted in opinion modifications for various federal programs the state administered.

Management at administering agencies have responded to the audit findings, and the responses are included in each finding and in the Corrective Action Plan compiled by the Governor's Office of Budget and Program Planning (beginning on page D-1). The status of findings reported in previous 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). This schedule 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

Montana Single Audit Report

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

BACKGROUND

Montana's Federal Single Audit is a biennial audit that completes the audit and reporting requirements of the Single Audit Act of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The federal government provides extensive requirements for recipients of federal grants. Our audits of each state agency include determining the effectiveness of internal controls over compliance, and compliance with, these requirements when the federal grant is determined to be a major federal program under federal audit guidelines.

For the current audit period, programs with expenditures totaling at least \$30 million during the two fiscal years ended June 30, 2021, that were not determined to be low risk were identified as major federal programs. Additionally, we identified one high-risk program with expenditures under this threshold for testing. We tested 24 programs for the biennium, administered by 12 state agencies.

The state of Montana reported approximately \$11.5 billion in federal funds for fiscal years 2020 and 2021. This is an increase over the prior biennium of approximately \$3.6 billion, or 46 percent, primarily attributed to funds provided in response to the COVID-19 public health emergency. Multiple state agencies expended these funds, including approximately \$1.23 billion from the Coronavirus Relief Fund, \$1.07 billion in extended Unemployment Insurance benefits, and \$106.71 million from the Education Stabilization Relief Fund. Our report includes 76 recommendations to the state of Montana and has approximately \$5.4 million of known questioned costs.

Federal grantor agencies are the primary users of the Single Audit report, and the form of this report is designed to meet their oversight needs. Legislators and other users may also find the report useful. In particular, the Schedules of Expenditures of Federal Awards for fiscal years 2021 and 2020, included in this report, provide an overview of the state's federal grant activity by federal awarding agency and assistance number. The report also contains the state's basic financial statements (BFS) for fiscal years 2021 and 2020, along with our office's related opinions on these documents in the #20-01A State of Montana and #20-01B State of Montana audit reports.

Federal audit regulations require the Single Audit to report whether each major federal program complied with selected federal requirements and to include information on known and likely questioned costs identified over \$25,000 for each program. We identified and have reported known questioned costs of approximately \$5.4 million, with additional likely questioned costs over \$3.1 million reported. Federal audit regulations also define varying levels of deficiencies in internal controls and require us to report on significant deficiencies and material weaknesses in internal controls. Table 1 on the following page illustrates the programs we audited and the opinion we issued on them, as well as provides information on the reportable deficiencies in internal control identified through our work.

For the current audit period, we tested 24 programs and issued 76 recommendations to various state agencies and universities. In comparison, for the prior audit period covering the two fiscal years ended June 30, 2019, we tested 23 programs and issued 40 recommendations. The dollar threshold used to identify programs subject to audit, as determined under federal regulations, increased from approximately \$22 million for the

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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two fiscal years ended June 30, 2019, to \$30 million, for the current audit period. This increase directly results from the additional federal funding the state received during the current audit period.

AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE (PAGE C-1):

The table below identifies each of the 24 programs tested, the type of opinion issued over compliance for each, and whether our audit procedures identified material weaknesses or significant deficiencies over compliance. For the full context of the information in the table, see the report beginning on page C-1.

Table 1

Summary of Audit Results for Each Tested Federal Program

For the Two Fiscal Years Ended June 30, 2021

Program Name	Compliance Opinion Rendered	Number and Type of Control Deficiencies Identified	
		Significant Deficiency	Material Weakness
Medicaid Cluster *	Qualified	0	4
Highway Planning and Construction Cluster	Qualified	0	1
Clean Water State Revolving Fund Cluster	Unmodified	0	0
Drinking Water State Revolving Fund Cluster	Unmodified	0	0
Student Financial Assistance Programs Cluster *	Qualified	3	8
SNAP Cluster *	Qualified	1	1
Child Nutrition Cluster *	Qualified	1	2
Special Education Cluster (IDEA)	Qualified	1	1
CCDF Cluster *	Qualified	1	2
Research & Development Cluster *	Qualified	0	1
National Guard Military Operations and Maintenance Projects (O&M)	Unmodified	1	0
Unemployment Insurance *	Qualified	2	2
Formula Grants for Rural Areas *	Qualified	3	0
Coronavirus Relief Fund *	Qualified	2	4
Title I Grants to Local Educational Agencies	Qualified	0	4
Education Stabilization Fund *	Qualified	0	5
Epidemiology *	Adverse	0	5
Temporary Assistance to Needy Families	Qualified	2	3
Low Income Home Energy Assistance Program *	Unmodified	1	0
Foster Care - Title IV-E	Adverse	0	5
Children's Health Insurance Program *	Qualified	1	4
Disaster Grants - Public Assistance *	Qualified	1	0
Presidentially Declared Disaster Assistance to Individuals and Households - Other Needs *	Unmodified	0	1
Emergency Rental Assistance Program *	Unmodified	0	0

SOURCE: Compiled by Legislative Audit Division.

* Received funding in response to the COVID-19 public health emergency.

FY21 FINANCIAL SECTION

FY21 FINANCIAL SECTION

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LEGISLATIVE AUDIT DIVISION

A-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 2021, 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 March 4, 2022. 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 as a basis for designing 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 deficiencies described below to be material weaknesses.

- ◆ The Department of Labor and Industry's (DLI) internal controls over financial reporting were not sufficient to detect and correct misstatements in relation to its Unemployment Insurance activity prior to the books closing at fiscal year-end resulting in several multimillion-dollar misstatements in the DLI's accounting records in fiscal year 2021. This deficiency affects the Business Type Activities Opinion Unit and the Unemployment Insurance opinion unit.
- ◆ Department of Administration State Financial Services Division's (SFSD) procedures for preparing the state's basic financial statements did not prevent, or detect and correct, errors in Unemployment Insurance enterprise fund activity. In attempting to correct the errors in the BFS caused by the errors in DLI's accounting records, SFSD personnel duplicated adjustments for Unemployment Insurance fund activity and recorded adjustments at incorrect amounts. Additionally, controls didn't prevent, or detect and correct, errors in amounts reported in the Statement of Cash Flows for the Unemployment Insurance enterprise fund. This deficiency affects the Business Type Activities Opinion Unit and the Unemployment Insurance Fund Opinion Unit.
- ◆ Pandemic-Electronic Benefit Transfer (P-EBT) federal program expenditures were co-mingled with Supplemental Nutrition Assistance Program (SNAP) federal program expenditures in the Department of Public Health and Human Services financial records, resulting in approximately \$27 million of the Pandemic-EBT program expenditures initially reported as SNAP program expenditures on the Schedule of Expenditures of Federal Awards (SEFA). Reporting program expenditures in the incorrect federal assistance listing in the SEFA increases the risk of improper identification of major federal programs requiring audit attention under the Single Audit Act of 1996 and Uniform Guidance.

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

- ◆ Internal controls over financial reporting at the University of Montana were not effective in ensuring accurately reported capital asset classifications in the university's financial statements and note disclosures. Additionally, Montana State University does not have sufficient internal controls in place to ensure the accuracy of capital asset-related information processed by their asset management information system. Collectively, we consider these issues to be a significant deficiency in internal controls affecting the Component Unit opinion unit.

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 an instance of noncompliance or other matters

that are required to be reported under *Government Auditing Standards*. The identified instance of noncompliance is described below.

- ◆ The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans. The Montana Constitution and state law require all retirement systems to be actuarially sound, meaning the retirement system must amortize in 30 years or less. The actuarial valuation as of June 30, 2021, indicates the Game Wardens' and Peace Officers Retirement System is not actuarially sound, as it amortizes in 35 years.

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 (#20-08B), the University of Montana (#21-10A), and Montana State University (#21-11A) reports, the state of Montana financial audit report (#20-01B), and are addressed in the Corrective Action Plan beginning on page D-1 of this report. The responses in these reports were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

March 4, 2022

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Report on Financial Statements

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, 2021, and the related notes to the financial statements 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 includes the design, implementation, and maintenance of 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 represent 17.29 percent, 32.47 percent, and 10.06 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 control 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. 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
Municipal Finance Programs	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	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 Municipal Finance Programs major funds, and the aggregate discretely presented component units and aggregate remaining fund information of the state of Montana, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1C to the basic financial statements, in fiscal year 2021, the Unemployment Insurance Fund reported federal contributions to fund benefit claims related to the statewide unemployment impact of the coronavirus public health emergency. These federal contributions are reported as non-operating revenues. Additionally, the Federal Special Revenue Fund reports a significant increase in revenue and expenditure activity in fiscal year 2021, as a result of spending funds the state received from the Coronavirus Relief Fund, authorized by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and other federal acts passed in response to the public health emergency. Lastly, the Federal Special Revenue Fund reports significant Cash & Cash Equivalent and Unearned Revenue balances, associated with funds received but not yet spent under the American Rescue Plan Act (ARPA). See Note 17 to the basic financial statements for more information on these ARPA funds. Our opinions are not modified with respect to these matters.

As discussed in Note 6 to the basic financial statements, retirement system investment rates of return were significantly higher in fiscal year 2021 than in fiscal year 2020. The Net Pension Liabilities reported in the basic financial statements at June 30, 2021, were measured as of June 30, 2020, and therefore do not reflect the strong investment performance from fiscal year 2021. The Net Pension Liabilities are expected to decrease for financial reporting in fiscal year 2022. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2022, 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 the effectiveness of the state of Montana's 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

March 4, 2022

**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 Annual Comprehensive Financial Report (ACFR). This is a narrative overview and analysis of the financial activities of the State of Montana for the fiscal year ended June 30, 2021. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

In late 2019, a novel strain of coronavirus ("COVID-19") started to spread throughout the world, including to the United States, resulting in the World Health Organization proclaiming COVID-19 to be a pandemic and the President of the United States declaring a national emergency. In response to the spread of COVID-19, the United States government, state governments (including the State), local governments, and private industries have taken measures to limit social interactions in an effort to limit the spread of COVID-19. In March of 2020, Montana declared a state emergency, and a national emergency was announced in the United States shortly after. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President of the United States on March 27, 2020. On March 11, 2021, the American Rescue Plan Act of 2021 (ARPA) was signed into law to provide additional funding for state and local governments. On June 30, 2021, Montana ended the state emergency. In the following discussion and analysis, COVID-19 refers to this pandemic, CARES refers to the CARES Act funding, and ARPA refers to the American Rescue Plan Act funding.

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 2021 by \$11.0 billion compared with \$10.2 billion at the end of fiscal year 2020, representing a 7.5% increase in net position. Component units reported net position of \$2.5 billion at the end of fiscal year 2021 compared to \$2.2 billion at the end of fiscal year 2020, representing a 13.3% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2021, the State's governmental funds reported combined ending fund balances of \$5.7 billion compared with \$5.0 billion at fiscal year 2020. This represents a \$700.4 million (14.1%) increase in total fund balance. Of the 2021 balance, \$2.0 billion is not in spendable form, primarily as permanent fund principal. Thus, \$3.7 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: \$1.2 billion restricted, \$1.7 billion committed, \$97.6 million assigned, and \$629.1 million unassigned. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2021 in the amount of \$566.7 million compared with fiscal year 2020 net position of \$393.3 million. Of the 2021 business-type activity net position, \$21.4 million was reported as net investment in capital assets. Net position of \$545.3 million was in spendable form with \$24.6 million unrestricted and \$520.7 million restricted to expenditure for a specific purpose. This represents a \$174.0 million (46.9%) increase in spendable net position from the fiscal year 2020 balance of \$371.3 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 increased by \$43.9 million, from \$127.4 million in fiscal year 2020 to \$171.3 million, a 34.5% increase in fiscal year 2021.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements*. These financial statements also include the *notes to the financial statements*, which provide further detail and information related to the balances of the financial statements.

Government-wide Financial Statements

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

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

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

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

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

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

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

The State's component units consist of one financing authority, one housing board, one nonprofit independent public corporation, and two universities.

Fund Financial Statements - Reporting the State's Major Funds

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

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

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year, as reflected in the \$768.5 million increase (7.5%) in net position. This improvement resulted from the continued moderate growth, despite the impacts of COVID-19, particularly in tax, tobacco settlement proceeds, and investment revenue. However, growth is not expected to persevere in fiscal year 2022, as the associated financial and economical affects of the pandemic continued to be realized.

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 \$11.0 billion at the end of fiscal year 2021. Net position of both governmental and business-type activities increased by \$595.1 million (6.1%) and increased by \$173.4 million (44.1%), respectively. These changes are explained in detail in the Financial Analysis of the State's Major Funds section.

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

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

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

Net Position
June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2021	2020	2021	2020	2021
Current and other assets	\$ 7,572,307	\$ 7,849,347	\$ 554,386	\$ 746,786	\$ 8,126,693	\$ 8,596,133
Capital assets	6,823,046	7,067,035	22,052	21,377	6,845,098	7,088,412
Total assets	14,395,353	14,916,382	576,438	768,163	14,971,791	15,684,545
Deferred outflows of resources	613,249	1,031,934	2,423	5,792	615,672	1,037,726
Long-term liabilities						
Due in more than one year	2,707,169	3,535,117	18,302	23,131	2,725,471	3,558,248
Other liabilities	2,251,217	1,823,324	163,594	181,844	2,414,811	2,005,168
Total liabilities	4,958,386	5,358,441	181,896	204,975	5,140,282	5,563,416
Deferred inflows of resources	219,243	163,799	3,645	2,299	222,888	166,098
Net investment in capital assets	6,743,003	6,962,944	22,035	21,360	6,765,038	6,984,304
Restricted	3,452,344	3,574,995	350,309	520,696	3,802,653	4,095,691
Unrestricted	(364,374)	(111,863)	20,976	24,625	(343,398)	(87,238)
Total net position	\$ 9,830,973	\$ 10,426,076	\$ 393,320	\$ 566,681	\$ 10,224,293	\$ 10,992,757

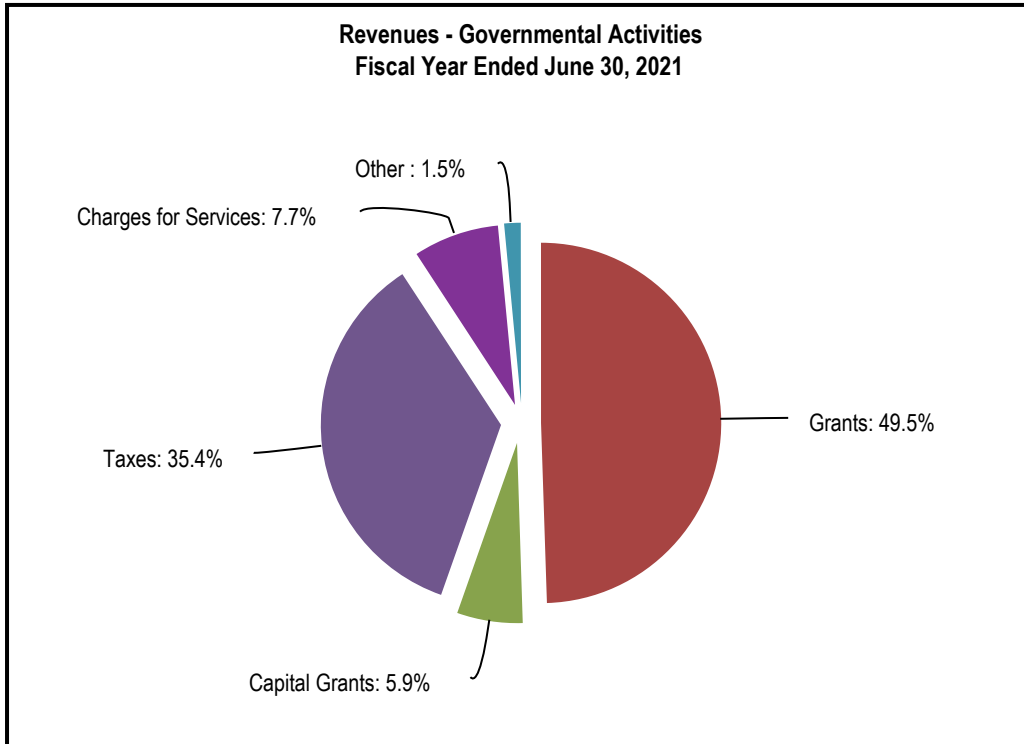
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

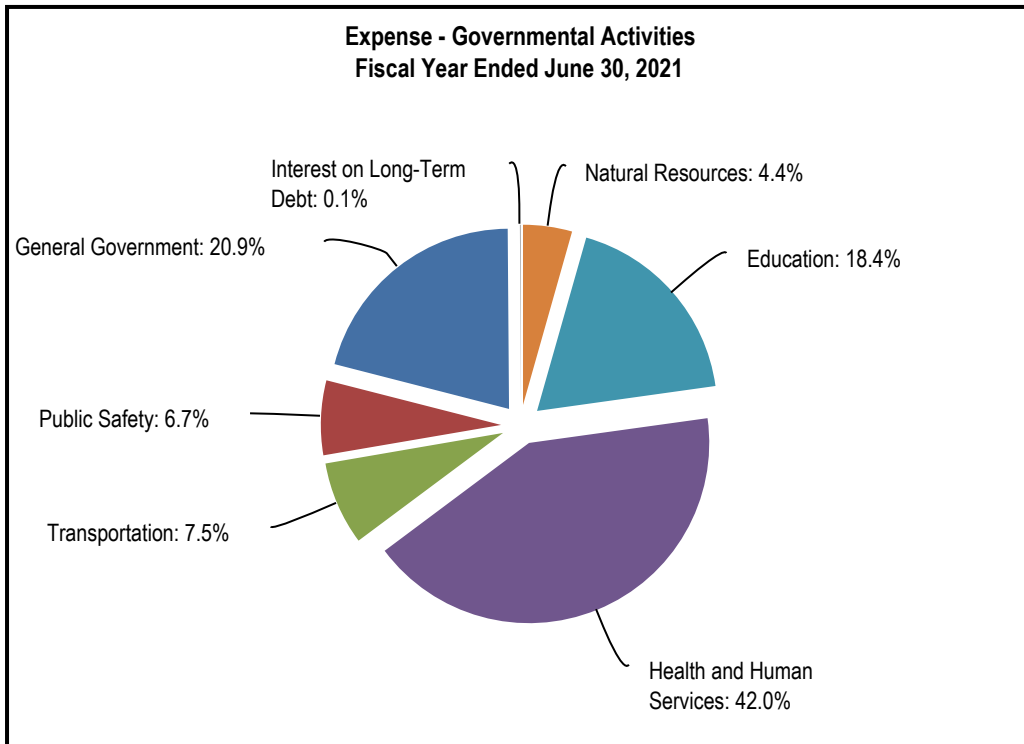
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2020	2021	2020	2021	2020	2021
Revenues:						
Program revenues						
Charges for services	\$ 686,335	\$ 693,875	\$ 443,048	\$ 519,186	\$ 1,129,383	\$ 1,213,061
Operating grants	2,930,307	4,441,208	71,422	68,576	3,001,729	4,509,784
Capital grants	564,431	531,666	950	883	565,381	532,549
General revenues						
Taxes	2,793,211	3,170,440	32,576	38,141	2,825,787	3,208,581
Other	186,194	130,057	504,749	555,820	690,943	685,877
Total revenues	<u>7,160,478</u>	<u>8,967,246</u>	<u>1,052,745</u>	<u>1,182,606</u>	<u>8,213,223</u>	<u>10,149,852</u>
Expenses:						
General government	957,534	1,699,213			957,534	1,699,213
Public safety	458,526	544,839			458,526	544,839
Transportation	557,290	611,537			557,290	611,537
Health and human service	2,896,774	3,418,518			2,896,774	3,418,518
Education	1,352,323	1,492,682			1,352,323	1,492,682
Natural resources	338,957	361,420			338,957	361,420
Interest on long-term debt	5,365	5,026			5,365	5,026
Unemployment Insurance			746,508	728,476	746,508	728,476
Liquor Stores			98,324	120,913	98,324	120,913
State Lottery			51,385	99,353	51,385	99,353
Municipal Finance Programs			2,542	1,602	2,542	1,602
Hail Insurance			1,154	796	1,154	796
Other Services			74,323	81,765	74,323	81,765
Prison Funds			8,506	7,042	8,506	7,042
MUS Group Insurance			100,958	106,068	100,958	106,068
MUS Workers Comp			657	2,852	657	2,852
Total expenses	<u>6,566,769</u>	<u>8,133,235</u>	<u>1,084,357</u>	<u>1,148,867</u>	<u>7,651,126</u>	<u>9,282,102</u>
Increase (decrease) in net position before transfers	593,709	834,011	(31,612)	33,739	562,097	867,750
Transfers	58,703	(138,881)	(58,703)	138,881	—	—
Change in net position	<u>652,412</u>	<u>695,130</u>	<u>(90,315)</u>	<u>172,620</u>	<u>562,097</u>	<u>867,750</u>
Net position, beg of year (as adjusted)	9,178,561	9,730,946	483,635	394,061	9,662,196	10,125,007
Net position, end of year	<u>\$ 9,830,973</u>	<u>\$ 10,426,076</u>	<u>\$ 393,320</u>	<u>\$ 566,681</u>	<u>\$ 10,224,293</u>	<u>\$ 10,992,757</u>

Governmental Activities

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

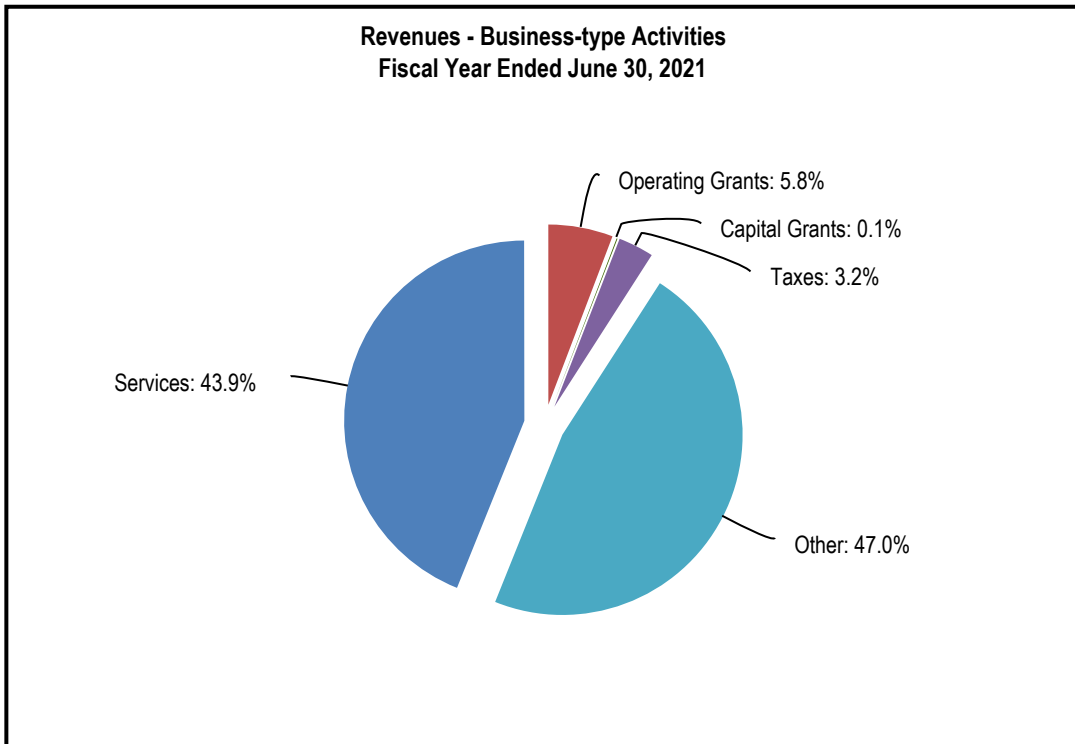


The following chart depicts expenses of the governmental activities for the fiscal year:



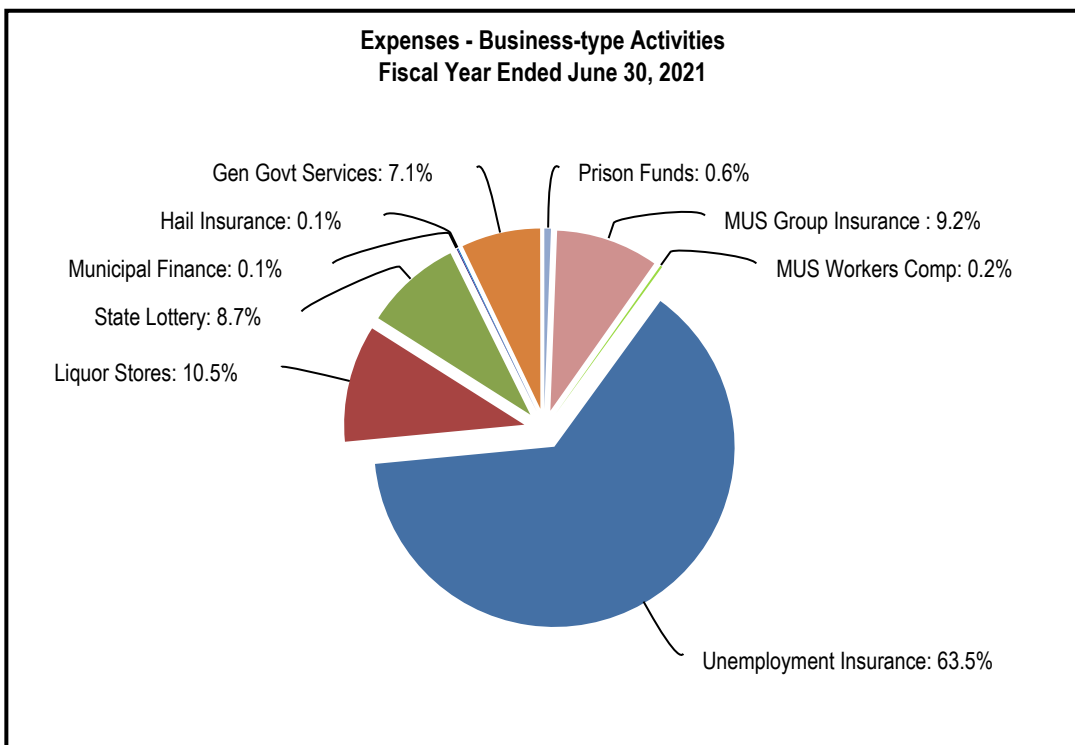
Business-type Activities

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



The Other Revenue in the above table is primarily related to additional federal funding received for Unemployment Insurance claims due to COVID-19.

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 \$5.7 billion. Of this total, \$3.7 billion (65.1%) constitutes spendable fund balance and \$2.0 billion (34.9%) 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 2021, the total fund balance of the General Fund was reported at approximately \$856.3 million. Of this balance, \$5.2 million is non-spendable. The remaining \$851.1 million is spendable with \$114.2 million committed, \$95.4 million assigned, and \$641.5 million unassigned. This spendable fund balance of the General Fund represents 23.1% of the \$3.7 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, \$75.0 million pertains to the projected general fund spend down of fund balance in fiscal year 2022 and \$20.4 million relates to outstanding encumbrances at the end of the fiscal year. The committed fund balance of \$114.2 million relates to the balance of the Budget Stabilization Reserve Fund, which is combined with the General Fund for financial statement presentation. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance increased by \$263.5 million when compared to the previously reported fund balance of \$592.8 million. Changes in both expenditures and revenues are discussed in detail below. The 2021 legislative session projected \$408.6 million of unassigned fund balance for fiscal year 2021, without regard to a fund balance spend down. The difference was primarily the result of a larger than anticipated beginning fund balance and smaller than anticipated expenditures.

General Fund Revenues – Total General Fund revenues were \$2.8 billion for fiscal year 2021 (higher than legislative estimation), a 16.6% increase from the \$2.4 billion reported in 2020 (which were lower than legislative estimation). Fiscal year 2021 tax revenue increased by 18.3% in total over 2020, with corporate income tax collections up 41.3% and individual income tax collections increased by 22.0%. The large tax revenue gains were the result of the strong economic conditions of the state coming out of the COVID-19 restrictions last year. In addition, the large federal spending provisions implemented during fiscal year 2021 were also increasing disposable incomes for individuals, state governments, and businesses. Other noted increases in revenues included charges for services/fines/forfeits/settlements and licenses/permits.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2021 increased by \$47.2 million (2.0%). This increase in expenditures occurred in the general government, transportation, health and human services, education, and natural resources functions and the decrease in expenditures occurred in the public safety function as follows:

- General government expenditures increased by \$13.4 million (3.6%)
- Transportation expenditures increased by \$174.0 thousand
- Health and human services expenditures increased by \$10.1 million (2.1%)
- Education expenditures increased by \$37.0 million (3.4%)
- Natural resources expenditure increased by \$2.0 million (5.4%)
- Public safety expenditures decreased by \$11.3 million (3.5%)

The expenditures in the public safety function decreased because some of the personal services were eligible to be paid by the Federal Special Revenue Fund for COVID-19 relief.

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 2021, General Fund appropriations that reverted to 2022 were \$96.6 million.

The Department of Public Health and Human Services had unspent appropriations of \$58.8 million related to Medicaid savings and other operational costs.

The Department of Corrections had unspent appropriations of \$14.8 million related to the costs reimbursed by federal funding associated with COVID-19.

The Office of Public Instruction had unspent appropriations of \$10.0 million related to K-12 distributions to schools and participation or eligibility in some programs.

The Judicial Branch had unspent appropriations of \$2.8 million related to vacancy savings and operational costs.

The Legislative Branch had unspent appropriations of \$2.0 million related to vacancy savings and operational costs.

The Department of Revenue had unspent appropriations of \$2.0 million related to funds available to local governing bodies pursuant to Section 15-1-402 (6)(d), MCA, regarding protested property taxes, Section 15-1-120, MCA, regarding entitlement share payments, and other operational costs.

The Office of the Governor had unspent appropriations of \$1.6 million related to personal services contingency funding held in the office for the entire state, operating cost savings, and vacancy savings.

The Department of Natural Resources and Conservation had unspent appropriations of \$1.5 million related to unspent operation costs associated with reduction in travel, training and other various expenditures due to COVID-19.

The remaining unspent appropriation of \$3.2 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund

The fund balance of the State Special Revenue Fund increased by \$143.1 million to \$2.0 billion. Revenues increased by \$59.3 million (5.6%) and expenditures increased \$50.9 million (4.5%), for fiscal year 2021. The largest increases in revenues are attributable to an increase in charges for services/fines/forfeits/settlements, taxes collections, and licenses and permits. The largest increases in expenditures are attributable to natural resources related expenditures. Other financing sources, such as refunding bond issued, increased due to the General Obligation Bonds, Series 2010F refunded with 2020I, Series 2015C refunded with 2020J, the Special Revenue Bonds, Series 2010C refunded with 2020L, in fiscal year 2021. Other financing sources, such as bond proceeds, increased due to the General Obligation Bonds, Series 2020E, 2020G, 2020H, 2020J, and 2020K, the Special Revenue Bonds, Series 2020L and 2020M, issued in fiscal year 2021. Primarily, transfers into the State Special Revenue Fund from other governmental funds resulted in an increase in fund balance.

Federal Special Revenue Fund

The fund balance of the Federal Special Revenue Fund decreased by \$4.5 million (66.5%) to the balance of negative \$11.3 million. Revenues and expenditures increased by \$1.5 billion (46.2%) and \$1.3 billion (41.7%) respectively, for the fiscal year 2021. Revenue increases are attributable to increases in federal program revenue, including COVID-19 related federal funding. Expenditure increases are attributable to increases in general government and health and human services related expenditures. The general government and health and human services related expenditure increases are attributable to COVID-19.

Coal Severance Tax Permanent Fund

The fund balance of the Coal Severance Tax Permanent Fund increased by \$7.3 million (0.6%) to \$1.2 billion. Revenue decreased by \$60.1 million (60.1%) to \$39.9 million, primarily due to an decrease of investment earnings. The excess of revenue over expenditures and transfers out helped lead to the increase in fund balance.

Land Grant Permanent Fund

The fund balance of the Land Grant Permanent Fund increased by \$25.9 million (3.1%) to \$871.7 million. Revenue decreased by \$33.0 million to a total of \$93.6 million, and the investment earnings were attributable to the decrease. Primarily, income generated by the State's trust lands resulted in an increase in fund balance.

The State's proprietary funds financial statements provided the same type of information founded in the government-wide financial statements, but in more detail. As the State completed the year, the enterprise funds reported fund balances of \$566.7 million. Of this total, \$545.3 million (96.2%) constitutes spendable net position and \$21.4 million (3.8%) is classified as net investment in capital assets. The analysis of the following major enterprise funds, providing the majority of the net position for the business-type activities, follows.

Unemployment Insurance Enterprise Fund

Net position restricted for unemployment compensation increased by \$162.4 million (68.1%). The increase in net position is attributable to the transfers into the Unemployment Insurance Enterprise Fund from the Federal Special Revenue Fund for COVID-19 relief in fiscal year 2021.

Municipal Finance Programs Fund

Net position decreased by 8.2% to \$4.9 million in fiscal year 2021. Financing income revenue decreased \$922.0 thousand, and investment earnings decreased \$436.0 thousand, while expenses from interest expense decreased \$1.1 million. Overall revenues and expenditures decreased 53.2% and 37.0%, which resulted in an decrease of \$438.0 thousand to net position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2021, amounted to \$9.7 billion, with related accumulated depreciation of \$2.6 billion, leaving a net book value of \$7.1 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 \$243.3 million or 3.6% 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 2020.

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 increased from \$90.3 million at June 30, 2020, to \$127.6 million at June 30, 2021. There is cash available, of \$6.7 million at the end of fiscal year 2021, 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	\$ 127,633	0.22%	\$ 118
Total State debt ⁽³⁾	\$ 172,555	0.30%	\$ 160

⁽¹⁾ Based on personal income for calendar year 2020.
⁽²⁾ Based on estimated 2020 Montana population.
⁽³⁾ Based on total of general obligation bonds, special revenue bonds, notes payable, and lease/installment purchase payable for the percentage and state debt per capita.

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

ECONOMIC CONDITION AND OUTLOOK

On March 3, 2020, Governor Bullock formed a multi-agency task force to coordinate the State's preparations with respect to COVID-19. On March 12, 2020, Governor Bullock issued Executive Orders No. 2-2020 and 3-2020 declaring a State of Emergency in the State in response to the COVID-19 pandemic. Montana residents were under a Stay at Home Directive from March 28, 2020 through April 24, 2020. On June 30, 2021, Governor Gianforte ended the State of Emergency in Montana.

Because Montana's continued and effective response to the COVID-19 pandemic, the State has determined that extending the State income tax filing deadline to July 15, 2020, did not have an adverse effect on the State's liquidity for fiscal years 2020 and 2021.

The State was allocated \$1.6 billion from ARPA during fiscal year 2021. The legislature has appropriated approximately \$1.2 billion and enacted laws to allow appropriations to continue into the 2023 and 2025 bienniums. The programs designated by the legislature for ARPA funding are infrastructure, communications, economic transformation and stabilization, workforce development, and health. ARPA funds spent before June 30, 2021, totaled \$58.4 million. Since June 30, 2021, another \$116.0 million has been spent. The State plans to spend all funds received by June 30, 2026.

The extent of the impact of COVID-19 on the State's operational and financial performance, and on the State's general financial condition, will depend on future developments, many of which are out of the State's control, including the implementation of federal aid; the duration and spread of the COVID-19 pandemic; and associated restrictions and limitations.

The State cannot predict: (i) the duration or extent of the COVID-19 pandemic or any other outbreak or pandemic; (ii) the duration or expansion of travel restrictions and warnings – both domestically and internationally; (iii) whether additional countries or destinations will be added to the travel restriction or warning; (iv) what effect any COVID-19 or any other outbreak/pandemic-related travel restrictions or warnings may have on demand for travel; (v) whether and to what extent the COVID-19 pandemic or any other outbreak or pandemic may disrupt the local or global economy, manufacturing or supply chain, or whether any such disruption may adversely impact State-related operations and financial results; or (vi) whether any of the foregoing may have a material adverse effect on the finances and operations of the State.

Despite the economic effects of COVID-19, Montana's primary economic base remains concentrated in nonresident travel, agriculture, and mining, as well as service-providing industries. Per the 2021 Labor Day Report issued by the Montana Department of Labor and Industry, Montana's economy is in the midst of a strong recovery from the pandemic recession. Montana had real wage growth of 6.6% in calendar year 2020, ranking 8th among states for the fastest average annual wage growth over the last 10 years. Montana's unemployment rate dropped quickly after the pandemic recession, reaching 3.6% in July 2021, with the national rate around 5.4%. Prior recessions took much longer for unemployment to return to normal levels. In October 2021, the Montana's preliminary unemployment rate was 3.1% with the national rate around 4.6%. Even with a strong recovery and rapid job growth, it is likely that the pandemic will have continued impacts on Montana's economy, particularly labor shortages and the impacts of rising prices on businesses and workers.

Montana had an estimated 1,080,577 population as of July 1, 2020. The Montana labor market has total nonfarm workers of 481,800 in August 2021 as compared to 464,600 in August 2020. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2021, the Game Warden & Peace Officers' Retirement System (GWPORS) was not in compliance and did 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, 2021.

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

REQUESTS FOR INFORMATION

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

STATEMENT OF NET POSITION
JUNE 30, 2021
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 3,401,680	\$ 553,507	\$ 3,955,187	\$ 619,427
Receivables (net) (Note 4)	530,038	74,659	604,697	130,533
Due from primary government	—	—	—	2,319
Due from other governments	355,220	792	356,012	36,473
Due from component units	553	1,445	1,998	289
Internal balances	6,415	(6,415)	—	—
Inventories	30,734	6,195	36,929	4,507
Advances to component units	9,539	8,515	18,054	—
Long-term loans/notes receivable	550,050	78,175	628,225	611,393
Equity in pooled investments (Note 3)	2,663,550	18,379	2,681,929	50,778
Investments (Note 3)	199,873	9,504	209,377	2,369,504
Securities lending collateral (Note 3)	48,105	332	48,437	5,182
Net pension asset (Note 6)	36,545	—	36,545	—
Other assets	17,045	1,698	18,743	19,122
Depreciable capital assets and infrastructure, net (Note 5)	4,545,872	16,061	4,561,933	877,316
Land and nondepreciable capital assets (Note 5)	2,521,163	5,316	2,526,479	143,081
Total assets	14,916,382	768,163	15,684,545	4,869,924
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	1,031,934	5,792	1,037,726	140,462
LIABILITIES				
Accounts payable (Note 4)	749,171	65,304	814,475	75,884
Lottery prizes payable	—	4,459	4,459	—
Due to primary government	—	—	—	1,998
Due to other governments	33,251	355	33,606	371
Due to component units	2,319	—	2,319	289
Due to pension trust funds	35,825	—	35,825	—
Advances from primary government	—	—	—	18,054
Unearned revenue	759,052	6,151	765,203	99,793
Amounts held in custody for others	56,690	30	56,720	13,935
Securities lending liability (Note 3)	48,105	332	48,437	5,182
Other liabilities	5,658	—	5,658	26,935
Short-term debt (Note 11)	—	90,600	90,600	—
Long-term liabilities (Note 11):				
Due within one year	133,253	14,613	147,866	171,931
Due in more than one year	449,938	5,391	455,329	1,774,141
Net pension liability (Note 6)	2,943,785	15,290	2,959,075	237,781
Total OPEB liability (Note 7)	141,394	2,450	143,844	58,124
Total liabilities	5,358,441	204,975	5,563,416	2,484,418
DEFERRED INFLOWS OF RESOURCES (Note 4)	163,799	2,299	166,098	58,029

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET POSITION				
Net investment in capital assets	\$ 6,962,944	\$ 21,360	\$ 6,984,304	\$ 711,960
Restricted for:				
General government	34,624	—	34,624	—
Transportation	125,943	—	125,943	—
Health and human service	17,031	—	17,031	—
Natural resources	652,447	—	652,447	—
Public safety	199,135	—	199,135	—
Education	9,212	—	9,212	—
Funds held as permanent investments:				
Nonexpendable	1,952,534	—	1,952,534	464,669
Expendable	584,069	—	584,069	—
Unemployment compensation	—	400,873	400,873	—
Montana Board of Housing	—	—	—	160,105
Other purposes (Note 1)	—	119,823	119,823	342,747
Unrestricted	(111,863)	24,625	(87,238)	788,458
Total net position	\$ 10,426,076	\$ 566,681	\$ 10,992,757	\$ 2,467,939

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 1,699,213	\$ 214,699	\$ 1,451,597	\$ 5,918	\$ (26,999)
Public safety	544,839	198,475	29,095	—	(317,269)
Transportation	611,537	35,802	83,533	505,281	13,079
Health and human services	3,418,518	39,781	2,476,116	245	(902,376)
Education	1,492,682	3,563	251,968	1,379	(1,235,772)
Natural resources	361,420	201,555	148,899	18,843	7,877
Interest on long-term debt	5,026	—	—	—	(5,026)
Total governmental activities	8,133,235	693,875	4,441,208	531,666	(2,466,486)
Business-type activities:					
Unemployment Insurance	728,476	122,626	14,632	—	(591,218)
Liquor Stores	120,913	135,369	—	—	14,456
State Lottery	99,353	112,327	—	—	12,974
Municipal Finance Programs	1,602	40	1,124	—	(438)
Hail Insurance	796	1,152	4	—	360
Other Service	81,765	31,401	52,387	883	2,906
Prison Funds	7,042	7,005	—	—	(37)
MUS ¹ Group Insurance	106,068	105,336	339	—	(393)
MUS ¹ Workers Compensation	2,852	3,930	90	—	1,168
Total business-type activities	1,148,867	519,186	68,576	883	(560,222)
Total primary government	\$ 9,282,102	\$ 1,213,061	\$ 4,509,784	\$ 532,549	\$ (3,026,708)
Component units:					
Montana Board of Housing	\$ 21,820	\$ 2,612	\$ 18,908	\$ —	\$ (300)
Facility Finance Authority	538	821	112	—	395
Montana State Fund	171,042	148,625	—	—	(22,417)
Montana State University	646,557	273,506	320,508	11,663	(40,880)
University of Montana	464,845	148,670	240,803	336	(75,036)
Total component units	\$ 1,304,802	\$ 574,234	\$ 580,331	\$ 11,999	\$ (138,238)

¹Montana University System

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net position:				
Net (expense) revenue	\$ (2,466,486)	\$ (560,222)	\$ (3,026,708)	\$ (138,238)
General revenues:				
Taxes:				
Property	329,585	—	329,585	—
Fuel	274,417	—	274,417	—
Natural resource	160,987	—	160,987	—
Individual income	1,712,162	—	1,712,162	—
Corporate income	261,686	—	261,686	—
Other (Note 1)	431,603	38,141	469,744	—
Unrestricted grants and contributions	447	549,317	549,764	4
Settlements	86,092	—	86,092	—
Unrestricted investment earnings	32,902	14	32,916	138,851
Transfers from primary government	—	—	—	256,944
Gain (loss) on sale of capital assets	4,750	84	4,834	(14)
Miscellaneous	5,866	6,405	12,271	2,002
Contributions to term and permanent endowments	—	—	—	29,507
Transfers between primary government	(138,881)	138,881	—	—
Total general revenues, contributions, and transfers	3,161,616	732,842	3,894,458	427,294
Change in net position	695,130	172,620	867,750	289,056
Total net position - July 1 - as previously reported	9,830,973	393,320	10,224,293	2,178,642
Adjustments to beginning net position (Note 2)	(100,027)	741	(99,286)	241
Total net position - July 1 - as adjusted	9,730,946	394,061	10,125,007	2,178,883
Total net position - June 30	\$ 10,426,076	\$ 566,681	\$ 10,992,757	\$ 2,467,939

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2021

(amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	\$ 910,776	\$ 1,084,767	\$ 792,458
Receivables (net)	314,579	108,104	72,886
Interfund loans receivable (Note 12)	98,139	78,337	5
Due from other governments	12,534	1,459	341,207
Due from other funds (Note 12)	34,585	16,247	2,289
Due from component units	—	312	—
Inventories	4,087	21,669	—
Equity in pooled investments (Note 3)	—	391,954	—
Long-term loans/notes receivable	—	524,607	5,480
Advances to other funds (Note 12)	355	38,123	—
Advances to component units	—	1,983	—
Investments (Note 3)	10,907	1,734	—
Securities lending collateral (Note 3)	—	7,079	—
Other assets	3,322	10,058	208
Total assets	<u>\$ 1,389,284</u>	<u>\$ 2,286,433</u>	<u>\$ 1,214,533</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 324,199	\$ 169,734	\$ 230,664
Interfund loans payable (Note 12)	—	5,001	166,377
Due to other governments	430	31,227	1,594
Due to other funds (Note 12)	2,533	12,395	13,627
Due to component units	36,275	459	1,409
Advances from other funds (Note 12)	—	5,328	36,879
Unearned revenue	40	21,186	736,758
Amounts held in custody for others	8,044	42,042	468
Securities lending liability (Note 3)	—	7,079	—
Other liabilities	28	1,332	—
Total liabilities	<u>371,549</u>	<u>295,783</u>	<u>1,187,776</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>161,435</u>	<u>11,452</u>	<u>38,078</u>
Fund balances (Note 14):			
Nonspendable	5,171	22,630	151
Restricted	—	1,197,079	—
Committed	114,199	757,536	—
Assigned	95,387	1,953	—
Unassigned	641,543	—	(11,472)
Total fund balances	<u>856,300</u>	<u>1,979,198</u>	<u>(11,321)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,389,284</u>	<u>\$ 2,286,433</u>	<u>\$ 1,214,533</u>

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

PERMANENT				
	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
\$	57,936	\$ 38,001	\$ 287,638	\$ 3,171,576
	11,030	2,399	10,542	519,540
	—	—	—	176,481
	—	—	—	355,200
	—	—	4,935	58,056
	113	—	128	553
	—	—	—	25,756
	976,655	836,860	424,063	2,629,532
	—	—	19,964	550,051
	—	—	5,328	43,806
	7,365	—	190	9,538
	184,756	—	—	197,397
	17,639	15,114	7,659	47,491
	—	116	—	13,704
\$	1,255,494	\$ 892,490	\$ 760,447	\$ 7,798,681
\$	—	5	\$ 5,942	\$ 730,544
	1,593	2	335	173,308
	—	—	—	33,251
	4,380	—	2,408	35,343
	—	—	—	38,143
	—	—	1,761	43,968
	—	—	—	757,984
	—	5,688	—	56,242
	17,639	15,114	7,659	47,491
	—	—	—	1,360
	23,612	20,809	18,105	1,917,634
	2,822	—	1,307	215,094
	664,992	871,681	414,009	1,978,634
	—	—	34,229	1,231,308
	564,068	—	293,558	1,729,361
	—	—	251	97,591
	—	—	(1,012)	629,059
	1,229,060	871,681	741,035	5,665,953
\$	1,255,494	\$ 892,490	\$ 760,447	\$ 7,798,681

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

JUNE 30, 2021

(amounts expressed in thousands)

Total fund balances - governmental funds	\$	5,665,953
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Amounts reported for governmental activities in the Statement of Net Position are different due to:

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

Depreciable capital assets and infrastructure, net	\$	4,545,872	
Land and nondepreciable capital assets		<u>2,521,163</u>	7,067,035

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.	1,031,934
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Other assets not available in the current period and therefore are not reported in the governmental funds:

Net pension asset	36,545
Long-term receivables	(286)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets, deferred outflows of resources, deferred inflows of resources and long-term liabilities reported in specific areas.

258,300

Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.	(16,330)
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A portion of deferred inflows of resources represents an acquisition of net assets that will be recognized as an inflow of resources in a future period, which differs than that reported in the governmental funds.

51,295

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

Other long-term liabilities	(583,191)	
Net pension liability	(2,943,785)	
Total OPEB liability	<u>(141,394)</u>	(3,668,370)

Total net position - governmental activities	\$	<u><u>10,426,076</u></u>
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The notes to the financial statements are an integral part of this statement.

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021
 (amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	\$ 142,810	\$ 299,035	\$ —
Taxes:			
Natural resource	68,068	64,910	—
Individual income	1,734,627	—	—
Corporate income	263,869	11	—
Property	309,495	20,090	—
Fuel	—	274,417	—
Other	253,940	171,436	—
Charges for services/fines/forfeits/settlements	45,488	151,369	7,925
Investment earnings	5,093	9,744	572
Securities lending income	39	47	—
Sale of documents/merchandise/property	251	9,061	—
Rentals/leases/royalties	8	1,254	—
Contributions/premiums	—	35,092	—
Grants/contracts/donations	13,665	15,470	44
Federal	10,767	8,996	4,692,258
Federal indirect cost recoveries	164	56,549	98,207
Other revenues	379	3,763	1,335
Total revenues	<u>2,848,663</u>	<u>1,121,244</u>	<u>4,800,341</u>
EXPENDITURES			
Current:			
General government	385,619	196,146	834,438
Public safety	310,373	104,668	58,076
Transportation	174	254,873	129,320
Health and human services	490,805	221,921	2,710,755
Education	1,119,344	86,028	289,715
Natural resources	38,226	230,006	128,353
Debt service:			
Principal retirement	295	2,996	135
Interest/fiscal charges	247	1,229	11
Capital outlay	7,436	90,291	427,568
Securities lending	10	10	—
Total expenditures	<u>2,352,529</u>	<u>1,188,168</u>	<u>4,578,371</u>
Excess of revenue over (under) expenditures	<u>496,134</u>	<u>(66,924)</u>	<u>221,970</u>
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	193	4,137	57
Insurance proceeds	—	437	—
General capital asset sale proceeds	119	617	—
Refunding bond issued	—	24,896	—
Payment to refunding bond escrow agent	—	(23,935)	—
Bond premium	—	8,799	—
Bond proceeds	—	56,904	—
Energy conservation loans	—	149	—
Transfers in (Note 12)	85,086	212,201	2,059
Transfers out (Note 12)	(330,993)	(72,058)	(229,172)
Total other financing sources (uses)	<u>(245,595)</u>	<u>212,147</u>	<u>(227,056)</u>
Net change in fund balances	<u>250,539</u>	<u>145,223</u>	<u>(5,086)</u>
Fund balances - July 1 - as previously reported	592,812	1,836,115	(6,799)
Adjustments to beginning fund balance (Note 2)	13,335	(591)	564
Fund balances - July 1 - as adjusted	<u>606,147</u>	<u>1,835,524</u>	<u>(6,235)</u>
Increase (decrease) in inventories	(386)	(1,549)	—
Fund balances - June 30	<u>\$ 856,300</u>	<u>\$ 1,979,198</u>	<u>\$ (11,321)</u>

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

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
\$ —	\$ 1,908	\$ —	\$ 443,753	
19,832	—	7,599	160,409	
—	—	—	1,734,627	
—	—	—	263,880	
—	—	—	329,585	
—	—	—	274,417	
—	—	8,068	433,444	
—	—	32,339	237,121	
19,917	12,827	17,741	65,894	
113	96	48	343	
—	23,466	—	32,778	
—	55,255	—	56,517	
—	—	—	35,092	
—	24	—	29,203	
—	—	—	4,712,021	
—	—	—	154,920	
—	—	—	5,477	
39,862	93,576	65,795	8,969,481	
—	—	1,045	1,417,248	
—	—	23	473,140	
—	—	—	384,367	
—	—	2,443	3,425,924	
—	—	22	1,495,109	
—	5,152	3,179	404,916	
—	—	17,523	20,949	
—	—	4,510	5,997	
—	—	63,031	588,326	
25	21	10	76	
25	5,173	91,786	8,216,052	
39,837	88,403	(25,991)	753,429	
—	—	—	4,387	
—	—	—	437	
—	4,278	15	5,029	
—	—	12,425	37,321	
—	—	(13,326)	(37,261)	
—	—	—	8,799	
—	—	—	56,904	
—	—	—	149	
167	94	319,959	619,566	
(33,210)	(66,840)	(27,944)	(760,217)	
(33,043)	(62,468)	291,129	(64,886)	
6,794	25,935	265,138	688,543	
1,221,777	845,746	475,900	4,965,551	
489	—	(3)	13,794	
1,222,266	845,746	475,897	4,979,345	
—	—	—	(1,935)	
\$ 1,229,060	\$ 871,681	\$ 741,035	\$ 5,665,953	

**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, 2021

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	688,543
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Amounts reported for governmental activities in the Statement of Activities are different due to:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):

Capital outlay	\$	588,326	
Depreciation expense and amortization		<u>(270,682)</u>	317,644

Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.	3,982
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Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(8,142)
--	---------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(65,703)
---	----------

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.	22,481
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease items reported in the Statement of Net Position.	<u>(263,675)</u>
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Change in net position - governmental activities	<u>\$</u>	<u>695,130</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2021
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 390,303	\$ 16,055	\$ 147,149	\$ 553,507	\$ 230,105
Receivables (net) (Note 4)	26,811	7,319	40,529	74,659	10,784
Interfund loans receivable (Note 12)	—	—	215	215	—
Due from other governments	406	—	386	792	20
Due from other funds (Note 12)	—	3,730	38	3,768	43
Due from component units	—	1,445	—	1,445	—
Inventories	—	—	6,195	6,195	4,979
Short-term investments (Note 3)	—	7,524	—	7,524	—
Securities lending collateral (Note 3)	—	—	332	332	614
Other current assets	—	1	335	336	3,341
Total current assets	417,520	36,074	195,179	648,773	249,886
Noncurrent assets:					
Advances to other funds (Note 12)	—	7,189	—	7,189	—
Advances to component units	—	8,515	—	8,515	—
Long-term investments (Note 3)	—	—	20,359	20,359	36,495
Long-term notes/loans receivable	33,906	44,269	—	78,175	—
Other long-term assets	—	—	1,362	1,362	—
Capital assets (Note 5):					
Land	—	—	800	800	—
Land improvements	—	—	3,830	3,830	95
Buildings/improvements	—	—	16,379	16,379	6,069
Equipment	—	1	9,845	9,846	276,909
Infrastructure	—	—	1,175	1,175	—
Construction work in progress	—	—	1,303	1,303	2,091
Intangible assets	—	—	3,432	3,432	426
Other capital assets	—	—	3,213	3,213	—
Less accumulated depreciation	—	—	(18,601)	(18,601)	(181,123)
Total capital assets	—	1	21,376	21,377	104,467
Total noncurrent assets	33,906	59,974	43,097	136,977	140,962
Total assets	451,426	96,048	238,276	785,750	390,848
DEFERRED OUTFLOWS OF RESOURCES (Note 4)					
	—	130	5,662	5,792	21,764

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2021
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 46,953	\$ 71	\$ 18,280	\$ 65,304	\$ 16,155
Lottery prizes payable	—	—	3,534	3,534	—
Interfund loans payable (Note 12)	—	—	2,700	2,700	688
Due to other governments	—	—	355	355	—
Due to other funds (Note 12)	—	—	14,887	14,887	2,076
Unearned revenue	3,600	—	2,551	6,151	1,071
Lease/installment purchase payable (Note 10)	—	1	13	14	2,388
Short-term debt (Note 11)	—	90,600	—	90,600	—
Bonds/notes payable - net (Note 11)	—	—	—	—	171
Amounts held in custody for others	—	—	30	30	449
Securities lending liability (Note 3)	—	—	332	332	614
Estimated insurance claims (Note 8)	—	—	13,804	13,804	32,616
Compensated absences payable (Note 11)	—	25	770	795	3,362
Total current liabilities	50,553	90,697	57,256	198,506	59,590
Noncurrent liabilities:					
Lottery prizes payable	—	—	925	925	—
Advances from other funds (Note 12)	—	—	—	—	7,027
Lease/installment purchase payable (Note 10)	—	—	7	7	2,307
Bonds/notes payable - net (Note 11)	—	—	—	—	72
Estimated insurance claims (Note 8)	—	—	3,880	3,880	36,622
Compensated absences payable (Note 11)	—	60	1,444	1,504	5,580
Net pension liability (Note 6)	—	404	14,886	15,290	65,097
Total OPEB liability (Note 7)	—	45	2,405	2,450	8,503
Total noncurrent liabilities	—	509	23,547	24,056	125,208
Total liabilities	50,553	91,206	80,803	222,562	184,798
DEFERRED INFLOWS OF RESOURCES (Note 4)	—	39	2,260	2,299	6,944
NET POSITION					
Net investment in capital assets	—	1	21,359	21,360	90,706
Restricted for:					
Unemployment compensation	400,873	—	—	400,873	—
Other purposes	—	405	119,418	119,823	—
Unrestricted	—	4,527	20,098	24,625	130,164
Total net position	\$ 400,873	\$ 4,933	\$ 160,875	\$ 566,681	\$ 220,870

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, 2021
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	\$ 149	\$ 40	273,552	\$ 273,741	\$ 172,949
Investment earnings	7,548	5	468	8,021	790
Securities lending income	—	—	2	2	4
Financing income	—	1,119	—	1,119	—
Contributions/premiums	122,477	—	122,396	244,873	230,212
Grants/contracts/donations	7,084	—	52,300	59,384	4,518
Other operating revenues	—	—	6,978	6,978	13,595
Total operating revenues	137,258	1,164	455,696	594,118	422,068
Operating expenses:					
Personal services	—	432	18,291	18,723	74,512
Contractual services	—	38	31,163	31,201	40,511
Supplies/materials	—	40	116,095	116,135	20,525
Benefits/claims	714,367	—	162,843	877,210	194,664
Depreciation	—	—	1,119	1,119	14,251
Amortization	—	—	573	573	421
Utilities/rent	—	55	1,159	1,214	6,945
Communications	—	9	1,113	1,122	13,583
Travel	—	1	113	114	150
Repairs/maintenance	—	1	1,583	1,584	28,856
Grants	—	—	—	—	478
Lottery prize payments	—	—	80,348	80,348	—
Securities lending expense	—	—	—	—	1
Interest expense	—	866	8	874	403
Other operating expenses	14,109	160	4,127	18,396	6,487
Total operating expenses	728,476	1,602	418,535	1,148,613	401,787
Operating income (loss)	(591,218)	(438)	37,161	(554,495)	20,281
Nonoperating revenues (expenses):					
Tax revenues (Note 1)	—	—	38,141	38,141	—
Grant revenue	549,316	—	—	549,316	—
Insurance proceeds	—	—	—	—	147
Gain (loss) on sale of capital assets	—	—	(602)	(602)	182
Federal indirect cost recoveries	—	—	65	65	4,547
Increase (decrease) value of livestock	—	—	433	433	—
Total nonoperating revenues (expenses)	549,316	—	38,037	587,353	4,876
Income (loss) before contributions and transfers	(41,902)	(438)	75,198	32,858	25,157
Capital contributions	—	—	955	955	394
Transfers in (Note 12)	203,571	—	26	203,597	2,020
Transfers out (Note 12)	—	—	(64,788)	(64,788)	(5,088)
Change in net position	161,669	(438)	11,391	172,622	22,483
Total net position - July 1 - as previously reported	238,429	5,371	149,520	393,320	198,435
Adjustments to beginning net position (Note 2)	775	—	(36)	739	(48)
Total net position - July 1 - as adjusted	239,204	5,371	149,484	394,059	198,387
Total net position - June 30	\$ 400,873	\$ 4,933	\$ 160,875	\$ 566,681	\$ 220,870

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, 2021
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	MUNICIPAL		TOTAL	
		FINANCE PROGRAMS	NONMAJOR		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	\$ 123,601	\$ 39	\$ 389,811	\$ 513,451	\$ 401,217
Payments to suppliers for goods and services	—	(234)	(157,519)	(157,753)	(111,606)
Payments to employees	—	(442)	(18,233)	(18,675)	(73,605)
Grant receipts (expenses)	7,504	—	51,913	59,417	4,030
Cash payments for claims	(765,477)	—	(161,605)	(927,082)	(198,245)
Cash payments for prizes	—	—	(79,042)	(79,042)	—
Other operating revenues	—	—	7,041	7,041	18,252
Other operating payments	—	—	(4,024)	(4,024)	(6,487)
Net cash provided by (used for) operating activities	(634,372)	(637)	28,342	(606,667)	33,556
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	—	—	38,141	38,141	—
Transfer to other funds	—	—	(63,420)	(63,420)	(5,087)
Transfer from other funds	203,571	—	27	203,598	2,019
Proceeds from interfund loans/advances	—	—	2,761	2,761	2,081
Payment of interfund loans and advances	(1,500)	—	(295)	(1,795)	(49)
Payment of principal and interest on bonds and notes	—	(1,193)	(7)	(1,200)	(570)
Grant receipts and Federal indirect cost recoverable	566,990	—	65	567,055	—
Net cash provided by (used for) noncapital financing activities	769,061	(1,193)	(22,728)	745,140	(1,606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	147
Acquisition of capital assets	—	—	(1,437)	(1,437)	(13,051)
Proceeds from sale of capital assets	—	—	1,213	1,213	1
Net cash provided by (used for) capital and related financing activities	—	—	(224)	(224)	(12,903)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	(20,621)	300	(20,321)	(12,780)
Proceeds (loss) on sales or maturities of investments	—	13,804	—	13,804	—
Proceeds (loss) from securities lending transactions/ investments	—	—	3	3	4
Interest and dividends on investments	7,548	13	490	8,051	787
Payment of securities lending costs	—	—	—	—	(1)
Collections of principal and interest on loans	—	23,752	—	23,752	—
Cash payment for loans	—	(25,609)	—	(25,609)	—
Net cash provided by (used for) investing activities	7,548	(8,661)	793	(320)	(11,990)
Net increase (decrease) in cash and cash equivalents	142,237	(10,491)	6,183	137,929	7,057
Cash and cash equivalents, July 1	248,066	26,546	140,966	415,578	223,048
Cash and cash equivalents, June 30	\$ 390,303	\$ 16,055	\$ 147,149	\$ 553,507	\$ 230,105

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, 2021
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (591,218)	\$ (438)	\$ 37,161	\$ (554,495)	\$ 20,281
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	—	—	1,119	1,119	14,251
Amortization	—	—	573	573	421
Securities lending expense	—	—	—	—	1
Investment earnings	(7,548)	(5)	(468)	(8,021)	(790)
Securities lending income	—	—	(3)	(3)	(4)
Financing income	—	(1,118)	—	(1,118)	—
Interest expense	—	866	7	873	403
Other revenue	776	—	—	776	4,551
Arbitrage rebate tax	—	(22)	—	(22)	—
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	(53,975)	—	(4,826)	(58,801)	862
Decr (Incr) in due from other funds	—	—	(38)	(38)	67
Decr (Incr) in due from component units	—	—	—	—	9
Decr (Incr) in due from other governments	(355)	—	(386)	(741)	(10)
Decr (Incr) in inventories	—	—	(1,773)	(1,773)	(45)
Decr (Incr) in other assets	—	—	35	35	(2,778)
Incr (Decr) in accounts payable	17,948	(6)	(2,257)	15,685	(845)
Incr (Decr) in due to other funds	—	—	(2,805)	(2,805)	152
Incr (Decr) in due to other governments	—	—	107	107	—
Incr (Decr) in lottery prizes payable	—	—	1,306	1,306	—
Incr (Decr) in unearned revenue	—	—	(209)	(209)	(192)
Incr (Decr) in amounts held in custody for others	—	—	—	—	(45)
Incr (Decr) in compensated absences payable	—	31	54	85	593
Incr (Decr) in total OPEB liability	—	—	1,364	1,364	5,709
Incr (Decr) in estimated claims	—	—	120	120	(3,581)
Incr (Decr) in other payables	—	(11)	(6)	(17)	(2,343)
Incr (Decr) in net pension liability and related accounts	—	66	(733)	(667)	(3,111)
Net cash provided by (used for) operating activities	\$ (634,372)	\$ (637)	\$ 28,342	\$ (606,667)	\$ 33,556
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	\$ —	\$ —	\$ 955	\$ 955	\$ 395
Incr (Decr) in fair value of investments	—	3	338	341	275
Total noncash transactions	\$ —	\$ 3	\$ 1,293	\$ 1,296	\$ 670

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 JUNE 30, 2021
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST FUNDS	CUSTODIAL FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 187,408	\$ 39,493	\$ 1,854,550	\$ 8,165
Receivables (net):				
Accounts receivable	25,716	—	—	621
Interest	14	—	187	—
Due from primary government	35,825	—	—	—
Due from other PERB plans	1,734	—	—	—
Long-term loans/notes receivable	8	—	—	—
Total receivables	<u>63,297</u>	<u>—</u>	<u>187</u>	<u>621</u>
Investments at fair value:				
Equity in pooled investments (Note 3)	14,397,166	—	12,953	—
Other investments (Note 3)	1,091,293	206,088	—	—
Total investments	<u>15,488,459</u>	<u>206,088</u>	<u>12,953</u>	<u>—</u>
Securities lending collateral (Note 3)	83,372	—	234	—
Capital Assets:				
Buildings/improvements	316	—	—	—
Equipment	133	—	—	—
Accumulated depreciation	(170)	—	—	—
Intangible assets	3,884	—	—	—
Total capital assets	<u>4,163</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other assets	—	29,964	—	2,887
Total assets	<u>15,826,699</u>	<u>275,545</u>	<u>1,867,924</u>	<u>11,673</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>1,076</u>	<u>—</u>	<u>—</u>	<u>—</u>
LIABILITIES				
Accounts payable	1,767	12	150	2,579
Due to primary government	8	—	—	—
Due to other PERB plans	1,734	—	—	—
Unearned revenue	83	—	—	—
Securities lending liability (Note 3)	83,372	—	234	—
Compensated absences payable	726	—	—	—
Net pension liability (Note 6)	1,921	—	—	—
Total OPEB liability (Note 7)	796	—	—	—
Total liabilities	<u>90,407</u>	<u>12</u>	<u>384</u>	<u>2,579</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>242</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION				
Restricted for:				
Pensions	15,048,021	—	—	—
Postemployment benefits other than pensions	689,105	—	—	—
Pool participants	—	—	1,867,540	—
Individuals, organizations, and other governments	—	275,533	—	9,094
Total net position	<u>\$ 15,737,126</u>	<u>\$ 275,533</u>	<u>\$ 1,867,540</u>	<u>\$ 9,094</u>

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST FUNDS	CUSTODIAL FUNDS
ADDITIONS				
Contributions/premiums:				
Employer	\$ 288,688	\$ —	\$ —	\$ —
Employee	268,411	—	—	—
Other contributions	121,465	21,468	1,536,607	—
Investment earnings:				
Net increase in fair value of investments	3,487,911	31,186	(186)	—
Interest, dividends, and other	23,931	1	4,228	3
Securities lending income	1,011	—	1	—
Total investment earnings	3,512,853	31,187	4,043	3
Less investment costs:				
Administrative investment expense	83,504	—	—	—
Securities lending expense	200	—	—	—
Net investment earnings	3,429,149	31,187	4,043	3
Charges for services	849	—	—	—
Other additions and miscellaneous	2,124	8,234	—	61,651
Total additions	4,110,686	60,889	1,540,650	61,654
DEDUCTIONS				
Benefits	1,039,868	—	—	—
Refunds	32,147	—	—	—
Distributions	—	31,274	1,392,012	62,674
Administrative expenses	15,316	883	—	16
Local assistance	13	—	—	—
Transfers to MUS-RP	264	—	—	—
Transfers to PERS-DCRP	2,328	—	—	—
Total deductions	1,089,936	32,157	1,392,012	62,690
Change in net position	3,020,750	28,732	148,638	(1,036)
Net position - July 1 - as previously reported	12,716,675	248,114	1,718,902	8,817
Adjustments to beginning net position (Note 2)	(299)	(1,313)	—	1,313
Net position - July 1 - as adjusted	12,716,376	246,801	1,718,902	10,130
Net position - June 30	\$ 15,737,126	\$ 275,533	\$ 1,867,540	\$ 9,094

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. 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, which are separately issued and audited, may be obtained at the following addresses:

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

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

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

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

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

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The State of Montana has the ability to modify or approve: the budget, the rate or fee changes affecting revenues, and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of FFA. FFA assists

eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State of Montana may be pledged for the amounts so issued. FFA is attached to the Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

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

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

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

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

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

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

Fiduciary Fund Component Units

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

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

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

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

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

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 a \$96.0 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 \$27.7 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 to support 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 as noted above.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government. One specific fund is defined in statute as an Enterprise Fund, however, per GASB 34, this fund should be reported within Internal Service Funds. The respective effect on net position is approximately a \$5.9 million increase.

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

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

Fiduciary Funds

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

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

Private-Purpose Trust Funds – To account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. For example, unliquidated security bonds held on deposit from self-insured employers.

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).

Custodial Funds – To account for transactions related to assets held by the State as an agent for individuals, private organizations, and other governments. For example, monies belonging to one parent submitted by another, as is the case with child support payments.

Major Governmental Funds

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

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

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

The Coal Severance Tax Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon an 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. For fiscal year 2021, federal contributions were also made to this fund due to increased claims related to the statewide unemployment impact of COVID-19.

The Board of Investments (BOI) Municipal Finance Programs Fund accounts for the programs created under the Municipal Finance Consolidation Act (MFCA) and the Economic Development Act. Primarily, this involves a MFCA revolving loan program that provides variable low interest rate loans to eligible Montana State agencies, universities, and local governments for a variety of projects statutorily defined. The funding for the revolving loan program is from the issuance of put bonds. The MFCA program also provides local government entities access to tax-exempt funds through the issuance of conduit (no-commitment) debt. In previous years this activity was referred to as the Economic Development Bonds Fund. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Equity in Pooled Investments

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

I. Investments

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

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds is capitalized. Interest incurred during the construction of capital assets for higher education component units is expensed. The State has chosen to use the depreciation approach for infrastructure assets. The State 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 on their fund financial statements. Capital assets in governmental funds are accounted for in the governmental activities of the government-wide financial statements, as is the associated depreciation and amortization. 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 \$25.0 thousand. The capitalization threshold for infrastructure and internally-generated software is \$500.0 thousand. The capitalization threshold for intangible assets is \$100.0 thousand. The capitalization limit for other capital assets is \$5.0

thousand. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

K. Deferred Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investments, and OPEB, and pension related components; and are reported on the government-wide, proprietary fund, and fiduciary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue, which is neither a deferred outflow of resources nor a deferred inflow of resources; is recognized as a liability on government-wide, governmental, and proprietary fund financial statements. Further detail related to deferred outflows of resources and deferred inflows of resources is provided in Note 4.

L. Long-term Obligations

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

M. Capital Leases

A capital lease is a lease that 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. Governmental funds record capital outlay expenditures and other financing sources (inception of lease/installment contract), at the inception of a capital lease, at net present value of the minimum lease payments. Further detail related to capital leases is provided in Note 10.

N. Bond Discounts/Premiums/Issuance Costs

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

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. For fiscal year 2021, 1,352 sick leave

hours, 185 annual leave hours, and 4,818 excess annual leave hours were contributed to the sick leave pool, and 5,608 hours were withdrawn, leaving a balance of 17,626 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

P. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA), a discretely presented component unit of the State. BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$100.2 million as of June 30, 2021. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

Q. Fund Balance/Net Position

Fund Balance

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes. Still 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. The projected spend down for fiscal year 2022 is \$75.0 million; thus, a related assignment of fund balance is reported at 2021 fiscal year-end.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be

used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

General Fund - Fund Balance

As of June 30, 2021, the State maintains a Budget Stabilization Reserve Fund as required by statute. For financial reporting purposes, this fund is combined with the General Fund as it does not meet the GASB 54 requirements to be a special revenue fund as the Legislature prescribed. The June 30, 2021, committed fund balance in the General Fund of \$114.2 million, represents the Budget Stabilization Reserve Fund balance.

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

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance complies 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 \$4.1 billion.

Net position associated with the Unemployment Insurance Fund is classified as restricted. The majority of the restricted net position for other purposes business-type activities amounting to \$119.8 million is made up of \$97.4 million from MUS Group Insurance Fund and \$12.9 million from MUS Workers Compensation Fund. Certain investments of the Municipal Finance Programs Fund are also classified as restricted net position for other purposes as business-type activities and on the Statement of Fund Net Position for proprietary funds because applicable bond indenture agreements limit their use.

R. Property and Income 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. Each of Montana's 56 counties collect property taxes. 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.

Calendar year 2020 State income tax filing deadline, normally April 15th of the subsequent year, was delayed to May 17, 2021, due to COVID-19 pandemic. The State has determined that extending the income tax filing deadline did not have a material adverse effect on the State's liquidity for fiscal year 2021, nor will it in fiscal year 2022.

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	\$ 23,454	\$ 33,175	\$ 6,254	\$ 5	\$ 62,888
Agriculture	—	11,734	—	—	11,734
Car rental	3,624	1,208	—	—	4,832
Cigarette/tobacco/etc.	33,477	49,031	1,604	—	84,112
Contractors gross receipts	3,897	—	—	—	3,897
Energy tax	6,350	—	—	—	6,350
Fire protection	—	4,628	—	—	4,628
Insurance premium	87,263	50,240	—	—	137,503
Light vehicle registration	—	6,310	—	—	6,310
Liquor tax	5,996	2,419	—	38,136	46,551
Livestock	—	5,316	—	—	5,316
Other taxes	164	1,102	—	—	1,266
Public service commission	—	5,356	—	—	5,356
Railroad car companies	5,194	—	—	—	5,194
Telephone license	8,888	—	—	—	8,888
Video gaming	74,917	2	—	—	74,919
Total other taxes	\$ 253,224	\$ 170,521	\$ 7,858	\$ 38,141	\$ 469,744

T. Tax Abatement

In the Montana Board of Investment's (BOI) Commercial Loan Program within the SMA, 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.

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

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

During the fiscal year ended June 30, 2021, basic sector business entities made total user fee payments of \$1.8 million, representing \$1.3 million of principal and \$0.5 million in interest. During the fiscal year ended June 30, 2021, a total of \$5.3 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2021 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed			
	Tax Year 2020	Tax Year 2019	Total
Corporate income tax	\$ —	\$ 265	\$ 265
Individual income tax	34	4,965	4,999
Total amount claimed	<u>\$ 34</u>	<u>\$ 5,230</u>	<u>\$ 5,264</u>

U. Irrevocable Split Interest Agreements

Irrevocable split-interest agreements are used by donors to provide resources to two or more beneficiaries, including governments. These agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. The University of Montana campuses have three irrevocable split interest agreements during the fiscal year ended June 30, 2021. Further detail related to these agreements is provided in Note 3.

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

For the year ended June 30, 2021, the State of Montana early implemented the provisions of GASB Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98). This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

For the year ended June 30, 2021, the State of Montana implemented the provisions of GASB Statement No. 92, *Omnibus 2020* (GASB 92). The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics of which the following have implications for the State of Montana: (1) Under GASB 10, amounts recoverable from reinsurances for paid claims were required to be accounted for as assets and expense reductions. Under GASB 92, paid claims and claim adjustments expenses may be reported as reductions of expenses but are not required to be. (2) The terms derivative and derivatives in National Council on Governmental Accounting and GASB pronouncements should be replaced with derivative instrument and derivative instruments, respectively.

For the calendar year ended December 31, 2020, Montana State Fund (MSF), a discretely presented component unit of the State, early implemented the provisions of GASB Statement No. 87, *Leases*. Accordingly, for all of its long-term leases, MSF will no longer be reporting leases as an operating lease and has created an intangible right-to-use lease asset and lease liability. The assets are amortized over the term of the lease, while the liabilities are reduced as scheduled lease payments are made. The State did not early implement GASB 87 for the year ended June 30, 2021.

B. Adjustments to Beginning Net Position

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities and related to long-term liability and natural resource expenditure understatement in the amount of \$61.0 million.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	\$	6,678,033
Equity in pooled investments	\$	17,142,801
Investments	\$	3,865,333

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

A. General

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

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

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the UIP 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 UIP.

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

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 Separately Managed Accounts (SMA). Currently, only the nine retirement funds that participate in the Consolidated Asset Pension Pool (CAPP), the Defined Contribution Disability Plan, and the Montana State Fund (MSF) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and SMA participant, which provides BOI staff with a broad strategic framework under which the investments are managed. The IPS's also reflect BOI approved asset allocation ranges.

By statute, local government entities can voluntarily invest in the Short Term Investment Pool (STIP). By statute, with a qualifying event, local government entities may also voluntarily invest in the Trust Funds Investment Pool (TFIP).

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 UIP financial statements include the activity for MSF within SMA on a June 30, 2021, basis. MSF, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents and investments.

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

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

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

Investments reported at fair value are on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. 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. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.

Level 3 – Prices are determined using unobservable inputs, which generally results in BOI using the best information available and may include BOI's own data.

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

During fiscal year 2021, the custodial bank loaned BOI's public securities and received as collateral either: U.S. dollar cash; U.S. government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA- or Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2021. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2021 resulting from a borrower default. As of June 30, 2021, no securities were recalled and not yet returned.

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

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. 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. The Navigator portfolio had an average duration of 24 days and the average weighted final maturity of 93 days.

(d) Investment Pools and Separately Managed Accounts (SMA) are described in the following paragraphs.

Consolidated Asset Pension Pool (CAPP)

The CAPP IPS contain prescribed asset allocation ranges among the allowable asset classes and is subject to change as BOI adopts modifications. BOI annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS also contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner.

Due to a longer-term focus, CAPP's asset classes differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Investments
- Real Assets
- Real Estate
- Core Fixed Income
- Non-Core Fixed Income
- Cash

The CAPP IPS is the only IPS that allows for investments that can be held in non-U.S. securities in a foreign currency. Per the CAPP IPS, the Core Fixed Income Asset Class and Non-Core Fixed Income Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made.

As part of the asset allocation approved by BOI in November 2020, the Natural Resource PAC was renamed the Real Assets PAC. The Private Investments PAC holds Private Equity and Private Credit portfolios. The Real Assets PAC holds Commodities, Infrastructure, and Treasury Inflation Protected Securities (TIPS) portfolios. These changes were effective in January 2021. The changes did not have an impact on the underlying values of the securities within CAPP.

Trust Funds Investment Pool (TFIP)

The TFIP IPS provides for a 10% portfolio limit for non-core fixed income securities. TFIP invests primarily in investment grade, U.S. dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

Short Term Investment Pool (STIP)

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

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 120 days or less. STIP is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

BOI maintains a reserve account that may be used to offset losses within the STIP portfolio. The STIP reserve for the year ending June 30, 2021, is detailed as follows:

STIP Reserve Activity (in thousands)	
Beginning STIP Reserve	\$ 52,564
Additions	
Investment Earnings:	
Net increase (decrease) on fair value of investments	21
Interest income	12
Transfer of daily STIP income	760
Recoveries from write-offs	855
Total investment earnings	<u>1,648</u>
Total STIP Reserve activity	<u>1,648</u>
Ending STIP Reserve	<u>\$ 54,212</u>

Separately Managed Accounts (SMA)

SMA invests primarily in investment grade, U.S. dollar denominated, fixed income securities and custodial bank interest bearing demand deposit account. However, one participant portfolio has exposure to core real estate and high yield fixed income. The SMA portfolio also includes Veteran's Home Loan mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute.

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

Custodial Credit Risk (Cash and Cash Equivalents and Investments Held at Custodial Bank)

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial bank must be rated at a minimum at the 6th highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) on an annual basis.

As of June 30, 2021, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for BOI and held in the possession of BOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI. Therefore, BOI is not subject to custodial credit risk.

Concentration of Credit Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for U.S. Government securities, the pools and SMA fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk.

As of June 30, 2021, the CAPP's cash equivalents position held at its custodial bank, \$163.1 million was held in unrated money market funds.

As a matter of STIP investment policy, BOI can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "U.S. Treasury" or "U.S. Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30, 2021, all the STIP money market investments were in U.S. Governmental money markets and \$166.0 million was held on deposit in a short-term investment vehicle available through the custodial bank.

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. CAPP, TFIP, and SMA at fair value investments are categorized to disclose credit and interest rate risk for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using the weighted effective duration. NRSRO provides the credit ratings. According to the STIP investment policy, "The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 120 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, STIP, and SMA may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example, Secured Overnight Financing Rate (SOFR).

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM). Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months, or years) weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 115 days for the portfolio. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents have little discernible interest rate risk.

Foreign Currency Risk

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

Other Policy Considerations

For other risk, BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the Core Fixed average duration will be maintained in a range within 20% of the benchmark duration. The Core Fixed Income PAC and Non-Core Fixed Income 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 SMA is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

Fair Value of Derivative Instruments

The UIP invests in, currency forward contracts, credit default swaps, interest rate swaps, index futures (long and short duration), rights and warrants which are classified as investment derivative instruments. The investment derivative instruments decreased in fair value for the fiscal year ended June 30, 2021, by \$4.0 million. The derivative instruments had a fair value of \$420.0 thousand as of June 30, 2021. The notional amount of the contracts was \$52.0 million.

Investment Derivative Instruments as of June 30, 2021 (in thousands)

Security Investment Type	Classification	Changes in Fair Value Included in Investment		Notional Amount
		Income	Fair Value	
Credit default swaps bought	Investment	\$ 17	\$ (31)	\$ 2,215
Credit default swaps written	Investment	283	258	10,180
Currency Forward Contracts	Investment	(58)	84	39,051
Index Futures Short	Investment	64	—	(2,600)
Index Futures Long	Investment	3,602	—	3
Receive fixed interest rate swaps	Investment	10	10	3,126
Rights	Investment	15	40	1
Warrants	Investment	45	59	19
Totals		\$ 3,978	\$ 420	\$ 51,995

Counterparty Credit Risk - Derivative Instruments

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. The maximum amount of loss to BOI in case of default of all counterparties as of June 30, 2021 was \$577.0 thousand. The following table reflects BOI's applicable counter party credit ratings and risk concentrations.

Risk Concentrations - Credit Default Swaps as of June 30, 2021

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Goldman Sachs ICE	45%	BBB+	A	A2
Barclays Bank PLC Wholesale	38%	A	A+	A1
BNP Paribas SA	16%	A+	A+	Aa3
UBS LCH	1%	A+	AA-	Aa3

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

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial bank must be rated at a minimum, at the 6th largest investment grade rating by at least two Nationally Registered Statistical Ratings Organizations (NRSROs) and is reviewed on an annual basis.

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

Investments – As of June 30, 2021, the Municipal Finance Programs securities were recorded by the trustee in the name of BOI by specific account.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The Municipal Finance Programs investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits the concentration of credit risk by limiting portfolio investment types to 3.0% in any issuer with the exception of U.S. Treasury and U.S. Agency securities, as well as, any repurchase agreements with a financial institution. As of June 30, 2021, STIP concentration risk was within the policy as set by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Municipal Finance Programs U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. Permitted investments, as described in the indenture, include, "Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

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

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

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;

2. maintaining a dollar-weighted average portfolio maturity (WAM) of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account.”

The Municipal Finance Program investments are categorized to disclose credit and interest rate risk as of June 30, 2021. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. The credit quality ratings have been calculated, excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as BOI determined that these securities did not contain these risk elements. There were no derivative transactions during the 2021 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 50.0% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$ 69,951
Uninsured and uncollateralized cash	4,274
Undeposited cash	2,062
Cash in U.S. Treasury	396,818
Cash in MSU component units	8,893
Cash in UM component units	16,445
Less: outstanding warrants	<u>(23,187)</u>
	<u>\$ 475,256</u>

As of June 30, 2021, the carrying amount of deposits for component units was \$217.7 million, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value
Treasuries ⁽¹⁾	\$ 789,021
Corporate commercial paper ⁽²⁾	913,481
Corporate notes ⁽²⁾	250,494
Certificates of deposit ⁽²⁾	405,071
Agency or government related ⁽²⁾	724,008
Money market fund unrated	214,805
Cash and cash equivalents ⁽²⁾	3,234,299
Less: STIP Adjustments ⁽³⁾	(328,402)
Total cash equivalents	<u>\$ 6,202,777</u>

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

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

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

As of June 30, 2021, local governments had invested \$1.9 billion, and component units of the State of Montana had invested \$413.3 million in STIP.

**STIP Cash Equivalent Credit Quality Ratings as of
June 30, 2021**
(in thousands)

	Total Cash Equivalents	Credit Quality Rating
Agency or government related	\$ 182,211	A-1+
Asset backed commercial paper	2,303,761	A-1+
Corporate commercial paper	531,325	A-1+
Certificates of deposit	51,002	A-1+
Interest Bearing Demand Deposit Account (IBDDA)	166,000	NR
Total cash equivalents	<u>\$ 3,234,299</u>	

**STIP
Credit Quality Rating and Weighted Average of Maturity as of
June 30, 2021**
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	\$ 789,021	A-1+	99
Agency or government related	724,008	A-1+	87
Corporate:			
Commercial paper	913,481	A-1+	153
Notes	250,494	A-1	111
Certificates of deposit	405,071	A-1	142
Total STIP fixed income investments at fair value	<u>\$ 3,082,075</u>		

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	<u>Fair Value ⁽¹⁾</u>
CAPP:	
Consolidated asset pension pool	\$ 14,387,290
TFIP:	
Trust funds investment pool	<u>2,742,329</u>
Total pooled investments	17,129,619
Pool adjustments (net)	13,182
Total equity in pooled investments	<u>\$ 17,142,801</u>

⁽¹⁾ Includes cash/cash equivalents and investments.

As of June 30, 2021, the fair value of the underlying securities on loan was \$700.3 million. Collateral provided for the securities on loan totaled \$715.2 million, consisting of \$133.0 million in cash and \$582.2 million in securities.

As of June 30, 2021, local governments invested \$13.0 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2021, as required for applicable pools.

Credit Quality Rating and Effective Duration as of June 30, 2021
Fair Value (in thousands)

Security Investment Type	CAPP	TFIP	SMA	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Duration (Years)
Treasuries	\$ 763,348	\$ 382,471	\$ 303,140	\$ 1,448,959	AAA	4.30-9.36
Agency or Government Related	260,341	127,004	79,046	466,391	A to AAA	2.57-6.79
Asset-Backed Securities	93,892	59,885	37,243	191,020	AAA	1.38-2.59
Mortgage-Backed Securities:						
Noncommercial	484,595	506,382	229,237	1,220,214	AAA	3.20-4.42
Commercial	135,266	131,495	30,830	297,591	AAA	3.79-6.26
Corporate:						
Financial	454,371	307,952	221,401	983,724	BBB+ to A-	3.50-4.33
Industrial	817,833	669,766	341,299	1,828,898	BB to BBB+	4.35-5.07
Industrial (Unrated)	697	264	—	961	NR	0.09
Utility	45,849	12,147	9,935	67,931	BB+ to BBB-	2.96-5.86
Total fixed income investments at fair value	<u>\$ 3,056,192</u>	<u>\$ 2,197,366</u>	<u>\$ 1,252,131</u>	<u>\$ 6,505,689</u>		

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

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

based on the securities' relationship to benchmark quoted prices. Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraised value. In years with no updated appraisal the Montana Department of Revenue calculated growth rate is used to determine the adjusted value. The direct real estate was last appraised in fiscal year 2020. Investments measured at cost are included to account for all investments within each pool and SMA. These assets represent cash equivalents and Montana Mortgages and Loans.

Each of the investment pools and SMA has the following fair value measurements as of June 30, 2021:

	Investments Measured at Fair Value (in thousands)			
	June 30, 2021	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by fair value level</u>				
Fixed income investments:				
Treasuries	\$ 2,237,980	\$ 2,237,980	\$ —	\$ —
Agency or Government Related	1,190,399	—	1,190,399	—
Asset Backed Securities	191,020	—	191,020	—
Mortgage Backed Securities:				
Noncommercial	1,220,214	—	1,220,214	—
Commercial	297,591	—	297,591	—
Corporate:				
Commercial Paper	913,481	—	913,481	—
Commercial Notes	250,494	—	250,494	—
Certificates of Deposit	405,071	—	405,071	—
Financial	983,724	—	983,724	—
Industrial	1,828,898	—	1,828,898	—
Industrial (Unrated)	961	—	961	—
Utility	67,931	—	67,931	—
Equity investments	5,064,422	5,064,422	—	—
International equity investments	2,498,920	2,498,920	—	—
Direct Real Estate	21,104	—	—	21,104
Residential Mortgages	1,601	—	—	1,601
Investment derivative instruments	420	—	420	—
Total investments by fair value level	<u>17,174,231</u>	<u>9,801,322</u>	<u>7,350,204</u>	<u>22,705</u>
<u>Investments measured at the net asset value (NAV)</u>				
Private Investments	2,063,108			
Core Real Estate	780,811			
Non-Core Real Estate	742,686			
Real Assets	341,822			
Real Estate High Income Fund	208,135			
Total investments measured at NAV	<u>4,136,562</u>			
Total investments measured at fair value	<u>21,310,793</u>			
<u>Investments at cost</u>				
Cash and cash equivalents held at custodial bank	3,421,675			
SMA Montana Mortgages and Loans	192,235			
Total investments not categorized	<u>3,613,910</u>			
Total investments	<u>\$ 24,924,703</u>			

The investments measured at NAV for the year ended June 30, 2021, are detailed below:

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Investments	\$ 2,063,108	\$ 1,005,805		
Core Real Estate	780,811	—	Monthly, quarterly	45-90 days
Non-Core Real Estate	742,686	789,773		
Real Assets	341,822	340,045		
Real Estate High Income Fund	208,135	—	Daily	1-3 days
Total investments measured at the NAV	<u>\$ 4,136,562</u>	<u>\$ 2,135,623</u>		

STIP and \$1.8 billion of SMA are included, and also reported in Tables 2 and 4, respectively.

Private Investments – This type includes investments in limited partnerships. Typically, the types of partnership strategies included in this portfolio: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered long-term. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the 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) 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 the investments in this category have been determined using the NAV per share (or its equivalent) of the BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Non-Core Real Estate – This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds 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. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the BOI's ownership interest in the fund.

Real Assets – This type includes private partnership funds that primarily invest in timber, energy, broad natural resource funds, and infrastructure. 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 10 to 20 years. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the BOI's ownership interest in the partners' capital.

Real Estate High Income Fund – This type consists of predominantly of real estate related instruments with an emphasis in U.S. 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 the

investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

As of the June 30, 2021, exchange date, BOI's foreign currency exposure by denomination and investment type are reported, in U.S. dollars, at fair value and is limited to CAPP. The following table excludes the foreign investments denominated in U.S. dollars for the American Depository Receipts (ADRs), sovereign debt and commingled index funds.

Foreign Currency Exposure by Country

Investment Type in U.S. Dollar Equivalent

(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	International Equities	Private Investments	Real Estate	Real Assets
Australian Dollar	\$ 41	\$ —	\$ 27,640	\$ —	\$ —	\$ —
Brazilian Real	131	2,115	25,098	—	—	—
Canadian Dollar	26	—	51,764	—	—	—
Chilean Peso	18	1,016	—	—	—	—
Columbian Peso	87	4,492	—	—	—	—
Danish Krone	11	—	21,364	—	—	—
Egyptian Pound	—	3,716	—	—	—	—
EMU – Euro	74	4,841	220,307	18,423	543	8,771
Hong Kong Dollar	122	—	94,526	—	—	—
Hungarian Forint	14	1,212	2,107	—	—	—
Indonesian Rupiah	—	5,927	3,159	—	—	—
Japanese Yen	409	—	147,321	—	—	—
Malaysian Ringgit	37	2,223	987	—	—	—
Mexican Peso	198	5,163	16,231	—	—	—
New Israeli Sheqel	4	—	5,526	—	—	—
New Taiwan Dollar	22	—	36,553	—	—	—
New Zealand Dollar	—	—	1,030	—	—	—
Norwegian Krone	—	—	6,513	—	—	—
Philippine Peso	1	—	670	—	—	—
Polish Zloty	4	—	2,539	—	—	—
Pound Sterling	—	—	82,808	—	—	—
Russian Ruble	97	4,952	—	—	—	—
Singapore Dollar	51	—	8,525	—	—	—
SOL	23	2,282	—	—	—	—
South African Rand	143	5,694	7,934	—	—	—
South Korean Won	15	—	48,716	—	—	—
Swedish Krona	—	—	50,794	—	—	—
Swiss Franc	40	—	48,500	—	—	—
Thailand Baht	5	—	2,046	—	—	—
Turkish Lira	4	—	152	—	—	—
Yuan Renminbi	13	10	13,867	—	—	—
Total cash and securities	\$ 1,590	\$ 43,643	\$ 926,677	\$ 18,423	\$ 543	\$ 8,771

Investments in alternative equity 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 following table shows the remaining BOI commitments to alternative equity managers.

Pension Asset Class	Original Commitment	Commitment Remaining
Private Investments	\$ 3,429,448	\$ 1,005,805
Real Assets	748,526	340,045
Real Estate	2,686,429	789,773
Total	<u>\$ 6,864,403</u>	<u>\$ 2,135,623</u>

D. Investments

BOI was created by the State Legislature to manage the Unified Investment Program established by the State Constitution. Long-term investments are administered by the following agencies, as allowed by state law, Section 17-6-201, MCA:

Department	Percent Administered
Board of Investments	45.14 %
Universities	19.78
MPERA (Montana Public Employee Retirement Administration)	27.74
College Savings Plan	5.06
Montana Board of Housing	1.22
Other ⁽¹⁾	1.06
Total	<u>100.00 %</u>

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

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

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

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2021	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
<u>Investments by fair value level</u>				
Agency/Government Related ⁽¹⁾	\$ 6,191	\$ —	\$ 6,191	\$ —
Government Securities	7,523	7,523	—	—
Stocks	10,580	10,580	—	—
Other	327	—	327	—
Total investments at fair value	24,621	18,103	6,518	—
<u>Investments at cost</u>				
Montana Mortgages and Loans ⁽³⁾	184,756			
Total investments at cost	184,756			
Total primary government	209,377			
Component units/fiduciary funds				
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	138,256	138,256	—	—
Agency/Government Related ⁽¹⁾	239,613	—	239,613	—
Asset-Backed Securities ⁽¹⁾	37,243	—	37,243	—
Mortgage-Backed Securities ⁽¹⁾	229,237	—	229,237	—
Commercial Mortgage-Backed Securities ⁽¹⁾	30,830	—	30,830	—
Financial-Corporate ⁽¹⁾	227,593	—	227,593	—
Industrial-Corporate ⁽¹⁾	335,107	—	335,107	—
Utility-Corporate ⁽¹⁾	9,936	—	9,936	—
Equity Investments	208,084	208,084	—	—
529 College Savings Plan	195,544	—	195,544	—
VEBA	11,902	11,902	—	—
State Auditor	10,544	5,930	4,614	—
MSU Investments ⁽²⁾	1	—	1	—
MSU Component Unit Investments ⁽²⁾	251,313	241,024	5,760	4,529
UM Component Unit Investments ⁽²⁾	91,479	56,240	22,760	12,479
Board of Housing ⁽²⁾	41,647	10,836	30,811	—
Total investments at fair value	2,058,329	672,272	1,369,049	17,008
<u>Investments at net asset value (NAV)</u>				
Core Real Estate	98,139			
Deferred Compensation ⁽²⁾	662,866			
Defined Contribution ⁽²⁾	409,279			
MSU Component Unit Investments ⁽²⁾	98,249			
UM Component Unit Investments ⁽²⁾	307,568			
UM Other Investments ⁽²⁾	430			
UM Interest in Split Interest ⁽²⁾	5,072			
Total investments at NAV	1,581,603			
<u>Investments at cost</u>				
MSU Component Unit Investments ⁽²⁾	10,519			
Board of Housing ⁽²⁾	5,505			
Total Investments at Cost	16,024			
Total component unit/fiduciary investments	3,655,956			
Total investments	\$ 3,865,333			
Securities lending investment pool	\$ 15,613			

- (1) The credit quality rating and duration are included in the above sections for the rated investments.
- (2) For more detail, refer to component unit separately issued financial statements.
- (3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included in SMA financial statements. This amount of \$7.5 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, 2021, the fair value of the investments on loan was \$82.6 million. Collateral provided for the investments on loan totaled \$84.2 million consisting of \$15.6 million in cash and \$68.6 million in securities.

\$1.8 billion of SMA is included and also reported in the Investments Measured at Fair Value and NAV table.

Municipal Finance Programs – Rated Securities
Credit Quality Rating and Effective Duration as of
June 30, 2021
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating⁽¹⁾	Effective Duration⁽¹⁾
Short-term investments			
U.S. Treasury obligations	\$ 7,523	AA+	0.26
Total investments	<u>\$ 7,523</u>		

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

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

Accounts receivable, accounts payable, deferred outflows of resources, and deferred inflows of resources on the Statement of Net Position as of June 30, 2021, 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	\$ —	\$ 5,643	\$ 2,847	\$ 312	\$ —	\$ —	\$ 14,331
Contributions/premiums	—	—	—	10,358	—	—	1,847
Grants/contracts/donations	—	—	—	—	—	—	698
Investment income	3,495	—	214	114	2,399	7,366	3,350
License and permits	—	—	—	—	—	—	9,923
Other receivables	—	1,971	8,668	529	—	1,139	136
Medicaid Drug Rebate Program	—	67,498	—	—	—	—	—
Reimbursements/overpayments	—	310	19,143	—	—	—	13,722
Taxes	8,268	—	398,178	—	—	2,307	83,667
Total receivables	11,763	75,422	429,050	11,313	2,399	10,812	127,674
Less: allowance for doubtful accounts	(733)	(2,536)	(114,472)	(529)	—	(270)	(19,855)
Receivables, net	\$ 11,030	\$ 72,886	\$ 314,578	\$ 10,784	\$ 2,399	\$ 10,542	\$ 107,819

	Business-type Activities		
	Municipal Finance Programs	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	\$ —	\$ 40,138	\$ —
Contributions/premiums	—	955	5,634
Loans/investment income	7,319	15	—
Other receivables	—	64	—
Reimbursements/overpayments	—	—	28,466
Total receivables	7,319	41,172	34,100
Less: allowance for doubtful accounts	—	(643)	(7,289)
Receivables, net	\$ 7,319	\$ 40,529	\$ 26,811

B. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred outflows ⁽¹⁾	\$ —	\$ 100,973	\$ 6,461	\$ —	\$ —
Pension deferred outflows ⁽²⁾	21	907,580	15,303	—	113
Refunding deferred outflows	—	—	—	1,483	—
Total deferred outflows	\$ 21	\$ 1,008,553	\$ 21,764	\$ 1,483	\$ 113

	Business-type Activities	
	Municipal Finance Programs	Nonmajor Enterprise Funds
OPEB deferred outflows ⁽¹⁾	\$ 35	\$ 1,835
Pension deferred outflows ⁽²⁾	95	3,827
Total deferred outflows	\$ 130	\$ 5,662

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

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

C. Accounts Payables

	Governmental Activities					
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	Land Grant	State Special Revenue
Accrued interest	\$ 6	\$ 425	\$ 25	\$ 1,986	\$ —	\$ 54
Payroll	9,952	18,266	3,609	4	—	17,567
Tax refunds	—	226,626	—	—	—	—
Vendors/individuals	220,713	79,307	12,521	5,938	5	152,167
Payables, net	\$ 230,671	\$ 324,624	\$ 16,155	\$ 7,928	\$ 5	\$ 169,788

	Business-type Activities		
	Municipal Finance Programs	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued interest	\$ 45	\$ 3	\$ —
Payroll	22	826	—
Vendors/individuals	4	17,451	46,953
Payables, net	\$ 71	\$ 18,280	\$ 46,953

D. Deferred Inflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred inflows ⁽¹⁾	\$ —	\$ 29,331	\$ 1,876	\$ —	\$ —
Pension deferred inflows ⁽²⁾	24	125,729	5,068	—	34
Refunding deferred inflows	—	—	—	1,737	—
Total deferred inflows	\$ 24	\$ 155,060	\$ 6,944	\$ 1,737	\$ 34

	Business-type Activities	
	Municipal Finance Programs	Nonmajor Enterprise Funds
OPEB deferred inflows ⁽¹⁾	\$ 10	\$ 565
Pension deferred inflows ⁽²⁾	29	1,695
Total deferred inflows	\$ 39	\$ 2,260

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

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

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2021, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 753,496	\$ 23,648	\$ (662)	\$ 776,482
Construction work in progress	1,222,251	503,529	(353,159)	1,372,621
Easements	236,872	18,555	—	255,427
Museum and art	86,078	87	—	86,165
Other	30,196	272	—	30,468
Total capital assets not being depreciated	<u>2,328,893</u>	<u>546,091</u>	<u>(353,821)</u>	<u>2,521,163</u>
Capital assets being depreciated:				
Infrastructure	5,758,967	500,676	(390,283)	5,869,360
Land improvements	76,995	1,707	(42)	78,660
Buildings/improvements	618,180	19,653	(296)	637,537
Equipment	430,618	34,174	(13,175)	451,617
Easements - amortized	1,304	—	(73)	1,231
Other	5,776	355	—	6,131
Total capital assets being depreciated	<u>6,891,840</u>	<u>556,565</u>	<u>(403,869)</u>	<u>7,044,536</u>
Less accumulated depreciation for:				
Infrastructure	(1,706,463)	(216,956)	147,112	(1,776,307)
Land improvements	(36,658)	(3,547)	11	(40,194)
Buildings/improvements	(417,897)	(19,862)	193	(437,566)
Equipment	(285,717)	(24,460)	10,011	(300,166)
Other	(4,562)	(283)	—	(4,845)
Total accumulated depreciation	<u>(2,451,297)</u>	<u>(265,108)</u>	<u>157,327</u>	<u>(2,559,078)</u>
Total capital assets being depreciated, net	<u>4,440,543</u>	<u>291,457</u>	<u>(246,542)</u>	<u>4,485,458</u>
Intangible assets	<u>53,610</u>	<u>28,250</u>	<u>(21,446)</u>	<u>60,414</u>
Governmental activities capital assets, net	<u>\$ 6,823,046</u>	<u>\$ 865,798</u>	<u>\$ (621,809)</u>	<u>\$ 7,067,035</u>

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

Business-type Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 800	\$ —	\$ —	\$ 800
Construction work in progress	2,361	1,091	(2,149)	1,303
Other	3,770	110	(667)	3,213
Total capital assets not being depreciated	6,931	1,201	(2,816)	5,316
Capital assets being depreciated:				
Infrastructure	1,175	—	—	1,175
Land improvements	3,830	—	—	3,830
Buildings/improvements	16,379	—	—	16,379
Equipment	9,810	162	(126)	9,846
Total capital assets being depreciated	31,194	162	(126)	31,230
Less accumulated depreciation for:				
Infrastructure	(765)	(18)	—	(783)
Land improvements	(2,213)	(149)	—	(2,362)
Buildings/improvements	(7,116)	(584)	—	(7,700)
Equipment	(7,500)	(368)	112	(7,756)
Total accumulated depreciation	(17,594)	(1,119)	112	(18,601)
Total capital assets being depreciated, net	13,600	(957)	(14)	12,629
Intangible assets	1,521	2,484	(573)	3,432
Business-type activities capital assets, net	\$ 22,052	\$ 2,728	\$ (3,403)	\$ 21,377

⁽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	\$ 9,013
Public safety	9,136
Transportation, including depreciation of the highway system maintained by the State	218,671
Health and human services	3,293
Education	178
Natural resources, including depreciation of the state's dams	10,567
Depreciation on capital assets held by the internal service funds	14,250
Total depreciation expense – Governmental Activities	\$ 265,108

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

	Depreciation ⁽²⁾
Liquor Stores	\$ 105
State Lottery	51
Prison Funds	390
West Yellowstone Airport	513
Other Enterprise Funds	60
Total depreciation expense – Business-type Activities	\$ 1,119

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

NOTE 6. RETIREMENT PLANS

A. General

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

Montana State Fund (MSF), a discretely presented component unit of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in the 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(b)-Deferred Compensation Plan (457(b) Plan). The PERB also oversees education funds related to the pension plans. All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be obtained here: <http://mpera.mt.gov/>. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

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

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

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued annual comprehensive financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations, and experience studies can be obtained at 100 N Park Avenue, Suite 110, PO Box 200139, Helena, MT 59620-0139, or can be found online at <https://trs.mt.gov/>.

The TRB consists of six members, all of whom 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 constitute a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2021, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	553	340	57	34	27	220	363
Nonemployer contributing entity	—	1	—	—	1	1	1	1
Total Participants	7	554	340	57	35	28	221	364

There are 647 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

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

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

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

C. Summary of All Public Employee Retirement Plans

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, 2021, follows:

Type of Plan for Reporting Purposes Plan Designation	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
	JRS	HPORS ⁽¹⁾	GWPORS	PERS-DBRP ⁽²⁾	SRS	MPORS ⁽¹⁾	FURS	VFCA	TRS	PERS-DCRP	457(b)-DC
Classification of Member											
Active	57	244	1,023	29,028	1,495	823	734	2,031	19,658	3,311	5,507
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	18	148	4,390	178	107	43	890	1,955	776	4,392
Non-vested	2	30	524	21,760	805	199	81	—	7,869	1,005	—
Inactive members and beneficiaries currently receiving benefits:											
Service retirements ⁽³⁾	68	343	407	23,742	752	857	661	1,525	16,315	152	—
Disability retirements	—	3	2	127	30	24	13	1	182	10	—
Survivor benefits ⁽⁴⁾	5	10	11	534	23	29	18	6	488	—	—
Total membership	134	648	2,115	79,581	3,283	2,039	1,550	4,453	46,467	5,254	9,899

(1) Includes Deferred Retirement Option Plan (DROP) in the Active count.

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

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

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

The following table represents the aggregate proportional share of the pension amounts for all defined benefit plans from the perspective of the State as the employer and/or nonemployer contributing entity for primary government, discretely presented component units, and fiduciary component units reported as of June 30, 2021, based on the actuarial valuation as of June 30, 2019 (amounts presented in thousands):

Aggregate Pension Amounts - All Defined Benefit Plans

	Primary Government			Discretely Presented Component Units ⁽¹⁾	Fiduciary Component Units	TOTAL
	State as Employer	State as Nonemployer Contributing Entity	Total Primary Government			
Net Pension Liabilities	\$ 1,483,274	\$ 1,475,801	\$ 2,959,075	\$ 237,781	\$ 1,921	\$ 3,198,777
(Net Pension Assets)	(36,545)	—	(36,545)	—	—	(36,545)
Pension Deferred Outflows of Resources	510,946	415,994	926,940	83,633	452	1,011,025
Pension Deferred Inflows of Resources	86,501	46,078	132,579	13,216	114	145,909
Pension Expense or Nonemployer Contributing Entity Grant Expense	246,824	258,238	505,062	50,850	344	556,256

(1) MSF pension deferred outflows of resources difference of \$936.9 thousand is due to MSF reporting on a calendar year-end basis on financial statements with a 6-month subsequent contribution while a 12-month subsequent contribution is disclosed in Note 6.

D. Defined Benefit Retirement Plans

The information below includes all defined benefit retirement plans administered by MPERA and TRS.

(1) Plan Descriptions and Funding Policies

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

Summary of Benefits

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

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

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

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

Eligibility for benefit

Age 60, 5 years of membership service;

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

Vesting

5 years of membership service.

Monthly benefit formula

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum benefit adjustment (non-GABA)

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

Contributions to the Plan

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

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

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

Highway Patrol Officers' Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established on 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 member's 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 Internal Revenue Service (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, 2021, the balance held by MPERA for HPORS DROP participants was approximately \$4.8 million.

Summary of Benefits

Member's highest average compensation (HAC)

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

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

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

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

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

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

- a. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - is not awarded service credit for the period of reemployment;
 - is refunded the accumulated contributions associated with the period of reemployment;

- starting the first month following termination of service receives the same retirement benefit previously paid to the member; and
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following the second retirement.
- b. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
- is awarded service credit for the period of reemployment;
 - starting the first month following termination of service, receives:
 - the same retirement benefit previously paid to the member; and
 - a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - on the initial retirement benefit starting January immediately following second retirement; and
 - on the second retirement benefit starting in January after receiving that benefit for at least 12 months
- c. A member who returns to covered service is not eligible for a disability benefit.

Vesting

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

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

Monthly benefit formula

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Minimum Monthly Benefit (non-GABA)

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

Contributions to the Plan

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

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

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

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

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

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.

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

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

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

Summary of Benefits

Member's highest average compensation (HAC)

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

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

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

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011 –

Age 60, 5 years of membership service;

Age 65, regardless of membership service; or

Any age, 30 years of membership service.

Hired on or after July 1, 2011 –

Age 65, 5 years of membership service;

Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 –

Age 50, 5 years of membership service; or

Any age, 25 years of membership service.

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

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

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

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

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

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

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

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

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011 –

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

Members hired on or after July 1, 2011 –

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

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% 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.

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 8.87% of member compensation.

Local government entities are required to contribution 8.77% of member compensation.

School district employers contributed 8.50% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions, including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. As of January 1, 2021, the additional contributions will not be terminated.

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

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

Non-Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.

The State contributes 0.37% of member compensation on behalf of school district entities.

The State contributes a statutory appropriation from the General Fund. Funding provided for the year ended June 30, 2021, totaled \$34.0 million.

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

Summary of Benefits

Member's highest average compensation (HAC)

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

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

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

Eligibility for benefit

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

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

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

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

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

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

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

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

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Contributions to the Plan

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

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

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

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 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 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 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, 2021, the balance held by MPERA for MPORS DROP participants was approximately \$8.7 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 ACFR presents certain information to help ensure compliance with GASB 67. In addition, the State provides nonemployer entity contributions classified as special funding in accordance with GASB 68. Disclosures made in this financial report for MPORS are meant to reflect the aforementioned relationships.

Summary of Benefits

Member's final average compensation (FAC)

Hired prior to July 1, 1977 – average monthly compensation of final year of service;

Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.

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

Eligibility for benefit

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

Second Retirement: Age 50, reemployed in a MPORS position

Vesting

Death and disability rights are vested immediately.

5 years of membership service.

Monthly benefit formula

2.5% of FAC per year of service credit.

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Contributions to the Plan

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

Member contributions – Contribution rates are dependent upon the date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2021:

- 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.

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

Summary of Benefits

Member's compensation

Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);
Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

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

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

Eligibility for benefit

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

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

Vesting

Death and disability rights are vested immediately

5 years of membership service.

Monthly benefit formula

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

2.5% of HMC per year of service; or

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum Benefit Adjustment (non-GABA)

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

Contributions to the Plan

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

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

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

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

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

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

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

Summary of Benefits

Eligibility for benefit

Age 55, 20 years of credited service;

Age 60, 10 years of credited service.

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

Vesting

10 years of credited service.

Monthly benefit formula (effective January 1, 2016)

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

\$7.50 per year of credited service after 20 years

Contributions to the Plan

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

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 (AFC) (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 one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also 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 $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

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 One 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 11.55% of compensation provided to an active, non-reemployed member. All school districts and other employers are required to contribute 9.17% of an active, non-reemployed, member's compensation to the System.

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

The TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation, and the State is treated as a nonemployer contributing entity in the TRS. The System receives 0.11% of earned compensation from the General Fund for all TRS members. The TRS also receives 2.38% of earned compensation from the

General Fund for TRS members employed at school districts, community colleges, educational cooperatives, and counties in Montana. Finally, the State is also required to contribute \$25.0 million in perpetuity payable July 1 of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

(2) Actuarial Assumptions

For all plans administered by MPERA, the total pension liability used to calculate the net pension liability/ (asset) for each plan was determined by an actuarial valuation date indicated in the table below using the following actuarial assumptions, applied to all periods included in the measurement, with update procedures used to roll forward the total pension liability to June 30, 2020. For the TRS plan, the total pension liability used to calculate the net pension liability as of June 30, 2020, is based on the results of an actuarial valuation as of July 1, 2020. Therefore, no update procedures were used for TRS to roll forward the total pension liability to the measurement date. The significant assumptions and other inputs used to measure the total pension liability were the following:

Plan	JRS	HPORS	GWPORS	PERS-DBRP	SRS	MPORS	FURS	VFCA	TRS	
Administrator	MPERA								TRS	
Valuation Date	June 30, 2019								July 1, 2020	
Actuarial Experience Study	May 2017								May 2018	
Inflation	2.40%								2.40 %	
Total Wage Increases, including inflation	3.50%	3.50% to 10.02%	3.50% to 10.02%	3.50% to 8.47%	3.50% to 10.02%	3.50% to 10.33%	3.50% to 10.02%	N/A	3.25% to 7.76% for non-university members 4.25% for university members	
General Wage Growth	3.50%								N/A	3.25 %
Merit Increase	None	0 to 6.30%	0 to 6.30%	0 to 4.80%	0 to 6.30%	0 to 6.60%	0 to 6.30%	N/A	0 to 4.51% for non-university members 1.00% for university members	
Investment Return	7.34%								7.34 %	
Administrative Expense as a % of Payroll	0.08%	0.18%	0.16%	0.30%	0.16%	0.15%	0.13%	\$202.0 thousand	0.45 %	

<p>Post-retirement Benefit Increases and GABA</p>	<p>7/1/1997 or elected GABA – 3.0%</p>	<p>7/1/1997 or elected GABA - 3.0% 7/1/2013 - 1.5%</p>	<p>Pre-7/1/2007 - 3.0% 7/1/2007 - 1.5%</p>	<p>Pre-7/1/2007 - 3.0% 7/1/2007 through 6/30/2013 - 1.5% 7/1/2013 - (a) 1.5% for each year if 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 is 40 years or more</p>	<p>Pre-7/1/2007 - 3.0% 7/1/2007 - 1.5%</p>	<p>7/1/1997 or elected GABA - 3.0%</p>	<p>7/1/1997 or elected GABA - 3.0%</p>	<p>N/A</p>	<p>Tier One members - 1.5% Tier Two members - equal to or greater than 0.5% but no more than 1.5%</p>
<p>Post-retirement Benefit Increases - Waiting Period</p>	<p>1 year</p>	<p>Pre-7/1/2013 - 1 year 7/1/2013 - 3 years</p>	<p>1 year</p>	<p>1 year</p>	<p>1 year</p>	<p>1 year</p>	<p>1 year</p>	<p>N/A</p>	<p>3 years</p>
<p>Post-retirement Benefit Increases - Minimum Benefit Adjustment</p>	<p>Pre-7/1/1997 and did not elect GABA: benefits increase same as salary of sitting judge.</p>	<p>Pre-7/1/1997 and did not elect GABA: 2% x service credits x base salary of probationary officer. Limited to 5.0% over current benefit and may not exceed 60% of base salary of probationary officer.</p>	<p>N/A</p>	<p>N/A</p>	<p>N/A</p>	<p>Pre-7/1/1997 and did not elect GABA - 1/2 of monthly salary of new officer</p>	<p>Pre-7/1/1997 and did not elect GABA - 1/2 of monthly salary of new firefighter</p>	<p>N/A</p>	<p>N/A</p>

<p>Mortality</p>	<p>Mortality assumptions among contributing members, terminated vested members, service retired members, and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males. Mortality assumptions among disabled retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.</p>	<p>Mortality among contributing members, service retired members, and beneficiaries are based on RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvements which is expected to occur in the future. Mortality among disabled members are based on RP-2000 Disabled Mortality Table for Males, set back three years, with mortality improvements projected by Scale BB to 2022, and RP-2000 Disabled Mortality Table for Females, set forward two years, with mortality improvements projected by Scale BB to 2022.</p>
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Changes in actuarial assumptions and methods: For JRS, PERS-DBRP, SRS, MPORS, FURS, and VFCA, the discount rate was lowered from 7.65% to 7.34%. For HPORS, the discount rate was lowered from 7.65% to 4.43%. For GWPORS, the discount rate was lowered from 7.65% to 5.65%. For TRS, the discount rate was lowered from 7.50% to 7.34%. For JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, the investment rate of return was lowered from 7.65% to 7.34%. For TRS, the investment rate of return was lowered from 7.50% to 7.34%. For JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, the inflation rate was reduced from 2.75% to 2.40%. For TRS, the inflation rate was reduced from 2.50% to 2.40%.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date, for JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, and TRS.

Changes in proportionate share: Because the State is the single employer for JRS and HPORS, there were no changes in proportion of the net pension assets for JRS plan and the net pension liability for HPORS plan. Between the measurement date of the net pension liability (asset) and the State's reporting date, the investment rates of return of JRS and HPORS were substantially higher than the investment rates of return assumption. Therefore, the State's net pension assets for JRS are expected to increase and the State's net pension liability for HPORS are expected to decrease.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the State's reporting date, the investment rate of return of GWPORS was substantially higher than the investment rate of return assumption. Therefore, the State's proportionate share of the collective net pension liability as the State's primary government employer, and the State's discretely presented component units are expected to change. The State still reports 100.0% GWPORS plan, and the total plan net pension liability are expected to decrease.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the State's reporting date, the investment rates of return of PERS-DBRP, SRS, MPORS, FURS, and TRS plans were substantially higher than the investment rates of return assumption. Therefore, the State's proportionate share amounts of the collective net pension liability as the State's employer and non-employer contributing entity in applicable plans are expected to decrease.

Changes in proportionate share: Because the State is the only contributing entity, there were no changes in proportion of the net pension liability for VFCA plan. The State reports 100.0% VFCA plan. Between the measurement date of the collective net pension liability and the non-employer's reporting date, the investment rate of return of VFCA was substantially higher than the investment rate of return assumption. Therefore, the State's non-employer proportionate share of the collective net pension liability is expected to decrease.

(3) Discount Rate

The discount rate used to measure the total pension liability was 7.34% for JRS, 4.43% for HPORS, 5.65% for GWPORS, and 7.34% for SRS. 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, each pension plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2106 for JRS, 2129 for HPORS, 2120 for GWPORS, and 2121 for SRS. 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 for JRS and SRS. A municipal bond rate of 2.19% was incorporated in the discount rate for HPORS and GWPORS.

The discount rate used to measure the total pension liability for PERS-DBRP, MPORS, and FURS was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, each pension plan'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 for PERS-DBRP, 2134 for MPORS, and 2133 for FURS. 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.

The discount rate used for VFCA to measure the total pension liability was 7.34%. 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. 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 2112. A municipal bond rate was not incorporated in the discount rate.

The discount rate used to measure the total pension liability for TRS was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entity will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. 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 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

(4) Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, and VFCA plans administered by MPERA. The most recent analysis of each plan, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, is outlined in a report dated May 3, 2018. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The average long term capital market assumptions published in the Survey of Capital Market Assumptions 2020 Edition by Horizon Actuarial Service, LLC, yield a median real return of 4.94%. Assumed inflation is based on the intermediate inflation assumption of 2.40% in the 2020 OASDI Trustees Report used by the Chief Actuary for Social Security to produce 75 year cost projections. Combining these two results yields a nominal return of 7.34%. All the plans administered by MPERA and TRS have the same target allocation and long-term expected real rate of return. The target allocation and best estimates of the arithmetic real rates of return for each major asset class as of June 30, 2020, are summarized in the table below:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Domestic Equity	30.00%	6.19%
International Equity	16.00%	6.92%
Private Investments	14.00%	10.37%
Natural Resources	4.00%	3.43%
Real Estate	9.00%	5.74%
Core Fixed Income	20.00%	1.57%
Non-Core Fixed Income	5.00%	3.97%
Cash	2.00%	0.11%
Total	100.00%	

(5) Change in Net Pension Liability (Asset)

A schedule of changes in the net pension liability (asset) is presented for each of the single-employer defined benefit plans (amounts expressed in thousands). The date in the schedules is a measurement date, which is one year earlier than the financial reporting date.

	JRS		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2019	\$ 65,319	\$ 104,886	\$ (39,567)
Service costs	1,748	—	1,748
Interest	4,842	—	4,842
Difference between expected and actual experience	(262)	—	(262)
Changes of assumptions	1,912	—	1,912
Contributions – employer	—	1,988	(1,988)
Contributions – member	—	560	(560)
Net investment income	—	2,827	(2,827)
Refunds of contributions	—	—	—
Benefit payments	(4,038)	(4,038)	—
Plan administrative expense	—	(157)	157
Other changes	—	—	—
Net changes	4,202	1,180	3,022
Balances at 6/30/2020	<u>\$ 69,521</u>	<u>\$ 106,066</u>	<u>\$ (36,545)</u>

	HPORS		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2019	\$ 237,728	\$ 152,778	\$ 84,950
Service costs	3,337	—	3,337
Interest	17,688	—	17,688
Difference expected and actual experience	(993)	—	(993)
Changes in assumptions	141,055	—	141,055
Contributions – employer	—	6,003	(6,003)
Contributions – non-employer (State)	—	226	(226)
Contributions – member	—	2,170	(2,170)
Net investment income	—	4,101	(4,101)
Refund of contributions	(331)	(331)	—
Benefit payments	(12,685)	(12,685)	—
Plan administrative expense	—	(163)	163
Other changes	—	(131)	131
Net changes	148,071	(810)	148,881
Balances at 6/30/2020	<u>\$ 385,799</u>	<u>\$ 151,968</u>	<u>\$ 233,831</u>

GWPORS

	<u>State as Primary Government Employer</u>			<u>State's Discretely Presented Component Units</u>			<u>Total State (Plan)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at 6/30/2019	\$ 234,679	\$ 196,044	\$ 38,635	\$ 12,334	\$ 10,304	\$ 2,030	\$ 247,013	\$ 206,348	\$ 40,665
Service costs	7,622	—	7,622	407	—	407	8,029	—	8,029
Interest	17,595	—	17,595	940	—	940	18,535	—	18,535
Difference between expected and actual experience	(1,924)	—	(1,924)	(103)	—	(103)	(2,027)	—	(2,027)
Changes in assumptions	81,606	—	81,606	4,361	—	4,361	85,967	—	85,967
Contributions – employer	—	4,622	(4,622)	—	246	(246)	—	4,868	(4,868)
Contributions – member	—	5,509	(5,509)	—	294	(294)	—	5,803	(5,803)
Net investment income	—	5,300	(5,300)	—	283	(283)	—	5,583	(5,583)
Refunds of contributions	(1,139)	(1,139)	—	(61)	(61)	—	(1,200)	(1,200)	—
Benefit payments	(7,829)	(7,829)	—	(418)	(418)	—	(8,247)	(8,247)	—
Plan administrative expense	—	(228)	228	—	(13)	13	—	(241)	241
Other changes ⁽¹⁾	(200)	(171)	(29)	200	167	33	—	(4)	4
Net changes	95,731	6,064	89,667	5,326	498	4,828	101,057	6,562	94,495
Balances at 6/30/2020	\$ 330,410	\$ 202,108	\$ 128,302	\$ 17,660	\$ 10,802	\$ 6,858	\$ 348,070	\$ 212,910	\$ 135,160

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

(6) 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), of the plans administered by MPERA and TRS, calculated using the discount rate of 7.34% for JRS, PERS-DBRP, SRS, MPORS, FURS, VFCA, and TRS; 4.43% for HPORS; and 5.65% for GWPORS; as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.34% for JRS, PERS-DBRP, SRS, MPORS, FURS, VFCA, and TRS; 3.43% for HPORS, and 4.65% for GWPORS) or 1.00% higher (8.34% for JRS, PERS-DBRP, SRS, MPORS, FURS, VFCA, and TRS; 5.43% for HPORS, and 6.65% for GWPORS) than the current rate.

**Sensitivity of the Plan Participating Employer and Nonemployer Contributing Entities
Net Pension Liability (Asset) to Changes in the Discount Rate
(amounts expressed in thousands)**

		Plan	JRS	HPORS	GWPORS	PERS-DBRP	SRS	MPORS	FURS	VFCA	TRS
Primary Government	State as Employer	1.0% Decrease	\$ (29,733)	\$ 306,955	\$ 184,487	\$ 1,498,548	\$ 9,226	\$ —	\$ 6,020	\$ —	\$ 30,499
		Current	(36,545)	233,831	128,302	1,088,713	5,800	—	3,722	—	22,906
		1.0% Increase	(42,413)	177,819	83,222	744,453	2,998	—	1,876	—	16,553
	State as NER	1.0% Decrease	—	—	—	516,210	—	233,100	171,222	13,962	1,094,843
		Current	—	—	—	375,032	—	163,514	105,867	9,106	822,282
		1.0% Increase	—	—	—	256,444	—	108,001	53,353	5,002	594,239
Discretely Presented Component Units	1.0% Decrease	—	—	9,861	278,065	—	—	—	—	38,488	
	Current	—	—	6,858	202,017	—	—	—	—	28,906	
	1.0% Increase	—	—	4,448	138,138	—	—	—	—	20,890	
Fiduciary Component Units	1.0% Decrease	—	—	—	2,644	—	—	—	—	—	
	Current	—	—	—	1,921	—	—	—	—	—	
	1.0% Increase	—	—	—	1,314	—	—	—	—	—	
Total	1.0% Decrease	(29,733)	306,955	194,348	2,295,467	9,226	233,100	177,242	13,962	1,163,830	
	Current	(36,545)	233,831	135,160	1,667,683	5,800	163,514	109,589	9,106	874,094	
	1.0% Increase	\$ (42,413)	\$ 177,819	\$ 87,670	\$ 1,140,349	\$ 2,998	\$ 108,001	\$ 55,229	\$ 5,002	\$ 631,682	

(7) Net Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

In accordance with GASB 68, the employer is required to recognize and report certain amounts associated with its participation in the JRS, HPORS, and GWPORS, the plans the State participates in as a single-employer. GASB 68 became effective June 30, 2015, and includes requirements for participant to record and report its net pension liability (NPL) or net pension asset (NPA), pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. 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, SRS, MPORS, FURS, VFCA, and 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. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity in a special funding situation, when a plan has the nonemployer contributing entity, during the measurement period July 1, 2019, through June 30, 2020, relative to the total contributions received from all participating employers and the nonemployer contributing entity. Due to the existence of the special funding situation in the PERS-DBRP, FURS, MPORS, VFCA, and TRS, the State is required to report a proportionate share of the collective net pension liability that is associated with the non-State employers in these plans, respectively.

Net Pension Liability (Asset): The following presents the state's net pension liability as of June 30, 2021 (amounts presented in thousands):

Plan as of Measurement Date		Net Pension Liability (Asset) as of 6/30/2019	Net Pension Liability (Asset) as of 6/30/2020	Percent of NPL/NPA as of 6/30/2019	Percent of NPL/NPA as of 6/30/2020	Change in Percent of NPL/NPA
JRS	Primary government	\$ (39,567)	\$ (36,545)	100 %	100 %	— %
HPORS	Primary government	84,950	233,831	100 %	100 %	— %
GWPORS	<i>Primary government</i>	38,635	128,302	95.007027 %	94.926189 %	(0.080838)%
	<i>Discretely presented component units</i>	<u>2,030</u>	<u>6,858</u>	<u>4.992973 %</u>	<u>5.073811 %</u>	<u>0.080838 %</u>
	State of Montana totals	40,665	135,160	100 %	100 %	— %

Collective Net Pension Liability: The following presents the state's proportionate share of the collective net pension liability as of June 30, 2021 (amounts presented in thousands).

Plan as of Measurement Date		Net Pension Liability as of 6/30/2019 ⁽¹⁾	Net Pension Liability as of 6/30/2020	Percent of Collective NPL as of 6/30/2019 ⁽¹⁾	Percent of Collective NPL as of 6/30/2020	Change in Percent of Collective NPL
PERS-DBRP	<i>Primary government</i>	\$ 866,431	\$ 1,088,713	41.440995 %	41.267072 %	(0.173923)%
	<i>Discretely presented component units</i>	156,990	202,017	7.517256 %	7.657348 %	0.140092 %
	<i>Fiduciary component units</i>	1,488	1,921	0.071053 %	0.072815 %	0.001762 %
	<i>Nonemployer contributing entity</i>	<u>303,530</u>	<u>375,032</u>	<u>14.522915 %</u>	<u>14.215404 %</u>	<u>(0.307511)%</u>
	State of Montana totals	1,328,439	1,667,683	63.552219 %	63.212639 %	(0.339580)%
SRS	Primary government	4,067	5,800	4.876949 %	4.758893 %	(0.118056)%
MPORS	Nonemployer contributing entity	133,487	163,514	67.063878 %	66.853347 %	(0.210531)%
FURS	<i>Primary government</i>	2,309	3,722	2.013129 %	2.378643 %	0.365514 %
	<i>Nonemployer contributing entity</i>	<u>79,524</u>	<u>105,867</u>	<u>69.323577 %</u>	<u>67.656380 %</u>	<u>(1.667197)%</u>
	State of Montana totals	81,833	109,589	71.336706 %	70.035023 %	(1.301683)%
VFCA	Nonemployer contributing entity	6,907	9,106	100 %	100 %	— %
TRS	<i>Primary government</i>	19,118	22,906	0.991432 %	1.018287 %	0.026855 %
	<i>Discretely presented component units</i>	27,375	28,906	1.419681 %	1.285043 %	(0.134638)%
	<i>Nonemployer contributing entity</i>	<u>715,637</u>	<u>822,282</u>	<u>37.112880 %</u>	<u>36.554642 %</u>	<u>(0.558238)%</u>
	State of Montana totals	762,130	874,094	39.523993 %	38.857972 %	(0.666021)%

⁽¹⁾ The breakdown of the PERS-DBRP net pension liability as of 6/30/2019 were restated applying the allocation method for note disclosure.

Pension Expense

The State recognized the following pension expenses for the State as the primary government employer, the State's discretely presented component units, and the State's fiduciary component units, and pension grant expenses for the State as nonemployer contributing entity, for the year ended June 30, 2021 (amounts presented in thousands):

Plan	Primary Government				Total
	State as Employer	State as Nonemployer Contributing Entity	Discretely Presented Component Units	Fiduciary Component Units	
JRS	\$ 1,243	\$ —	\$ —	\$ —	\$ 1,243
HPORS	48,232	—	—	—	48,232
GWPORS	25,886	—	1,355	—	27,241
PERS-DBRP ⁽¹⁾	167,295	115,099	34,829	344	317,567
SRS	354	—	—	—	354
MPORS ⁽²⁾	—	29,464	—	—	29,464
FURS ⁽³⁾	832	21,039	—	—	21,871
VFCA ⁽⁴⁾	—	1,844	—	—	1,844
TRS ⁽⁵⁾	2,982	90,792	14,666	—	108,440

⁽¹⁾ Of the total pension expense for the State as a nonemployer contributing entity, \$1.1 million is the grant expense for special funding support provided by the General Fund to local government and school district participants, \$34.0 million is the grant expense for special funding support provided by the General Fund as a statutory appropriation for all participating employers; \$80.1 million is the pension expense that is actuarially allocated to the State as a nonemployer contributing entity.

⁽²⁾ The grant expense for the State as a nonemployer contributing entity is for special funding support provided by the General Fund for its proportionate share of the collective MPORS pension expense that is associated with other employer participants in the plan.

⁽³⁾ The grant expense for the State as a nonemployer contributing entity is for special funding support provided by the General Fund for its proportionate share of the collective FURS pension expense that is associated with other employer participants in the plan.

⁽⁴⁾ The grant expense for the State as a nonemployer contributing entity is 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 collective VFCA pension expense that is associated with other employer participants in the plan.

⁽⁵⁾ The grant expense for the State as a nonemployer contributing entity is for special funding support provided by the General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of the fiscal year ended June 30, 2021, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts presented in thousands):

JRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,372	\$ 921
Changes of assumptions	1,434	—
Net difference between projected and actual earnings on pension plan investments	4,135	—
Contributions subsequent to the measurement date	2,138	—
Totals	\$ 9,079	\$ 921

HPORS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,354	\$ 745
Changes of assumptions	105,791	—
Net difference between projected and actual earnings on pension plan investments	5,982	—
Contributions subsequent to the measurement date	6,599	—
Totals	\$ 119,726	\$ 745

GWPORS	Primary Government		Discretely Presented Component Units		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,053	\$ 4,232	\$ 163	\$ 226	\$ 3,216	\$ 4,458
Changes in assumptions	66,400	—	3,549	—	69,949	—
Net difference between projected and actual earnings on pension plan investments	7,900	—	422	—	8,322	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	168	139	39	68	207	207
Contributions subsequent to the measurement date	5,165	—	229	—	5,394	—
Totals	\$ 82,686	\$ 4,371	\$ 4,402	\$ 294	\$ 87,088	\$ 4,665

PERS-DBRP	Primary Government				Discretely Presented Component Units		Fiduciary Component Units	
	State as Employer		State as Nonemployer Contributing Entity		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources				
Difference between expected and actual experience	\$ 17,574	\$ 31,128	\$ 6,054	\$ 10,723	\$ 3,261	\$ 5,776	\$ 31	\$ 55
Change of assumptions	75,389	—	25,970	—	13,989	—	133	—
Net difference between projected and actual earnings on pension plan investments	94,273	—	32,474	—	17,493	—	167	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	36,201	47,596	51,635	92	—	7,065	—	59
Contributions subsequent to the measurement date	65,720	—	21,180	—	13,037	—	121	—
Totals	\$ 289,157	\$ 78,724	\$ 137,313	\$ 10,815	\$ 47,780	\$ 12,841	\$ 452	\$ 114

SRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 263	\$ 2
Changes of assumptions	1,193	903
Net difference between projected and actual earnings on pension plan investments	713	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	252
Contributions subsequent to the measurement date	607	—
Totals	\$ 2,776	\$ 1,157

MPORS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,838	\$ 516
Change of assumptions	13,895	—
Net difference between projected and actual earnings on pension plan investments	12,716	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	954	1,265
Contributions subsequent to the measurement date	17,395	—
Totals	\$ 52,798	\$ 1,781

FURS	Primary Government			
	State as Employer		State as Nonemployer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 253	\$ 19	\$ 7,206	\$ 551
Change of assumptions	661	—	18,807	—
Net difference between projected and actual earnings on pension plan investments	478	—	13,591	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	120	12	2,330	2,671
Contributions subsequent to the measurement date	665	—	17,897	—
Totals	\$ 2,177	\$ 31	\$ 59,831	\$ 3,222

VFCA	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 250	\$ 58
Change of assumptions	897	—
Net difference between projected and actual earnings on pension plan investments	1,690	—
Contributions subsequent to the measurement date	2,578	—
Totals	\$ 5,415	\$ 58

TRS	Primary Government				Discretely Presented Component Units	
	State as Employer		State as Nonemployer Contributing Entity		Deferred Outflows of Resources	Deferred Inflows of Resources
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources		
Difference between expected and actual experience	\$ 222	\$ —	\$ 7,971	\$ —	\$ 281	\$ —
Change of assumptions	1,200	26	43,066	945	1,514	33
Net difference between projected and actual earnings on pension plan investments	1,605	—	57,604	—	2,025	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	863	526	5,295	29,257	12,983	48
Contributions subsequent to the measurement date	1,455	—	46,701	—	14,648	—
Totals	\$ 5,345	\$ 552	\$ 160,637	\$ 30,202	\$ 31,451	\$ 81

The amounts reported in the tables above as deferred outflows of resources related to pensions resulting from the contributions made subsequent to the June 30, 2020, measurement date will be recognized as a reduction of the net pension liability (asset) in the fiscal year ended June 30, 2022.

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

Year ended June 30:	JRS	HPORS	SRS	MPORS	VFCA
2022	\$ 849	\$ 36,457	\$ (272)	\$ 10,251	\$ 757
2023	2,298	37,357	467	11,881	1,065
2024	1,846	37,088	456	8,552	564
2025	1,027	1,480	361	2,938	393
2026	—	—	—	—	—
Thereafter	—	—	—	—	—

Year ended June 30:	GWPORS		
	Primary Government	Discretely Presented Component Units	Total
2022	\$ 19,360	\$ 1,006	\$ 20,366
2023	18,220	968	19,188
2024	17,696	944	18,640
2025	17,874	961	18,835
2026	—	—	—
Thereafter	—	—	—

Year ended June 30:	PERS-DBRP			
	Primary Government		Discretely Presented Component Units	Fiduciary Component Units
	State as Employer	State as Nonemployer Contributing Entity		
2022	\$ 29,644	\$ 67,311	\$ (584)	\$ —
2023	58,576	18,547	12,004	117
2024	32,940	11,347	6,112	58
2025	23,553	8,113	4,370	42
2026	—	—	—	—
Thereafter	—	—	—	—

Year ended June 30:	FURS	
	Primary Government	
	State as Employer	State as Nonemployer Contributing Entity
2022	\$ 279	\$ 8,463
2023	372	10,335
2024	325	8,840
2025	209	5,855
2026	—	—
Thereafter	296	5,219

Year ended June 30:	TRS		
	Primary Government		Discretely Presented Component Units
	State as Employer	State as Nonemployer Contributing Entity	
2022	\$ 1,120	\$ 22,432	\$ 8,512
2023	1,017	22,679	5,326
2024	798	24,166	2,376
2025	403	14,457	508
2026	—	—	—
Thereafter	—	—	—

E. Legal Actuarial Status of Plans

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

A traditional funding actuarial valuation of each of the defined benefit plans is performed annually. The purpose of the traditional funding actuarial valuation is to measure funding progress and to determine the actuarial determined contribution, contribution sufficiency or deficiency, and other actuarial information necessary for monitoring funding position. The most recent actuarial valuation was performed for fiscal year ended June 30, 2021. 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, 2021, the Game Warden & Peace Officers' Retirement System (GWPORS) was not in compliance and did not amortize within 30 years.

F. 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-DCRP 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, 2021, is \$9.7 million and, contribution forfeitures were \$643.0 thousand.

Local government entities contribute 8.77% of member compensation. School district employers contributed 8.50% 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 8.87% of member compensation.

The total contribution rate of 8.87%, referenced in the preceding paragraph, is allocated as follows: 8.53% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

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

457(b)-Deferred Compensation Plan – The 457(b)-Deferred Compensation Plan (457(b)-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 62 non-state entity employers participate in the 457(b)-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.

G. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association (TIAA). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21, MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per Section 19-21-203, MCA. Combined contributions to the classified staff plan are 16.77% per Section 19-3-316, MCA and Section 19-3-315, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and investment allocations by the participant. Individuals are immediately vested for both employee and employer contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA. Total contributions made to the plan by the employer were \$17.4 million, and the total employee contributions were \$20.0 million for the fiscal year ended June 30, 2021.

H. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at either fair value or cost, depending on the underlying investment type. 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. Mortgages are present value adjusted. Investment valuation not classified within the fair value measurement levels are reported at Net Asset Value. Further detail related to investments is provided in Note 3.

I. Long-term Contracts for Contributions

Per Section 19-2-706, MCA, the Montana Legislature enacted a provision of the Employee Protection Act (EPA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. In fiscal year 2021, 269 employees participated in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by MPERA on the unpaid balance. Total contributions received (including interest) during fiscal year 2021 totaled \$171.4 thousand. The outstanding balance at June 30, 2021, totaled \$7.6 thousand.

J. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action in the Eighth Judicial District of Montana against the State of Montana on October 6, 2015, alleging the inappropriate advising, reporting, and withholding of state and federal income taxes on certain line-of-duty disability benefits before conversion to a normal retirement benefit. The State was served with the

Complaint on November 25, 2015, and is represented by Jean Faure and Jason Holden of the Faure Holden law firm in Great Falls, Montana. On June 11, 2019, the Court issued an Order granting Plaintiff's Motion to Certify Class. The Court has defined the prospective class of plaintiffs in this matter and the parties were instructed by the Court to meet and confer to agree on the class form of notice and notice plan concerning the matter. Counsel representing the class are Lawrence A. Anderson from Great Falls, Montana and Tom and Sean Morrison from Helena, Montana. This matter was settled between the parties and approved by the Court as of March 22, 2021. Below is the detail of litigation settlements with amounts presented in thousands.

<i>Tadman, et al. v. State</i>	JRS	HPORS	SRS	GWPORS	Totals
Benefits	\$ 3.2	\$ 420.6	\$ 1,549.3	\$ 26.9	\$ 2,000.0
Administrative expense (legal costs)	1.6	210.3	774.7	13.4	1,000.0
Totals	\$ 4.8	\$ 630.9	\$ 2,324.0	\$ 40.3	\$ 3,000.0

PERB v. Lewis and Clark County. On May 1, 2020, the PERB filed a Complaint for Declaratory Relief in the First Judicial District of Montana against Lewis and Clark County. This complaint asked the Court to rule that the Montana Constitution, Article VIII, Section 15, vests the PERB with the authority to actuarially determine the amount of the unfunded pension liabilities attributable to a component unit of Lewis and Clark County that has terminated its participation in a PERB administered defined benefit plan, and compel the payment of and collect this unfunded pension liability upon this component unit's termination. On May 13, 2020, Lewis and Clark County filed a motion to dismiss the Complaint. This motion has been fully briefed by both parties and the PERB awaits a ruling from the Court. On June 1, 2020, the PERB filed its First Amended Complaint amending its original pleading to add a claim for breach of contract against Lewis and Clark County. On June 18, 2020, Lewis and Clark County filed a motion to dismiss PERB's First Amended Complaint. This motion has been fully briefed and the PERB awaits a ruling from the Court. This matter was consolidated with Montana Association of Counties, Lewis and Clark County, and Cascade County v. PERB and MPERA by the Court on February 22, 2021.

Montana Association of Counties (MACo), Lewis and Clark County, and Cascade County v. PERB and MPERA. On May 1, 2020, the MACo filed a Complaint for Declaratory Judgement, Injunctive Relief, and a Writ of Prohibition against the PERB and MPERA in the First Judicial District Court of Lewis and Clark County. This Complaint asked the Court to rule that the Montana Constitution, Article VIII, Section 15, does not vest the PERB with the authority to determine and collect unfunded pension liabilities owed to the PERS-DBRP trust as a result of partial withdrawals of employees or reductions in force, and that the 1947 Contract between the PERB and Lewis and Clark County and Cascade County, as well as other similar agreements between the PERB and all other Montana counties, does not vest the PERB with the authority to determine and collect unfunded pension liabilities owed to the PERS-DBRP trust as a result of partial withdrawals of employees or reductions in force, and that MACo is entitled to a preliminary and permanent injunction enjoining PERB from assessing withdrawal penalties against Montana counties, and that MACo is entitled to a Writ of Prohibition arresting the PERB from assessing withdrawal penalties against Montana counties. On May 15, 2020, MACo amended its original pleading by filing its First Amended Complaint. This amendment added the additional parties of Lewis and Clark County and Cascade County to this action as plaintiffs as well as the additional claims for breach of express and implied contract. On June 25, 2020, the PERB filed a Motion to Dismiss, or in the Alternative, Partial Summary Judgement with regard to the Plaintiffs' Count II, IV, V, and VI. This motion has been fully briefed by all parties and the PERB awaits a ruling from the Court. This matter was consolidated with PERB v. Lewis and Clark County by the Court on February 22, 2021.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information Non-trust Plans

The State of Montana (State) and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and MUS offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by state retirement plan. Further detail on state retirement plans is provided in Note 6. MUS provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from their plan, or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. They must elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for both plans.

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

B. Plan Descriptions

Both healthcare OPEB plans for the State and MUS are reported as single-employer plans. In addition to the primary government, the participating employers under the State OPEB plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS OPEB plan are Office of Commissioner of Higher Education (OCHE), Montana State University - Billings (MSU-Billings), Montana State University - Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University - Northern (MSU-Northern), Montana Technological University, Helena College UM, University of Montana - Missoula (UM-Missoula), and University of Montana - Western (UM-Western). Participating employers under MUS, but excluded from the total OPEB liability due to not qualifying as component units, are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), and Miles Community College (Miles CC). Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The State and MUS pay for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-812, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-1310, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

As of December 31, 2020, the State OPEB plan's administratively established retiree medical premiums vary between \$457.00 and \$2,172.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and

\$70.00 per month and vision hardware premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for Medicare.

As of June 30, 2021, the MUS OPEB plan's administratively established retiree medical premiums vary between \$368.00 and \$2,452.00 per month. Retiree dental premiums vary between \$52.00 and \$156.00 per month, while vision premiums vary from \$10.70 to \$31.18, depending on the types and number of dependents enrolled and which medical Third Party Administrator (TPA) was selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. The premium changes were based on actual claims experience and actuarial projections based on the experience and trends.

C. Basis of Accounting

Total OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements, and the component unit financial statements. Total OPEB liability is not reported on the governmental fund financial statements, as it is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Both OPEB plans state, that an employee enrolled in the OPEB plan, who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with their respective benefit office, within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost, and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2021.

The number of State Plan participants as of March 31, 2021, follows:

Enrollment	State Plan Participants						Total
	State ⁽¹⁾	Facility Finance Authority ⁽²⁾	Montana Board of Housing ⁽²⁾	Public Employee Retirement Board ⁽³⁾	Montana State Fund ⁽²⁾	Teachers Retirement System ⁽³⁾	
Active employees	12,210	3	36	51	285	21	12,606
Retired employees, spouses, and surviving spouses	2,178	2	3	1	17	4	2,205
Total	14,388	5	39	52	302	25	14,811

The number of MUS Plan participants as of March 31, 2021, follows:

Enrollment	MUS Plan Participants									Total
	MSU-GFC ⁽²⁾	UM-HC ⁽²⁾	MSU-Billings ⁽²⁾	MSU-Bozeman ⁽²⁾	MSU-Northern ⁽²⁾	OCHE ⁽¹⁾	UM-Missoula ⁽²⁾	UM-MT Tech ⁽²⁾	UM-Western ⁽²⁾	
Active employees	103	71	427	3,026	171	46	1,856	382	179	6,261
Retired employees, spouses, and surviving spouses	8	14	109	459	35	16	475	97	52	1,265
Total	111	85	536	3,485	206	62	2,331	479	231	7,526

⁽¹⁾ Primary Government

⁽²⁾ Discrete Component Units of Primary Government

⁽³⁾ Fiduciary Component Units of Primary Government

D. Schedule of Changes in Total OPEB Liability

The following table presents the other items related to and changes in the total OPEB liability:

Annual OPEB Cost & Changes in Total OPEB liability
(in thousands)

	State Plan			MUS Plan		
	Primary Government Total OPEB Liability	Discrete Component Unit and Fiduciary Component Unit Total OPEB Liability	Total State Plan	Primary Government Total OPEB Liability	Discrete Component Unit Total OPEB Liability	Total MUS Plan
Balances at 6/30/2020	\$ 46,129	\$ 1,213	\$ 47,342	\$ 283	\$ 26,566	\$ 26,849
Changes for the year:						
Service cost	1,684	50	1,734	16	1,396	1,412
Interest	1,299	34	1,333	8	769	777
Difference between expected and actual experience	(6,389)	252	(6,137)	(207)	(17,181)	(17,388)
Changes of assumptions or other inputs	101,723	2,716	104,439	461	45,213	45,674
Benefit payments	(1,165)	(31)	(1,196)	—	(13)	(13)
Net changes	97,152	3,021	100,173	278	30,184	30,462
Balances at 6/30/2021 ⁽¹⁾	\$ 143,281	\$ 4,234	\$ 147,515	\$ 561	\$ 56,750	\$ 57,311

⁽¹⁾ State, fiduciary component units, and discretely presented component units proportion of the collective total OPEB liability as of the measurement date for fiscal years 2020 and 2021 for the State Plan was 100% both years and for the MUS Plan is 94.92% and 95.18%, respectively.

E. Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

The schedule of changes in the State's and MUS's TOL and related ratios, presented as required supplementary information following the notes to the financial statements is designed to present multi-year trend information about whether the actuarial value of plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the State's and MUS's TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The State's OPEB Plan TOL on December 31, 2020, rolled forward to March 31, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

**Other Postemployment Benefits
State Single Employer Plan**

	<u>Retiree/Surviving Spouse</u>	<u>Spouse</u>
Contributions (weighted average):		
Before Medicare eligibility	\$ 15,072	\$ 6,908
After Medicare eligibility	5,484	4,820
Actuarial valuation date	December 31, 2020	
Experience study period	January 1, 2018 through December 31, 2020	
Actuarial measurement date ⁽¹⁾	March 31, 2021	
Actuarial cost method	Entry age normal funding method	
Amortization method	Level percent of payroll, open basis	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	2.23%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	40.00%	
Future eligible spouses	70.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in assumptions for 2021 were due to no retiree contribution increase and a decrease in the discount rate from 2.75% to 2.23%

Changes in benefit terms since last measurement date: None

Additional information as of the latest actuarial valuation for MUS OPEB plan follows:

**Other Postemployment Benefits
MUS Single Employer Plan**

	<u>Retiree/Surviving Spouse</u>	<u>Spouse</u>
Contributions (in thousands):		
Before Medicare eligibility	\$ 11,772	\$ 9,637
After Medicare eligibility	4,416	5,205
Actuarial valuation date	December 31, 2020	
Actuarial measurement date ⁽¹⁾	March 31, 2021	
Experience study period	January 1, 2018, through December 31, 2020	
Actuarial cost method	Entry age normal funding method	
Amortization method	Level percent of payroll, open basis	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	2.23%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	40.00%	
Future eligible spouses	70.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Healthy: For TRS and MUS-RP, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS and MUS-RP, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in assumptions for 2021 were due to no retiree contribution increase and a decrease in the discount rate from 2.75% to 2.23%

Changes in benefit terms since last measurement date: Carrier options reduced to one.

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (1.23 percent) or 1-percentage-point higher (3.23 percent) than the current discount rate:

State OPEB plan (in thousands)			
	1.0% Decrease (1.23%)	Current Discount Rate (2.23%)	1.0% Increase (3.23%)
Primary Government	\$ 180,880	\$ 143,281	\$ 115,098
Discrete Component Units and Fiduciary Component Units	5,394	4,234	3,360
Total OPEB liability	\$ 186,274	\$ 147,515	\$ 118,458

MUS OPEB plan (in thousands)			
	1.0% Decrease (1.23%)	Current Discount Rate (2.23%)	1.0% Increase (3.23%)
Primary Government	\$ 731	\$ 561	\$ 436
Discrete Component Units	73,839	56,750	44,195
Total OPEB liability	\$ 74,570	\$ 57,311	\$ 44,631

Sensitivity of the TOL to changes in the healthcare cost trend rates

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (5.0 percent) or 1-percentage-point higher (7.0 percent) than the current healthcare cost trend rates:

State Plan (in thousands)			
	1.0% Decrease (5.0%)	Current Healthcare Cost Trend Rate (6.0%)	1.0% Increase (7.0%)
Primary Government	\$ 113,213	\$ 143,281	\$ 184,813
Discrete Component Unit and Fiduciary Component Units	3,293	4,234	5,528
Total OPEB liability	\$ 116,506	\$ 147,515	\$ 190,341

MUS Plan (in thousands)			
	1.0% Decrease (5.0%)	Current Healthcare Cost Trend Rate (6.0%)	1.0% Increase (7.0%)
Primary Government	\$ 434	\$ 561	\$ 737
Discrete Component Unit	44,022	56,750	74,588
Total OPEB liability	\$ 44,456	\$ 57,311	\$ 75,325

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the State OPEB plan's OPEB expense is \$9.4 million and the MUS OPEB plan's OPEB expense is \$3.1 million.

At June 30, 2021, the State OPEB plan deferred outflows and inflows of resources are from the following sources:

	State Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 16,982
Changes of assumptions or other inputs	108,754	14,370
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	29	—
Total	<u>\$ 108,783</u>	<u>\$ 31,352</u>
<u>Discrete Component Units and Fiduciary Component Units</u>		
Difference between expected and actual experience	\$ 395	\$ 165
Changes of assumptions or other inputs	2,904	384
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	21	—
Total	<u>\$ 3,320</u>	<u>\$ 549</u>

At June 30, 2021, MUS OPEB plan deferred outflows and inflows of resources are from the following sources:

	MUS Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 336
Changes of assumptions or other inputs	521	103
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	3	—
Total	<u>\$ 524</u>	<u>\$ 439</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ —	\$ 29,206
Changes of assumptions or other inputs	51,079	10,120
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability ⁽¹⁾	197	—
Total	<u>\$ 51,276</u>	<u>\$ 39,326</u>

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense				
State Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units and Fiduciary Component Units		State Plan Total
2022	\$ 6,149	\$ 224	\$	6,373
2023	6,149	224		6,373
2024	6,149	224		6,373
2025	6,149	224		6,373
2026	6,149	224		6,373
Thereafter	46,657	1,630		48,287

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense				
MUS Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units		MUS Plan Total
2022	\$ 6	\$ 897	\$	903
2023	6	897		903
2024	6	897		903
2025	6	897		903
2026	6	897		903
Thereafter	52	7,268		7,320

F. General Information Trust Plan

General Information

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description

The PERS-DCRP Disability is a multiple-employer cost-sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members, and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports, which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

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

G. Termination Benefits

During the year ended June 30, 2021, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for one employee provided for up to six months, one-time lump-sum incentive payments for 12 employees, and paid administrative leave for 30 employees.

During the year ended June 30, 2021, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for 7 employees.

During the year ended June 30, 2021, the cost of termination benefits for the fiscal year was \$229.5 thousand and \$184.7 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 318 policies during the 2021 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 reserve fund's actuarial soundness and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5.0% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2021 growing season, with a 70.0% share of premiums and losses allotted to the Reinsurer and a 30.0% share of each allotted to the State Hail Insurance. The fund recorded a liability of \$76.0 thousand, which is 30.0% of the estimated claims (\$247.1 thousand) plus adjustment expenses through June 30, 2021. The amount deducted from the estimated claims as of June 30, 2021, for reinsurance was \$172.9 thousand (70.0% of estimated claims). The premiums ceded to the Reinsurer through June 30, 2021, were \$499.8 thousand, which was 70.0% of total premiums of \$714.0 thousand.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Board of Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, and their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and Navitus is the administrator for the prescription drug program. Blue Cross and Blue Shield of Montana is the third-party claims administrators for the self-insured managed care plan and also has a contract 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 \$10.7 million as of June 30,

2021, 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 MUS employees. 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 2021, the program ceded \$344.4 thousand in premiums to reinsurers.

The MUS Workers' Compensation Program Committee establishes premium rates for all participating campuses based on actuarial calculations of premium need and composite premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$5.2 million for estimated claims at June 30, 2021. 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 a current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by limiting workers' compensation exposure for employers who hire SIF-certified individuals. The program is funded through an annual assessment for Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The Employment Relations Division sets the assessment and surcharge rates annually. The amount assessed is calculated by adding the amount of paid losses reimbursed by SIF from April 1 of the previous calendar year through March 31 of the current calendar year, plus administration expenses, less other income earned. Employers share in the reimbursement in two ways: (1) if self-insured, the reimbursement is based on their share of overall paid losses in the previous calendar year, (2) if insured through a private carrier or Montana State Fund, the reimbursement is based on both overall paid losses in the previous calendar year, and the amount of the employer's premium paid for their business.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. For an insured employer, since the insurer's liability is limited to 104 weeks on the claim, this can favorably impact the employer's modification factor, which in turn could keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2021, this liability amount was estimated to be \$1.7 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.

	<u>Hail Insurance</u>		<u>MUS Group Insurance Plan</u>		<u>MUS Workers Compensation</u>	
	2021	2020	2021	2020	2021	2020
Unpaid claims and claim adjustment expenses at beginning of year	\$ 11	\$ 17	\$ 10,300	\$ 10,000	\$ 4,837	\$ 6,789
Incurred claims and claim adjustment expenses: provision for insured events of the current year	520	793	97,018	92,564	2,363	1,992
Increase (decrease) in provision for insured events of prior years	12	(5)	—	—	(550)	(2,485)
Total incurred claims and claim adjustment expenses	532	788	97,018	92,564	1,813	(493)
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(444)	(782)	(96,655)	(92,264)	(376)	(539)
Claims and claim adjustment expenses attributable to insured events of prior years	(23)	(12)	—	—	(1,040)	(920)
Total payments	(467)	(794)	(96,655)	(92,264)	(1,416)	(1,459)
Total unpaid claims and claim adjustment expenses at end of year	\$ 76	\$ 11	\$ 10,663	\$ 10,300	\$ 5,234	\$ 4,837

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 property losses below \$2.0 million of value, with State agencies paying the first \$1.0 thousand. Commercial property insurance protects approximately \$6.0 billion of State-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$2.0 million for earthquake and \$2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study prepared by Willis Towers Watson Company, and issued for the accident period July 1, 2011, through June 30, 2021, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2021, the estimated claims liability was \$49.6 million. Of the \$49.6 million estimated claims liability, \$32.4 million is related to a catastrophic property loss for which the insurance proceeds were received prior to the incurred expenses.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the

administrator for dental coverage. Navitus is the administrator for the pharmacy program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2021, 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 \$19.7 million as provided by Actuaries Northwest, a consulting actuarial firm. In fiscal year 2022, \$19.5 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 was originally a risk financing insurance entity, but upon depletion of all of its assets, is now financed by the General Fund. The participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Willis Towers Watson, as of June 30, 2021, 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, 2021, \$43.7 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred but not reported claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	<u>Administration Insurance Plans</u>		<u>Employers Group Benefits Plan</u>		<u>State of Montana Old Fund</u>	
	2021	2020	2021	2020	2021	2020
Amount of claims liabilities at the beginning of each fiscal year	\$ 17,431	\$ 16,157	\$ 18,982	\$ 18,896	\$ 48,280	\$ 44,266
Incurred claims:						
Provision for insured events of the current year	5,555	7,091	181,363	170,812	—	—
Increase (decrease) in provision for insured events of prior years	6,867	1,120	(3,267)	(4,377)	1,769	12,616
Total incurred claims	12,422	8,211	178,096	166,435	1,769	12,616
Payments:						
Claims attributable to insured events of the current year	(1,574)	(3,063)	(161,870)	(151,950)	—	—
Claims attributable to insured events of prior years	(11,133)	(3,874)	(15,543)	(14,399)	(6,345)	(8,602)
Total payments	(12,707)	(6,937)	(177,413)	(166,349)	(6,345)	(8,602)
Total claims liability at end of each fiscal year	\$ 17,146	\$ 17,431	\$ 19,665	\$ 18,982	\$ 43,704	\$ 48,280

⁽¹⁾ \$32.4 million of additional claims for the Administration Insurance Plans not included in the table above, are related to a catastrophic property loss for which the insurance proceeds were received prior to the incurred expenses.

NOTE 9. COMMITMENTS**A. Highway Construction**

At June 30, 2021, the Department of Transportation had contractual commitments of approximately \$463.2 million for construction of various highway projects. Funding for these highway projects is to be provided by federal grants and matched with state special revenue funds.

B. Capital Assets and/or Other Construction

At June 30, 2021, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$31.7 million for capital projects construction. The primary government will fund \$17.4 million of these projects, with the remaining \$14.3 million funded by the Montana University System.

At June 30, 2021, the Department of Fish, Wildlife, and Parks had contractual commitments of approximately \$2.1 million for engineering and construction of various capital projects and \$5.9 million to build a new licensing software called Explore Montana. The majority of funding for these commitments will be provided by federal grants and state special revenue funds.

At June 30, 2021, the Department of Labor and Industry had \$1.9 million contractual commitments for Montana State AmeriCorps Programs and a \$4.4 million commitment for information technology contracts. The funding for these programs is to be provided by federal grants and state special revenue funds.

At June 30, 2021, the Office of the Secretary of State had a contractual commitment of approximately \$1.5 million for developing and implementing the ElectMT system to replace the existing statewide Voter Registration and Election Management system (MT Votes). The majority of the funding for this project is to be provided by a federal grant from the U.S. Election Assistance Commission.

At June 30, 2021, the Department of Transportation, had a \$2.0 million contractual commitment for three, 55 passenger coach buses. The funding for this purchase is to be provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding through the Federal Transit Administration. The Department also had contractual commitments of approximately \$8.7 million for development and implementation of various IT projects. Funding for these projects is to be provided by federal grants, matched with state special revenue funds and unrestricted state revenue funds. Included within the department's commitments are \$4.4 million dedicated to the purchase and upgrade of PeopleSoft modules.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans, residential mortgages, and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2021, BOI had committed, but not yet purchased, \$18.1 million in loans from Montana lenders. Additionally, lenders had reserved \$18.7 million for loans as of June 30, 2021. As of June 30, 2021, another \$2.0 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2021, 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, 2021, totaled \$23.8 million.

D. Bond Commitments

At June 30, 2021, the outstanding tax-exempt bonds distributed by the Facility Finance Authority were issued in the amount of \$8.5 million of which \$1.4 million in principal payments are scheduled to be paid by June 30, 2022. 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 principle and interest due regarding these outstanding bonds. These costs are then recovered through the center’s monthly billing for inmate room and board.

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):

<u>Enterprise Funds</u>	<u>Amount</u>
Liquor Warehouse	\$ 155
State Lottery Fund	14
Other Enterprise Funds	<u>12</u>
Subtotal - Enterprise funds	\$ 181
<u>Internal Service Funds</u>	
Prison Industry	\$ 189
Labor Central Services	<u>1,537</u>
Subtotal - Internal Service funds	\$ 1,726

F. Encumbrances

As of June 30, 2021, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	<u>Federal Special Revenue Fund</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
Encumbrances	\$ 43,953	\$ 20,387	\$ 78	\$ 90,023	\$ 154,441

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 if the 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, 2021, were as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2022	\$ 4,773	\$ 16
2023	3,242	6
2024	2,294	1
2025	1,703	—
2026	1,441	—
2027 - 2031	4,112	—
Total minimum payments	17,565	23
Less: interest	(1,522)	(2)
Present value of minimum payments	<u>\$ 16,043</u>	<u>\$ 21</u>

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	\$ 1,596
Equipment	34,654
Less: Accum Depreciation	(13,258)
Net Book Value	<u>\$ 22,992</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2021 totaled \$28.9 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2022	\$ 27,584	\$ 665
2023	23,980	617
2024	20,831	616
2025	17,833	586
2026	15,205	581
2027 - 2031	49,127	1,104
2032 - 2036	26,281	747
Thereafter	8,682	487
Total future rental payments	<u>\$ 189,523</u>	<u>\$ 5,403</u>

NOTE 11. STATE SHORT-TERM DEBT AND LONG-TERM LIABILITIES

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

The State issues bond anticipation notes to finance the State Revolving Fund Programs that improve and rehabilitate wastewater and drinking water systems. The following schedule summarizes the activity for the year ended June 30, 2021 (in thousands):

Bond Anticipation Notes	Beginning Balance	Additions	Reductions	Ending Balance
Drinking Water - 2019A	600	—	600	—
Drinking Water – 2019D	1,300	2,100	3,251	149
Water/Wastewater – 2020D	1,100	2,900	4,000	—
Drinking Water - 2020N	—	1,663	—	1,663

The State's Board of Investments (BOI) 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.
3. An irrevocable pledge by BOI.

BOI has no taxing power. At the bondholder's option, the bonds may be redeemed any March 1, before maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put" or tender and did not resell the bonds into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt.

The Board annually remarkets the bonds and annually adjusts the interest in accordance with the Bonds' Indenture of Trust. Interest is paid semi-annually on September 1 and on March 1. Interest is computed based on a year of 360 days. The interest rate paid to bondholders on September 1, 2020 and March 1, 2021 was 1.00%. The interest rate effective for March 1, 2021 – February 28, 2022 is 0.15%.

In accordance with the Indenture, BOI can issue additional bonds at any time that would bear the interest rate determined at the time of issuance until the next remarketing date. No new bonds were issued in the fiscal year ending June 30.

The INTERCAP program does not have principal payments except in the instance of an optional redemption by BOI. There was a change in outflow in 2021 that occurred primarily due to the optional redemption of outstanding bonds by the Board in the amount of \$70.0 thousand. The bonds are

remarketed each February and are treated as a new issuance. Interest expense attributable to the current year was \$649.8 thousand.

The amounts issued and outstanding for the year ended June 30, 2021, were as follows (in thousands):

Series	Amount		Balance	
	Issued		June 30, 2021	
2003	\$ 15,000	\$	14,305	
2004	18,500		17,935	
2007	15,000		14,615	
2010	12,000		11,860	
2013	12,000		11,960	
2017	20,000		19,925	
				\$ 90,600

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2021 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$ 90,670	\$ —	\$ 70	\$ 90,600

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, 2021, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2021
				Fiscal Year 2022	In Year of Maturity ⁽²⁾	
General obligation bonds						
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	190	200 (2023)	390
CERCLA Program ⁽³⁾	2005D	2,000	3.25-4.3	120	140 (2026)	650
Energy Conservation Program ⁽⁴⁾	2006B	3,750	4.0-6.0	330	330 (2022)	330
Long-Range Bldg Program	2008D	3,100	3.375-4.35	165	220 (2028)	1,335
Long-Range Bldg Program Refunding	2011D	5,755	3.0-3.25	695	720 (2023)	1,415
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	705	115 (2025)	2,325
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,195	820 (2028)	15,470
Long-Range Bldg Program	2020C	28,900	2.0-5.0	2,470	3,465 (2030)	26,295
St. Mary Water Project (Taxable) ⁽¹⁰⁾	2020E	2,658	1.62	276	315 (2030)	2,658
2019 Session House Bill 652	2020G	32,505	5.0	2,570	4,030 (2031)	32,505
Long-Range Bldg Program	2020H	5,900	1.75-5.0	210	390 (2041)	5,900
Trust Lands Refunding (Taxable)	2020I	12,510	0.225-1.316	1,245	1,265 (2031)	12,510
Water Pollution Control Revolving Fund Program ⁽⁵⁾	2020J	24,865	0.225-2.456	1,620	305 (2041)	24,865
St. Mary Water Project (Taxable) ⁽¹⁰⁾	2020K	985	1.5	105	115 (2030)	985
Total general obligation bonds		\$161,018		\$ 12,896		\$ 127,633

	Series	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2021
				Fiscal Year 2022	In Year of Maturity ⁽²⁾	
Governmental Activities						
Special revenue bonds						
U.S. Highway 93 GARVEE Refunding ⁽⁷⁾	2016	22,540	0.74-1.86	3,555	3,740 (2023)	7,295
State Hospital Project ⁽⁶⁾	2018	4,575	4.0-5.05	1,165	1,165 (2022)	1,165
Coal Severance Tax Refunding (Taxable) ⁽¹⁰⁾	2020L	11,965	1.62	1,570	55 (2031)	11,170
Coal Severance Tax (Taxable) ⁽¹⁰⁾	2020M	2,680	1.94	230	130 (2031)	2,300
Total special revenue bonds		<u>\$ 41,760</u>		<u>\$ 6,520</u>		<u>\$ 21,930</u>
Notes Payable						
Middle Creek Dam Project ⁽⁸⁾		3,272	8.125	100	226 (2034)	1,759
Tongue River Dam Project ⁽⁹⁾		11,300	—	290	290 (2038)	4,926
ITSD IBM Professional Services		758	0.19	170	72 (2023)	243
Total notes payable		<u>\$ 15,330</u>		<u>\$ 560</u>		<u>\$ 6,928</u>
Subtotal governmental activities, before unamortized balances		218,108		19,976		156,491
Unamortized premium						14,846
Total governmental activities		<u>\$218,108</u>		<u>\$ 19,976</u>		<u>\$ 171,337</u>

⁽¹⁾ The interest range is over the life of the obligation.

⁽²⁾ Year of maturity refers to fiscal year.

⁽³⁾ 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.

⁽⁴⁾ Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

⁽⁵⁾ Bonds were issued to refund the State's General Obligation Bonds (Water Pollution Control State Revolving Fund Program), Series 2015C, maturing on and after July 15, 2021; provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water pollution control facilities or other authorized improvements, to state political subdivisions; and pay costs of issuance of the Series 2020J Bonds and of the refunding.

⁽⁶⁾ Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.

⁽⁷⁾ 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.

⁽⁸⁾ U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.

⁽⁹⁾ 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.

⁽¹⁰⁾ Bonds were private sales.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2021, were as follows (in thousands):

Year Ended June 30:	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 12,896	\$ 4,161	\$ 6,520	\$ 618	\$ 560	\$ 45
2023	12,911	3,693	5,565	375	466	41
2024	12,396	3,277	1,850	158	398	41
2025	12,115	2,867	1,885	127	403	41
2026	12,410	2,453	1,635	96	408	41
2027 - 2031	52,240	5,993	4,475	156	2,125	204
2032 - 2036	9,335	921	—	—	1,988	122
2037 - 2041	3,330	188	—	—	580	—
Total	<u>\$ 127,633</u>	<u>\$ 23,553</u>	<u>\$ 21,930</u>	<u>\$ 1,530</u>	<u>\$ 6,928</u>	<u>\$ 535</u>

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2021, 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	\$ 90,250	\$ 79,423	\$ 42,040	\$ 127,633	\$ 12,896	\$ 114,737
Special revenue bonds	19,330	14,645	12,045	21,930	6,520	15,410
Notes payable	7,478	—	550	6,928	560	6,368
	117,058	94,068	54,635	156,491	19,976	136,515
Unamortized premium	10,348	4,498	—	14,846	—	14,846
Total bonds/notes payable ⁽³⁾	127,406	98,566	54,635	171,337	19,976	151,361
Other liabilities						
Lease/installment purchase payable	20,617	1,381	5,955	16,043	4,344	11,699
Compensated absences payable ⁽¹⁾	109,293	53,778	47,716	115,355	47,641	67,714
Estimated insurance claims ⁽¹⁾⁽²⁾	121,098	190,517	198,674	112,941	39,989	72,952
Pollution remediation	173,492	806	6,783	167,515	21,303	146,212
Net pension liability	2,243,084	700,884	183	2,943,785	—	2,943,785
Total OPEB liability	45,593	95,801	—	141,394	—	141,394
Total other liabilities	2,713,177	1,043,167	259,311	3,497,033	113,277	3,383,756
Total governmental activities long-term liabilities	\$ 2,840,583	\$ 1,141,733	\$ 313,946	\$ 3,668,370	\$ 133,253	\$ 3,535,117
Business-type activities						
Lease/installment purchase payable	\$ 26	\$ 5	\$ 10	\$ 21	\$ 14	\$ 7
Compensated absences payable	2,217	879	797	2,299	795	1,504
Arbitrage rebate tax payable	22	—	22	—	—	—
Estimated insurance claims	17,523	99,363	99,202	17,684	13,804	3,880
Net pension liability	11,510	3,848	68	15,290	—	15,290
Total OPEB liability	817	1,641	8	2,450	—	2,450
Total business-type activities long-term liabilities	\$ 32,115	\$ 105,736	\$ 100,107	\$ 37,744	\$ 14,613	\$ 23,131

⁽¹⁾ The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

⁽²⁾ \$32.4 million Administration Insurance Plans included in the table above, are related to a catastrophic property loss for which the insurance proceeds were received prior to the incurred expenses.

⁽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 a prepayment of special revenue bond series 2020M in the amount of \$270.0 thousand, resulting in the reduction of the outstanding balance.

Refundings

On September 29, 2020, the State issued general obligation refunding bonds series 2020I in the amount of \$12.5 million to prepay series 2010F bonds in the amount of \$12.3 million resulting in a payoff. The balance of the proceeds was used to pay the cost of issuance of 2020I. The refunding resulted in an economic gain of \$2.2 million and a difference in cash flows of \$2.2 million.

On October 20, 2020, the State issued general obligation bonds series 2020J in the amount of \$24.9 million. New bond issuances consisted of \$5.0 million, while \$19.8 million was to prepay series 2015C resulting in a payoff. The refunding resulted in an economic gain of \$1.5 million and a difference in cash flows of \$4.8 million.

On December 23, 2020, the State issued special revenue refunding bonds series 2020L in the amount of \$12.0 million, using \$4.3 million of the proceeds to refund series 2010C and 2013B, resulting in payoffs. This refunding resulted in an economic gain of \$548.0 thousand and a difference in cash flows of \$747.6 thousand.

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, 2021, QZAB debt outstanding aggregated \$5.0 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act as conduit (no-commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2021, QSCB debt outstanding aggregated \$3.2 million.

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, 2021, was \$167.5 million. Of this liability, \$3.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies, and natural resource-based recreational opportunities up to the settlement amount; \$163.8 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and Polychlorinated Biphenyls (PCB) contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$100.2 million as of June 30, 2021. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute, which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI receives a credit enhancement fee at FFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. BOI and FFA have entered into an agreement detailing repayment to BOI. The credit enhancement fee received during the fiscal year was \$385.0 thousand. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2021 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 88,346	\$ 33,465	\$ 21,563	\$ 100,248

NOTE 12. INTERFUND BALANCES AND TRANSFERS**A. Balances Due From/To Other Funds**

Balances due from/to other funds arise when there is a timing difference 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 timing difference between the dates transfers between funds are recorded and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Municipal Finance Programs to other funds, under the Board of Investments' INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2021, consisted of the following (in thousands):

	Due to Other Funds							Total
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds ⁽²⁾	Nonmajor Governmental Funds	State Special Revenue	
Due from Other Funds								
Federal Special Revenue	\$ —	\$ —	\$ 2,040	\$ —	\$ —	\$ —	\$ 249	\$ 2,289
General Fund	—	8,844	—	—	14,386	—	11,355	34,585
Internal Service Funds	40	1	—	—	—	—	2	43
Municipal Finance Programs	—	—	—	2,076	—	1,654	—	3,730
Nonmajor Enterprise Funds	—	—	—	—	—	—	38	38
Nonmajor Governmental Funds	—	4,155	29	—	—	—	751	4,935
State Special Revenue ⁽¹⁾	4,340	627	464	—	280	754	—	6,465
Total	\$ 4,380	\$ 13,627	\$ 2,533	\$ 2,076	\$ 14,666	\$ 2,408	\$ 12,395	\$ 52,085

⁽¹⁾ Total due from other funds to the state special revenue fund on the fund financial statement is reported as \$16.2 million. The difference of \$9.8 million between the amount reported above 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.

⁽²⁾ Total due to other funds from the nonmajor enterprise funds on the fund financial statement is reported as \$14.9 million. The difference of \$221.0 thousand between the amount reported above and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide statement, and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary, and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2021, consisted of the following (in thousands):

	Interfund Loans Payable							Total
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	State Special Revenue	Land Grant	
Interfund Loans Receivable								
General Fund	\$ 1,593	\$ 87,928	\$ 662	\$ 335	\$ 2,700	\$ 4,921	\$ —	\$ 98,139
Nonmajor Enterprise Funds	—	140	—	—	—	75	—	215
Federal Special Revenue	—	—	—	—	—	5	—	5
State Special Revenue	—	78,309	26	—	—	—	2	78,337
Total	\$ 1,593	\$ 166,377	\$ 688	\$ 335	\$ 2,700	\$ 5,001	\$ 2	\$ 176,696

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Municipal Finance Programs to other funds, under the Board of Investments' INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2021, consisted of the following (in thousands):

	Advances from Other Funds				Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	
Advances to Other Funds					
General Fund	\$ 355	\$ —	\$ —	\$ —	\$ 355
Municipal Finance Programs	—	7,027	162	—	7,189
Nonmajor Governmental Funds	—	—	—	5,328	5,328
State Special Revenue	36,524	—	1,599	—	38,123
Total	\$ 36,879	\$ 7,027	\$ 1,761	\$ 5,328	\$ 50,995

Additional detail for certain advance balances at June 30, 2021, follows (in thousands):

Advances from the Municipal Finance Programs under the INTERCAP Loan Program	
Departmental Function	Balance
Natural Resources and Conservation	\$ 1,465
Public Safety	309
Transportation	5,415
Total	\$ 7,189

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, 2021, consisted of the following (in thousands):

	Transfers Out								Total
	Coal Severance Tax	Federal Special Revenue	General Fund ⁽¹⁾	Internal Service Funds ⁽²⁾	Land Grant	Nonmajor Enterprise Funds ⁽³⁾	Nonmajor Governmental Funds	State Special Revenue	
Transfers In									
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 167	\$ —	\$ 167
Federal Special Revenue	—	—	2	—	—	—	—	2,057	2,059
General Fund ⁽¹⁾	15,967	147	—	—	6	54,087	—	14,879	85,086
Internal Service Funds	—	—	1,213	—	—	—	—	807	2,020
Land Grant	—	—	—	—	—	—	—	94	94
Nonmajor Enterprise Funds	—	—	—	—	—	—	—	26	26
Nonmajor Governmental Funds	471	16,290	246,538	160	1,570	—	735	54,195	319,959
State Special Revenue	16,772	9,164	83,240	86	65,264	10,633	27,042	—	212,201
Unemployment Insurance	—	203,571	—	—	—	—	—	—	203,571
Total	\$ 33,210	\$ 229,172	\$ 330,993	\$ 246	\$ 66,840	\$ 64,720	\$ 27,944	\$ 72,058	\$ 825,183

⁽¹⁾ \$1.1 million was transferred from the General Fund to the Budget Stabilization Reserve Fund; however, those funds are combined for reporting purposes. Therefore the transfer is not accounted for in the above table as both the transfer-in and the respective transfer-out have been eliminated as required for proper financial reporting.

⁽²⁾ Total transfers-out for internal service funds on the fund financial statements is reported as \$5.1 million. The difference of \$4.8 million between the amount reported above of \$246.5 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

⁽³⁾ Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as \$64.8 million. The difference of \$67.8 thousand between the amount reported above of \$64.7 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, 2021, as follows (in thousands):

<u>Fund Type/Fund</u>	<u>Deficit</u>
Governmental Funds	
Federal Special Revenue ⁽²⁾	\$ (11,321)
Federal/Private Construction Grants ⁽³⁾	(1,012)
Internal Service Funds ⁽¹⁾	
Information Tech Services	\$ (15,267)
Building and Grounds	(1,010)
Admin Central Services	(1,841)
Labor Central Services	(6,763)
Commerce Central Services	(1,559)
OPI Central Services	(2,257)
DEQ Indirect Cost Pool	(3,730)
Payroll Processing	(1,509)
Investment Division	(2,080)
Aircraft Operation	(552)
Justice Legal Services	(977)
Personnel Training	(173)
Other Internal Services	(244)
SABHRS Finance & Budget Bureau	(535)
Enterprise Fund ⁽¹⁾	
State Lottery	\$ (2,219)
Subsequent Injury	(791)

⁽¹⁾ The allocation of net pension liability and total OPEB liability is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7, respectively.

⁽²⁾ Delayed fire season federally reimbursable costs, which are currently reported as unavailable revenues within deferred inflow of resources, is a significant factor creating this deficit.

⁽³⁾ A nonmajor capital projects fund.

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, 2021.

State Special Revenue By Source (in thousands)							
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	\$ 122,053	\$ 51,533	\$ 25,824	\$ 2,514	\$ 165	\$ 96,946	\$ 299,035
Taxes	231,006	6,313	274,431	—	—	19,114	530,864
Charges for services	27,193	20,953	9,183	58,004	3,179	32,857	151,369
Investment earnings	368	2,292	82	86	302	6,614	9,744
Securities lending income	—	17	—	—	2	28	47
Sale of documents/ merchandise/property	530	4,237	118	52	1	4,123	9,061
Rentals/leases/royalties	256	17	667	48	5	261	1,254
Contributions/premiums	29,602	10	—	4,871	—	609	35,092
Grants/contracts/donations	1,303	2,845	590	3,693	2,311	4,728	15,470
Federal	3,479	—	—	5,504	3	10	8,996
Federal indirect cost recoveries	1	—	51,830	47	—	4,671	56,549
Other revenues	1,814	543	257	358	84	707	3,763
Transfers in	42,103	8,801	1,683	16,113	1,958	141,543	212,201
Total State Special Revenue	\$ 459,708	\$ 97,561	\$ 364,665	\$ 91,290	\$ 8,010	\$ 312,211	\$ 1,333,445

Federal Special Revenue By Source (in thousands)							
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	\$ 852	\$ 59	\$ —	\$ 6,805	\$ 209	\$ —	\$ 7,925
Investment earnings	544	7	—	—	5	16	572
Grants/contracts/donations	—	—	—	9	35	—	44
Federal	1,428,286	18,183	535,970	2,363,474	249,852	96,493	4,692,258
Federal indirect cost recoveries	—	—	—	96,740	113	1,354	98,207
Other revenues	—	6	—	1,326	1	2	1,335
Transfers in	2	1,591	—	466	—	—	2,059
Total Federal Special Revenue	\$ 1,429,684	\$ 19,846	\$ 535,970	\$ 2,468,820	\$ 250,215	\$ 97,865	\$ 4,802,400

Governmental Fund Balance By Function, June 30, 2021
(in thousands)

	Special Revenue			Permanent			Total
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	
Fund balances:							
Nonspendable							
Inventory	\$ 4,087	\$ 21,669	\$ —	\$ —	\$ —	\$ —	\$ 25,756
Permanent fund principal	—	500	—	664,992	871,681	414,009	1,951,182
Long-term notes/receivables	355	—	—	—	—	—	355
Prepaid expense	729	461	151	—	—	—	1,341
Total nonspendable	5,171	22,630	151	664,992	871,681	414,009	1,978,634
Restricted							
General government	—	30,253	—	—	—	22,941	53,194
Public safety	—	179,901	—	—	—	1	179,902
Transportation	—	152,946	—	—	—	—	152,946
Health and human services	—	24,414	—	—	—	673	25,087
Education	—	15,029	—	—	—	13	15,042
Natural resources	—	794,536	—	—	—	10,601	805,137
Total restricted	—	1,197,079	—	—	—	34,229	1,231,308
Committed							
General government	114,199	162,803	—	564,068	—	262,669	1,103,739
Public safety	—	71,674	—	—	—	—	71,674
Transportation	—	21,450	—	—	—	—	21,450
Health and human services	—	69,725	—	—	—	12	69,737
Education	—	26,216	—	—	—	—	26,216
Natural resources	—	405,668	—	—	—	30,877	436,545
Total committed	114,199	757,536	—	564,068	—	293,558	1,729,361
Assigned							
General government	—	1,121	—	—	—	66	1,187
Public safety	—	—	—	—	—	185	185
Health and human service	—	772	—	—	—	—	772
Education	—	20	—	—	—	—	20
Natural resources	—	40	—	—	—	—	40
General Fund spend down	75,000	—	—	—	—	—	75,000
Encumbrance	20,387	—	—	—	—	—	20,387
Total assigned	95,387	1,953	—	—	—	251	97,591
Unassigned							
	641,543	—	(11,472)	—	—	(1,012)	629,059
Total fund balance	\$ 856,300	\$ 1,979,198	\$ (11,321)	\$ 1,229,060	\$ 871,681	\$ 741,035	\$ 5,665,953

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that annually approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013, and ending June 30, 2022. The annual lease amount is currently set at \$21.3 thousand.

The Department of Labor and Industry Workforce Services Division rents space in Cut Bank, MT from Glacier Community Health Center, Inc., in which one of the active board members is a local job service manager. The term of the lease is July 1, 2019, and ending June 30, 2022. The annual lease amount is currently set at \$35.0 thousand.

The relative of a member of Montana Department of Transportation's (MDT) management team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration (DOA) and state agencies are required to use the DOA issued term contracts for such supplies. MDT purchased supplies from this business in the amount of \$98.4 thousand for the fiscal year ended June 30, 2021.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. MDT purchased services in the amount of \$100.9 thousand for the fiscal year ended June 30, 2021.

Per Section 85-1-617 and 85-1-624, MCA, Renewable Resource Grant and Loan Program, the Department of Natural Resources and Conservation (DNRC) is eligible to issue General Obligation (GO) bonds for the purpose of making private sale loans. DNRC has applied and received "recycled loan funds" from the State Revolving Fund (SRF) program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for fiscal year 2021 was \$1.6 million. The loans have interest rates of 2.5% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

Per Administrative Rules of Montana 17.58.101, the Montana Petroleum Tank Release Compensation Board (Board) is an independent board that is attached to Department of Environmental Quality (DEQ) for administrative purposes only. Board members are required to follow Montana's code of ethics, which includes recusing oneself in matters related to a conflict of interest. DEQ is required to go through a competitive bidding process to ensure this State law is followed. Four Board members were identified as having related party transactions with DEQ. These relationships include members who are: 1) an employee of a company that had a release and is receiving funds; 2) an agent for an insurer that covered a station tank release and is receiving funds; 3) an officer in a bank that receives funds; and 4) a contractor for DEQ, that is responsible for clean-up oversight, and is also a shareholder of a separate company that receives funds. A DEQ employee's spouse is an elected City Commissioner for the City of Helena which was awarded \$25.5 thousand in VW Settlement funds for three electric charging stations by DEQ. Total payments to all related parties were direct payments to the contractors in the amount of \$312.6 thousand and indirect payments to the bank and the insurance company in the amount of \$402.0 thousand and \$42.1 thousand, respectively, for the fiscal year ended June 30, 2021.

All lotteries that offer multi-state games transact with the Multi-State Lottery Association (MUSL), which requires the lottery directors from each of the states to be on the MUSL board of directors. The former

Director of the Montana Lottery was on the MUSL board until January 1, 2021, and served as the Secretary of its board of directors. As such, the former Director of the Montana Lottery was in a management position for both MUSL and the Montana Lottery, which have significant transactions between each other. The Montana Lottery has prize reserves with MUSL in the amounts of \$1.1 million for the fiscal year ended June 30, 2021. The prize reserve monies are assets of the Montana Lottery and would be returned if the Montana Lottery were to quit any of the multi-state games. Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough prize amount or number of winners for any particular draw, MUSL would then reimburse any state for the excess prize payments. The Montana Lottery paid MUSL \$7.7 million for its share of prizes and received reimbursements for prizes in the amount of \$750.0 thousand for the fiscal year ended June 30, 2021.

There are campus-affiliated foundations within the Montana University System (MUS) identified in the Montana Board of Regents of Higher Education Policy 901.9 – Campus-Affiliated Foundations; Montana University System Foundation. The private foundations affiliated with campuses of the MUS provide support to their respective campuses, consistent with the mission and priorities of such campuses. Transactions occur between the Commissioner of Higher Education and said foundations as reimbursements for hosting MUS constituents and other related events and gatherings. These transactions do not affect the financial statements in any way; however, the total such transactions were \$1.7 thousand for the fiscal year ended June 30, 2021.

In addition, the MUS Group Insurance Program offers insurance coverage and receives insurance premiums from other related parties such as the campus-affiliated foundations and the community colleges. This premium revenue for campus-affiliated foundations and community colleges approximately amounts to \$6.7 million for the fiscal year ended June 30, 2021. Beginning January 1, 2022, campus-affiliated foundations will cease to be covered by the MUS Group Insurance Program.

Montana Higher Education Student Assistance Corporation (MHESAC) has no employees, and the Student Assistance Foundation (SAF) manages its business operations. A Board of Regents board member is also an MHESAC Board of Directors member, an Office of the Commissioner of Higher Education OCHE staff member is an MHESAC officer, and the Commissioner of Higher Education is an Ex-officio member of the board.

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.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork, and Madison rivers. The case originated in 2003, when a group of parents of school-age children sued Petitioner PPL Montana, LLC (PPL), in Federal Court, alleging that the company must pay rent for the use of state-owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for the 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 the use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the State almost \$41.0 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court. In March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the \$41.0 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome of this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with \$1.2 million for PPL's costs relating to the appellate proceedings. All, but approximately \$31.0 thousand, relate to premiums that PPL paid for a supersedeas bond in support of staying the \$41.0 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for \$31.3 thousand. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court rules 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, now known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was scheduled for a bench trial without a jury from January 3 through January 19, 2022. No decision was made by the Judge. Rather, the parties are required to submit amended proposed findings

of fact and conclusions of law by mid-April 2022. Thereafter the Court will render a decision, probably no earlier than July 2022. All Defendants have answered the State's amended complaint, including the recently added Defendant United States. The State's expert witnesses have been disclosed and Defendants' expert witnesses were required to be disclosed in February 2021. Discovery closed May 21, 2021. The State's claims against the utilities remain unchanged and the State still holds the opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz) was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, and the State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, the Plaintiffs filed with the District Court a motion for class certification. The District Court Judge denied the Plaintiffs' motion for class certification on December 16, 2009. The 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 Section 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. The 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 for services that took place no earlier than eight years before the filing of the Plaintiffs' complaint, which was October 23, 2008.

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 to 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 developed the notice that has been sent to class members.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10.0% per annum. For claims arising before December 24, 2009, interest would 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 would 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.

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.

As of June 30, 2017, the State paid Plaintiffs \$1.4 million in based payments plus interest.

On June 21, 2017, the Special Master issued a report and recommended order regarding the partial payment of the Plaintiffs' counsels' attorney fees. This recommendation was based on a stipulation the State and the Plaintiffs' counsel had reached, agreeing that the State would pay counsel \$400.8 thousand for claims made by individuals that could be documented. The State has paid this amount to class counsel.

The Special Master issued a second report and recommended order expanding the class on August 8, 2018. The principal findings of this recommendation were to expand the class definition to include those individuals who did not submit claims to the State for processing; to expand the class to end June 30, 2016; and to redefine the class as (a) employees, employee dependents, retirees, and retiree dependents who participate or participated in the State of Montana's health benefit plan(s), administered or operated by the State and/or the third party administrators whose claims for covered benefits took place no earlier than eight years prior to the filing of the complaint in this action, which was October 23, 2008; (b) who were injured through the legal fault of persons who have legal obligations to compensate them for all damages sustained; and (c) who have not been made whole for their damages (or for whom the State and TPAs conducted no made-whole analysis) because the State and the third party administrators programmatically failed to pay benefits for their covered medical costs. On October 29, 2018, the District Court Judge issued an Order Adopting the Special Master's Report Expanding the Class.

As of June 30, 2018, the State paid Plaintiffs \$1.7 million in based payments plus interest.

On April 23, 2019, the District Court Judge approved the parties' motion for a process to identify and distribute residual funds for known class members on the master list for Blue Cross Blue Shield of Montana claims. On May 2, 2019, the State issued payment of \$122.0 thousand to the Hunt Law Firm for the residual funds and interest thereon.

On May 1, 2019, the parties filed the Notice to Special Master of Agreement on Notice Procedure. Pursuant to that notice, the State distributed notices to all former and current State employees enrolled in the State health plan between January 1, 2010, through June 30, 2016. Notice was distributed through email and first-class mail. The initial distribution of notices was May 23, 2019. The deadline for a claimant to return a claim to the State was November 30, 2019.

As of June 30, 2019, the State paid Plaintiffs \$2.0 million, including the payment for residual funds and interest.

As of June 30, 2020, the State paid Plaintiffs \$2.9 million for claim payments, interest, and attorney fees for Plaintiffs' counsel.

As of February 28, 2021, the state paid Plaintiffs a cumulative \$3.0 million for claim payments, interest, and Plaintiffs' attorney fees.

On March 23, 2021, Plaintiffs filed a motion to enforce an October 29, 2018 Order to address first party medical payments coverage in casualty insurance policies (the "Med-pay Claims"). Plaintiffs contend that the Med-pay Claims should be paid. On July 23, 2021, Special Master held a hearing on Plaintiffs' motion.

As of June 30, 2021, the amount State paid Plaintiffs for claim payments, interest, and attorney fees for Plaintiffs' counsel was unchanged from February 28, 2021.

Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Disability Rights Montana v. Gootkin and Salmonsens (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. Plaintiff sought only declaratory and injunctive relief and later amended its complaint, seeking similar relief under Section 1983 of Title 42 of the United States Code, the Civil Action for Deprivation of Rights. The District Court had dismissed the case for failure to state a claim, which order was appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The Ninth Circuit Court of Appeals overturned the district court's ruling and remanded the case back to the district court in front of a new judge. As a result, the Department of Corrections (Department) has participated in on-going discovery, with the aid of outside expert witnesses and the defense of the case through outside legal counsel. The parties had previously exchanged settlement proposals without success. Because of legislation enacted during the 2019 legislative session, the Department implemented significant changes in the use of restrictive housing, especially as related to seriously mentally ill inmates. The Plaintiff seeks only prospective injunctive and declaratory relief, as well as reasonable attorneys fees, litigation expenses and costs, which could likely exceed \$1.0 million. At this time, the Department continues to be unable to specify an anticipated amount of financial obligation imposed either by settlement or by judgment. It is reasonably possible that there could be an unfavorable outcome in this case.

Cascade County v. State of Montana, Montana and Department of Corrections (Department) (Cause # CDV-2019-1181) is a case filed by Cascade County, suing for breach of contract, unjust enrichment and breach of implied covenant of good faith and fair dealing, seeking over \$766.0 thousand in unpaid jail reimbursement costs plus interest at 10.0% per annum. This case involved interpretation of contract and statutory language. This matter was referred to the Department of Justice Agency Legal Services for representation of the Department. The matter was resolved prior to June 30, 2021, by settlement and dismissal at no cost to the State or Department.

Vincent, Benner, and Hoch v. DPHHS (CDV-19-0314, Eighth Judicial District Court, Cascade County) was filed on May 17, 2019, by Montana Optometric Association members seeking class certification of all licensed Montana optometrists who are participating providers in Montana Medicaid. The named plaintiffs claim the Department's Medicaid rate structure discriminates against them because they are paid less than physicians (doctors of medicine or doctors of osteopathy) for performing the same services. They cite Section 37-10-104, MCA, as the basis of the discrimination claim. They seek declaratory relief and permanent injunctive relief in their claims of discrimination, violations of MAPA, breach of contract, and implied covenant of good faith. They request damages, interests, costs, and attorney fees, which would amount to more than \$1 million. A motion for class certification has been fully briefed, but remains pending.

William and Ellen Solem v. State of Montana (CDV-10-073 (D)) is a case that the Solems filed a motion for class certification in the Eleventh Judicial District Court, Flathead County, challenging their land value, primarily arguing that the water influence used by the Department leads to improperly inflated values. The District Court granted class certification. The class certified is "all lakefront property owners in Neighborhood 800 who have timely paid under protest any portion of their property taxes since the last assessment cycle beginning in 2009". Neighborhood 800 is the Lakeside-Somers area in which the Solems' property is located. Between 2009 and 2015, approximately 200 taxpayers in Neighborhood 800 paid property taxes under protest. A four-day trial on liability was held in March 2019. On October 15, 2019, the District Court issued its Findings of Fact, Conclusions of Law, and Order finding the Department liable. The District Court concluded that the Department employed a non-uniform method of appraisal, failed to value similar properties in a like manner, and failed to appraise the subject properties in a manner that is fair to all taxpayers. The matter has now moved to the damages phase. Motions relating to damages were filed and the District Court granted Solems' motions on the calculation of damages and whether Solems are entitled to attorney fees and costs. The District Court denied Solems' motion to expand the class definition to include taxpayers who did not pay under protest. The District Court denied the Department's motion to decertify the class. The Department recently received invoices of Solems' legal fees and costs (between \$400.0 thousand and \$600.0 thousand) and is reviewing them. The Department intends to appeal this matter to the Montana Supreme Court upon issuance of a final judgment.

S.W v. State of Montana (DDV-13-813, Eighth Judicial District Court, Cascade County) is a case filed in 2013 by the guardian of a minor against the State Department of Public Health and Human Services (the Department). The Plaintiff contended that the Department was negligent *per se* as a matter of law involving a child abuse incident caused by the birth father's girlfriend that permanently harmed SW. The perpetrator was subsequently convicted and imprisoned for thirty years. On February 18, 2020, the District Court judge issued an order granting partial summary judgment to plaintiff, determining that the Department had a duty to SW, that a violation of the statutory and administrative regulations constitutes negligence *per se*, that the Department is not entitled to immunity, and that the statutory damages cap in Section 2-9-108(1), MCA does not apply. A jury trial, limited to the issue of damages, was held on November 16-17, 2021. The jury awarded damages of \$16.7 million which included damages for loss of future earning capacity, past personal care assistance, future care costs, mental and emotional suffering, and impairment of capacity to pursue an established course of life. A judgment was issued on November 18, 2021. The Department will be appealing the matter to the Montana Supreme Court and expects a decision sometime in late 2022. As the matter will be on appeal, the Department is unable to assess the degree of probability of an unfavorable final outcome or the associated loss until the Montana Supreme Court issues a decision.

The Public Employee Retirement Board (PERB) has three items of outstanding litigation in relation to the Sheriffs' Retirement System (SRS) and the Montana Public Employee's Retirement Administration (MPERA). Refer to Note 6, section J, for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State. Refer to Note 18, section O, for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Federal Grants - The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic

financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or financial and compliance audits by the granter agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the State. The State is currently involved in administrative and legal proceedings, with certain federal agencies, contesting various disallowances and sanctions related to federal assistance programs for \$131.7 thousand at June 30, 2021. The State's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Food Distribution Program – The amount reported for Food Distribution programs (ALN #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. 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 2021, the State distributed \$479.8 thousand of food commodities under ALN #10.567 to other states.

The State distributed \$10.8 million in commodities in fiscal year 2021. The value at June 30, 2021, of commodities stored at the State's warehouse, is \$5.8 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, 2021, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Municipal Finance Programs and the Facility Finance Authority (a component unit of the State of Montana), totaling \$190.8 million. The BOI's exposure to bond issues of the Municipal Finance Programs was \$90.6 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority were \$100.2 million. The BOI has not been held responsible for 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, 2021, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General Fund</u>
Corporate Tax	\$ 14,668

The 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, 2021. The corporations have appealed the Department of Revenue's decision to deny or adjust the refund. As of June 30, 2021, these include \$11.7 million of General Fund corporate tax refunds. It is estimated that most of these corporation tax refunds would consist primarily of tax and could be significantly reduced or eliminated due to audits and appeals currently in process.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2021. As of June 30, 2021, these include \$19.2 thousand of protested property taxes recorded in the General Fund and \$21.8 thousand recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2021, the Board of Investments (BOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of over \$16.1 million.

Since June 30, 2021, BOI has committed an additional \$109.0 million within the Real Estate Pension Asset Class and \$100.0 million within the Real Assets Pension Asset Class, and \$210.0 million within the Private Investments Pension Asset Class of Consolidated Asset Pension Plan (CAPP), and \$50.0 million within Real Estate of the Trust Fund.

Since June 30, 2021, BOI has reserved \$5.5 million, committed \$1.7 million, and funded \$7.4 million of additional funds to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program. Of the commitments in effect as of June 30, 2021, \$10.0 million have since expired. Additional reservations in the amount of \$4.9 million were made for the Veterans' Home Loan Program (VHLM) residential mortgage purchases.

On November 30, 2021, BOI adopted Resolution No. 249 entitled: "Resolution of the Board of Investments of the State of Montana relating to its annual adjustable rate Municipal Finance Consolidation Act Extendable Bond (INTERCAP Loan Program), Taxable Series 2022, fixing the terms and conditions of the INTERCAP Bond, and authorizing the sale and issuance of the INTERCAP Bond to the Unified Investment Program." All outstanding tax-exempt series bonds were defeased on January 25, 2022, in the amount of \$90.6 million and were redeemed on March 1, 2022. The Taxable Series 2022 bonds were issued on January 25, 2022, in the amount of \$68.7 million.

Other Subsequent Events

On November 17, 2021, Department of Natural Resources & Conversation (DNRC) paid off the Coal Severance Tax series 2020M bond in full for \$2.3 million principal and \$20.5 thousand in interest.

On November 19, 2021, DNRC withdrew an additional \$1.5 million in proceeds from the previously authorized Drinking Water series 2020N bond anticipation note (BAN); drawing the entire authorized amount of \$3.2 million.

On December 1, 2021, DNRC prepaid \$700.0 thousand in principal to the Coal Severance Tax series 2020L bond.

On December 14, 2021, the Board of Examiners authorized the following:

- \$3.9 million series 2021A general obligation bond anticipation notes, and
- \$3.8 million series 2021B general obligation bond anticipation notes.

On December 17, 2021, DNRC issued new general obligation BANs from BOI. The Drinking Water State Revolving Fund issued series 2021A for \$3.9 million, and the Water Pollution Control State Revolving Fund issued series 2021B for \$3.8 million. Both bonds will be used for new loans within the programs.

The Montana Department of Transportation (MDT) was issued notice from the Federal Motor Carrier Safety Administration (FMCSA) of possible sanctions regarding the Entry Level Driver Training (ELDT) requirements for commercial driver's licenses (CDL). These new training standards must be implemented by the compliance date of February 7, 2022. House Bill 608 (HB608) was introduced to the 2021 legislature to implement ELDT regulations. HB608 did not pass. States that are not compliant with the ELDT requirements by the compliance date will be subject to decertification of their CDL programs and/or withholding of up to 4 percent of the National Highway Performance Program and the Motor Carrier Safety Assistance Program (MCSAP) funding that would otherwise be apportioned. The potential for sanctions is high since HB608 did not pass. The consequences of the State's non-compliance with CDL regulations may result in up to 4 percent of the State's Federal Aid Highway apportionment for fiscal year 2022, or \$15.0 million; and 8 percent in fiscal year 2023 and subsequent years of approximately \$31.0 million per year. MDT could lose MCSAP grant eligibility resulting in FMCSA withholding up to \$6.5 million annually.

The State of Montana was allocated \$1.6 billion from the American Rescue Plan Act (ARPA) during fiscal year 2021. The legislature has appropriated approximately \$1.2 billion and enacted laws to allow appropriations to continue into the 2023 and 2025 bienniums. The programs designated by the legislature for ARPA funding are infrastructure, communications, economic transformation and stabilization, workforce development, and health. ARPA funds spent before June 30, 2021, totaled \$58.4 million, and since June 30, 2021, another \$116.0 million has been spent. Montana plans to spend all funds received by June 30, 2026.

In January 2022, the State received \$78.6 million from National Indemnity Company as the result of asbestos litigation.

On February 25, 2022, Montana Attorney General announced that the State will receive \$80.0 million in the final approval of the multi-state settlement holding the nation's three major pharmaceutical distributors accountable for their roles in fueling the national opioid epidemic and the harm it has caused. The settlement will be used to combat the opioid crisis. The settlement will be paid incrementally over several years. The first disbursement of the settlement is unknown.

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, 2021 (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	\$ 667,494	\$ 8,988	\$ 1,743,509	\$ 743,495	\$ 683,433	\$ 3,846,919
Due from primary government	—	—	—	636	1,683	2,319
Due from component units	—	—	—	—	289	289
Capital assets (net) (Note 18C)	11	1	49,379	587,258	383,748	1,020,397
Total assets	667,505	8,989	1,792,888	1,331,389	1,069,153	4,869,924
Deferred Outflows of Resources	1,073	141	6,360	74,982	57,906	140,462
Liabilities:						
Accounts payable and other liabilities	10,238	22	79,831	66,684	65,325	222,100
Due to primary government	—	—	—	1,953	45	1,998
Due to component units	—	—	—	289	—	289
Advances from primary government ^{(2) (3)}	—	—	—	15,108	2,946	18,054
Long-term liabilities (Note 18I)	498,028	403	1,044,845	376,962	321,739	2,241,977
Total liabilities	508,266	425	1,124,676	460,996	390,055	2,484,418
Deferred Inflows of Resources	204	25	2,753	25,152	29,895	58,029
Net Position:						
Net investment in capital assets	3	1	49,379	402,916	259,661	711,960
Restricted	160,105	—	—	394,375	413,041	967,521
Unrestricted	—	8,679	622,440	122,932	34,407	788,458
Total net position	\$ 160,108	\$ 8,680	\$ 671,819	\$ 920,223	\$ 707,109	\$ 2,467,939

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2020.

⁽²⁾ Loans from the Coal Severance Tax Permanent Fund make up \$4.4 million and \$2.9 million of these balances for Montana State University and University of Montana, respectively.

⁽³⁾ Loans from the Board of Investment's INTERCAP and the Department of Environmental Quality's energy conversation loan programs make up \$8.5 million and \$2.2 million, respectively, of the balance for Montana State University.

Condensed Statement of Activities

	Component Units					
	Montana Board of Housing	Facility Finance Authority	Montana State Fund ⁽¹⁾	Montana State University	University of Montana	Total Component Units
Expenses	\$ 21,820	\$ 538	\$ 171,042	\$ 646,557	\$ 464,845	\$ 1,304,802
Program Revenues:						
Charges for services	2,612	821	148,625	273,506	148,670	574,234
Operating grants and contributions	18,908	112	—	320,508	240,803	580,331
Capital grants and contributions	—	—	—	11,663	336	11,999
Total program revenues	21,520	933	148,625	605,677	389,809	1,166,564
Net (expense) program revenues	(300)	395	(22,417)	(40,880)	(75,036)	(138,238)
General Revenues:						
Unrestricted grants and contributions	—	—	—	4	—	4
Unrestricted investment earnings	—	—	113,980	14,585	10,286	138,851
Transfer from primary government ⁽²⁾	501	—	—	147,703	108,740	256,944
Gain (loss) on sale of capital assets	—	—	(55)	41	—	(14)
Miscellaneous	—	—	2,002	—	—	2,002
Contributions to term and permanent endowments	—	—	—	30	29,477	29,507
Total general revenues and contributions	501	—	115,927	162,363	148,503	427,294
Change in net position	201	395	93,510	121,483	73,467	289,056
Total net position – July 1 – as previously reported	159,914	8,285	578,092	798,709	633,642	2,178,642
Adjustments to beginning net position	(7)	—	217	31	—	241
Total net position – July 1 – as restated	159,907	8,285	578,309	798,740	633,642	2,178,883
Total net position – June 30	\$ 160,108	\$ 8,680	\$ 671,819	\$ 920,223	\$ 707,109	\$ 2,467,939

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2020.

⁽²⁾ Transfers to both Montana State University and the University of Montana are appropriated by the State legislature to assist with higher education related costs.

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. For more detail on investments held outside of the Montana Board of Investments, refer to the entity's respective separately issued financial statements.

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	\$ 8,203	\$ 8,306	\$ 1,139	\$ 17,648
Construction work in progress	52,951	11,018	19,176	83,145
Capitalized collections	9,931	28,108	—	38,039
Livestock for educational purposes	4,249	—	—	4,249
Total capital assets not being depreciated	<u>75,334</u>	<u>47,432</u>	<u>20,315</u>	<u>143,081</u>
Capital assets being depreciated:				
Infrastructure	45,122	9,904	—	55,026
Land improvements	35,109	16,468	—	51,577
Buildings/Improvements	804,575	669,670	27,942	1,502,187
Equipment	178,153	110,786	7,358	296,297
Livestock	—	255	—	255
Library books	67,412	62,731	—	130,143
Leasehold improvements	8,668	—	—	8,668
Right-to-use leased buildings ⁽¹⁾	—	—	5,261	5,261
Right-to-use leased equipment ⁽¹⁾	—	—	78	78
Total capital assets being depreciated	<u>1,139,039</u>	<u>869,814</u>	<u>40,639</u>	<u>2,049,492</u>
Total accumulated depreciation	<u>(652,850)</u>	<u>(537,071)</u>	<u>(11,663)</u>	<u>(1,201,584)</u>
Total capital assets being depreciated, net	<u>486,189</u>	<u>332,743</u>	<u>28,976</u>	<u>847,908</u>
Intangible assets	614	1,139	100	1,853
MSU Component Unit capital assets, net	25,121	—	—	25,121
UM Component Unit capital assets, net	—	2,434	—	2,434
Discretely Presented Component Units capital assets, net	<u>\$ 587,258</u>	<u>\$ 383,748</u>	<u>\$ 49,391</u>	<u>\$ 1,020,397</u>

⁽¹⁾ Montana State Fund early implemented GASB Statement No. 87, for the calendar year ended December 31, 2020, and created the right-to-use lease assets.

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, 2020, approximately 23,300 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, 2020, 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 complex factors such as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques. These techniques are used 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, 2020, \$940.2 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 ensure 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, 2020, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop-loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage for occurrences up to \$100.0 million; however, MSF retains the first \$10.0 million of coverage. The excess of loss protection applies to an individual occurrence with a maximum of \$10.0 million on any one life.

The aggregate stop-loss contract provides coverage based on MSF's premium levels not to exceed 15.0% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$8.9 million during the year ended December 31, 2020.

Estimated claim reserves were reduced by \$290.4 thousand as of December 31, 2020, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. There were no estimated recoverables due to the aggregate stop-loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events, including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2020	Year Ended December 31, 2019
Unpaid claims and claim adjustments expenses at beginning of year	\$ 956,594	\$ 941,638
Incurred claims and claim adjustment expenses:		
Provision for insured event of the current year	125,599	129,455
Increase (decrease) in provision for insured events of prior years	(27,224)	(9,466)
Total incurred claims and claim adjustment expenses	98,375	119,989
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(23,890)	(24,965)
Claims and claim adjustment expenses attributable to insured events of prior years	(90,918)	(80,068)
Total payments	(114,808)	(105,033)
Total unpaid claims and claim adjustment expenses at end of year	\$ 940,161	\$ 956,594

F. Capital Leases/Installment Purchases/Right-To-Use Leases

Obligations under capital leases/installment purchases at June 30, 2021, were as follows (in thousands):

Capital Leases/Installment Purchases Fiscal Year Ending June 30:	Discretely Presented Component Units ⁽¹⁾	
2022	\$	145
2023		105
2024		55
2025		47
2026		17
Thereafter		—
Total minimum payments		369
Less: interest		(29)
Present value of minimum payments	\$	340

Right-To-Use Leases Fiscal Year Ending June 30:	Principal	Interest	Total ⁽¹⁾
2022	\$ 265	\$ 112	\$ 377
2023	250	105	355
2024	222	99	321
2025	221	94	315
2026	226	89	315
2027-2031	1,208	367	1,575
2032-2036	1,349	226	1,575
2037-2041	1,192	68	1,260
Total	\$ 4,933	\$ 1,160	\$ 6,093

⁽¹⁾ For the calendar year 2020, Montana State Fund early-adopted GASB Statement No. 87, Leases. Accordingly, for all of its long-term leases, a intangible right-to-use lease asset and lease liability were created. The assets are amortized over the term of the lease, while the liabilities are reduced as scheduled lease payments are made. Montana State Fund's total amount of lease assets and accumulated amortization is disclosed in Note 18, section C. Capital Assets as right-to-use lease assets.

G. Operating Leases

Future rental payments under operating leases at June 30, 2021, are as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2022	\$ 4,607
2023	4,283
2024	3,502
2025	3,484
2026	2,684
Thereafter	11,961
Total future rental payments	<u>\$ 30,521</u>

⁽¹⁾ For the calendar year 2020, MSF early-adopted GASB Statement No. 87, Leases. Accordingly, for all of its long-term leases, MSF will no longer be reporting leases as an operating lease and instead has created an intangible right-to-use lease asset.

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2021, were as follows (in thousands):

Ended June 30:	Montana Board of Housing		Montana State University		Montana State University Direct Placement		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	16,820	15,299	10,360	6,908	433	442	3,010	5,466
2023	17,745	14,937	6,275	6,570	446	429	3,130	5,348
2024	18,510	14,525	6,580	6,286	459	416	3,255	5,224
2025	18,590	14,085	6,770	5,981	472	402	3,380	5,096
2026	21,775	13,619	7,155	7,299	486	388	3,515	4,962
2027 - 2031	104,065	58,732	29,465	22,301	2,654	1,718	20,195	22,189
2032 - 2036	101,050	41,375	30,970	15,152	3,069	1,304	25,000	17,383
2037 - 2041	84,458	25,340	23,325	9,434	3,547	826	29,345	13,048
2042 - 2046	65,305	11,619	22,225	3,315	3,663	273	34,400	7,974
2047 - 2051	35,520	2,613	5,700	194			31,810	2,093
Total	<u>\$ 483,838</u>	<u>\$ 212,144</u>	<u>\$ 148,825</u>	<u>\$ 83,440</u>	<u>\$ 15,229</u>	<u>\$ 6,198</u>	<u>\$ 157,040</u>	<u>\$ 88,783</u>

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2021, was as follows (in thousands):

	Beginning Balance ⁽²⁾	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	531,282	73,710	111,030	493,962	16,820	477,142
Montana State University (MSU)	167,355	98	11,617	155,836	10,478	145,358
MSU Direct Placement	15,649	—	420	15,229	433	14,796
University of Montana (UM)	168,235	—	3,370	164,865	3,010	161,855
Total bonds/notes payable ⁽¹⁾	882,521	73,808	126,437	829,892	30,741	799,151
Other liabilities						
Capital lease/installment purchase/right-to-use lease payable	426	5,050	203	5,273	398	4,875
Compensated absences payable	69,640	26,430	23,310	72,760	27,876	44,884
Arbitrage rebate tax payable	1,121	234	594	761	521	240
Estimated insurance claims	956,594	98,375	114,808	940,161	111,878	828,283
Due to federal government	27,257	17,267	20,615	23,909	—	23,909
Derivative instrument liability	5,499	—	3,580	1,919	—	1,919
Reinsurance funds withheld	56,754	8,524	—	65,278	—	65,278
Unearned compensation	391	136	39	488	—	488
Net pension liability	186,395	70,046	18,660	237,781	—	237,781
Total OPEB liability	27,460	47,907	17,243	58,124	—	58,124
Total other liabilities	1,331,537	273,969	199,052	1,406,454	140,673	1,265,781
	2,214,058	347,777	325,489	2,236,346	171,414	2,064,932
Long-term liabilities of Montana University System component units ⁽³⁾					517	5,114
Total discretely presented component units' long-term liabilities					\$ 171,931	\$ 2,070,046

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.

(2) Beginning balances are taken from component unit financial statements, which may have been adjusted from the prior year's ending balances.

(3) Inter-entity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Refunded Debt

On March 31, 2021, the Montana Board of Housing issued \$43.4 million of Single Family Mortgage Bonds, Series 2021A (1977 Single Family I Indenture, amended and restated as of May 1, 1997). Bond proceeds of \$13.4 million were used as a replacement refunding of the 2011B/2009C Series to reduce debt service payments over the remaining life of the original series. The refunding was a current refunding, thus no economic gain or loss has been calculated.

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing the 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, 2021, \$111.5 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, 2021, revenue bonds and notes outstanding aggregated \$1.1 billion.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 11 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, 2021, bonds outstanding aggregated \$177.6 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 \$100.2 million as of June 30, 2021. 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, 2021 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 88,346	\$ 33,465	\$ 21,563	\$ 100,248

M. Derivative Instrument Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2021. 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. The following table summarizes the interest rate swaps outstanding as of June 30, 2021:

Derivative Instrument 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 ¹	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.

¹ Securities Industry and Financial Markets Association (SIFMA)

As of June 30, 2021, 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 instrument 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 instrument 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 instrument.

The counterparty to the fixed payer swap had the right to terminate the swap at \$0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option’s value included intrinsic value and time value. The option’s intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. On September 4, 2018, the original Series J bonds were refunded in full with proceeds from the Series F 2018 bonds, which were issued in a “SIFMA Index Rate” mode. While in the SIFMA Index Rate, and through the Index Interest Rate Period, which spans from September 4, 2018, through and including September 1, 2023, the interest rate is reset weekly at a rate of the SIFMA rate plus

a fixed spread. The spread is based on the long-term, unenhanced rating assigned to MSU with the current spread as of June 30, 2021, was 0.45%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative instrument.

The fair value of the fixed payer swap liability as of June 30, 2021, 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 instrument investment is also at level 2 and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap, 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, 2021, (in thousands):

Cash flow hedges:	Notional	Activity During 2021		Fair Values at June 30, 2021	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	17,450	Interest expense	19	Loan receivable	175
		Investment income	—	Derivative instrument liability	1,919
		Deferred outflow	1,125	Derivative instrument borrowing	2,196
Investment derivative instrument–					
Basis swap	17,450	Investment revenue	19	Investment (excluding interest accrued)	1

The objective and terms of MSU's hedging derivative instrument outstanding as of June 30, 2021, 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 F 2018 Bonds	\$ 17,450	7/21/2005	11/15/2035	\$ —	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative instrument agreements with highly rated counterparties. As of June 30, 2021, counterparty ratings were A2 by Moody's and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5.0 million, and the counterparty is rated A+ or A by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative instrument agreements with multiple counterparties to limit the 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 instrument 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, 2021, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk

All hedging derivative instruments are denominated in U.S. 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 to encourage, promote, and support educational programs, research, scholarly pursuits, and athletics at, or in connection with, UM. No transfers for scholarships and construction projects were made by the Montana Tech Booster Club for the year ended June 30, 2021. In exchange, UM provides the associations and booster club with office space, staff, and some related office expenses.

MonTEC was established as a nonprofit 501(c)3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low-cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised of four members. Two members of the board of directors are UM employees, and two are non-UM employees. UM does not provide office space or other services to MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. MSU-Bozeman leased certain office space from the MSU Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Rental and other payments to ATI totaled \$429.2 thousand. Friends of Montana Public Television provided \$1.8 million and Friends of KEMC Public Radio provided \$1.2 million in support of the University's television and radio stations.

O. Litigation Contingencies

As of June 30, 2021, there are no matters that will have a material adverse financial impact.

P. Subsequent Events

On July 1, 2021, Stockman Bank transferred the servicing of 589 loans to the Montana Board of Housing (MBOH), with a total outstanding balance at the time of transfer of \$54.0 million.

On August 1, 2021, MBOH issued direction for a full optional redemption of the series 1999A-1 multifamily bonds in the amount of \$4.1 million.

On August 31, 2021, MBOH closed on 2021 series B single family mortgage bonds in the amount of \$32.0 million.

On November 22, 2021, the MBOH closed on a multifamily housing revenue series 2021 conduit bond for the Castlebar Apartment Development in the amount of \$13.5 million.

The American Rescue Plan Act (ARPA) has provided funds to be used for a homeowner assistance fund (HAF) to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, displacement of homeowner's insurance, utility payments, and for other specified purposes.

On February 17, 2022, the MBOH closed on single family mortgage bonds Series 2022A, in the amount of \$32.0 million.

On July 14, 2021, the Montana Facility Finance Authority (FFA) issued bonds Series 2021A of \$56.8 million and bonds Series 2021B of \$36.2 million to the Bozeman Deaconess Hospital to create new tax-exempt debt for buildings and equipment and create new taxable debt to purchase the EPIC electronic health records information system.

On July 27, 2021, the FFA issued bonds Series 2021B of \$100.0 million to Benefis Health System to fund construction of a new Helena Ambulatory Center, a new osteopathic medical school facility, and equipment upgrades across the campus.

On August 12, 2021, the FFA issued bonds Series 2021A of \$8.0 million and Series 2021B of \$18.6 million to Community Hospital of Anaconda to finance the Hospital's Infusion/Oncology Center project and to refinance existing taxable debt incurred to expand and renovate the facility.

On August 31, 2021, the FFA issued bonds of \$15.1 million to Beartooth Billings Clinic to refinance a direct loan from USDA Rural Development, the Series 2009A bonds USDA Guarantee and Series 2009B bonds unsecured. The original purpose of the 2009AB Series bonds was for the costs of design and construction of the new hospital in the Red Lodge, Montana.

On September 1, 2021, the FFA issued a trust fund loan of \$1.5 million to Rimrock Foundation to reimburse the purchase of land in Billings to consolidate services and create a central campus.

On October 20, 2021, the FFA issued Series 2021 A bonds of \$27.0 million and Series B bonds of \$10.0 million to Marcus Daly Memorial Hospital in Hamilton to fund renovation and expansion projects as well as refinance existing taxable and tax-exempt debt.

On November 15, 2021, the FFA issued Series 2021 A bonds to Billings Clinics of \$150.0 million to be used as a capital expansion to broaden the clinic's service lines and market reach.

On August 30, 2021, Montana State University (MSU) announced a \$101.0 million philanthropic gift to the College of Nursing from Mark and Robyn Jones to address healthcare access to rural communities. This gift, the largest in MSU history, will provide funding for new nursing education facilities across Montana in addition to scholarships and endowed professorships.

On October 19, 2021, MSU issued new debt and restructured portions of existing debt, non-taxable series G 2021 (\$45.6 million) and taxable series H 2021 (\$72.2 million). With the proceeds, \$40.3 million of new

debt will go towards the construction of the upcoming Student Wellness Center and the remainder being a refunding of series' 2012N, 2012O, 2013A, and 2016C. This transaction also enabled MSU to adopt and to operate under an Amended and Restated Indenture of Trust, 2021, that modernizes and broadens the MSU revenue pledge to include auxiliary facility gross pledged revenues, land grant income, indirect cost recovery payments, and all other unrestricted revenues of the University except tuition, student association-controlled activity fees, ad valorem property taxes, and State grants and appropriations.

On December 31, 2021, the MSU-Northern Foundation received a charitable gift of 42.969 acres of real property valued at \$1.9 million. The gift is for the Foundation to leverage the property to assist MSU-Northern in executing the build out of a proposed equine center.

On February 25, 2022, MSU announced a \$50 million philanthropic gift from the Gianforte Family Foundation. The gift is dedicated to constructing a new building to house the Gianforte School of Computing and computing-related fields such as cybersecurity, optics and photonics, electrical and computer engineering, and creative industries. The gift ties for the second largest in the university's history and is one of the largest philanthropic gifts in the history of Montana.

On March 12, 2021, Montana State Fund's board declared \$20.0 million dividend to be distributed in May 2021 to eligible policyholders for the 2018 policy year.

In March 2020 when the COVID-19 outbreak was declared a global pandemic, the University of Montana (UM) responded to the health crisis by moving to remote deliver of its courses. Remote delivery was continued in fiscal year 2021. This contributed to a decline in tuition and fees revenue of \$8.1 million, or approximately 8.0 percent, and a decline in excess of \$12.9 million in sales and service and auxiliary revenues, or over 23.0 percent. While UM received funding through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, it was not sufficient to offset all mitigation costs and loss of operation revenues. At the start of fiscal year 2022, UM returned to delivery of courses face-to-face and resumed normal operations for a majority of operating activities.

Q. Commitments

Montana State Fund (MSF or New Fund) is in a multi-year project to replace its legacy policy management system. Implementation of the core policy management and billing transaction systems, as well as the supporting digital portals, is expected to begin in 2021 and total expenditures are estimated to be \$39.2M. The total project cost through December 31, 2020 was \$33.3M. The next phase to develop remaining enhancement features will be planned and arranged with consulting services towards the end of 2021. Costs during the application development phase are being capitalized and recorded as construction work in process until the system is deployed.

As of June 30, 2021, Montana State University (MSU) had issued purchase orders committing the expenditure of approximately \$23.1 million for equipment, supplies, and services which had not yet been received.

As of June 30, 2021, MSU had remaining budget authority on significant capital construction and renovation projects underway of approximately \$41.1 million. These projects include projects that are administered by the State Architecture and Engineering Division (A & E) and non A & E managed projects. Select projects are funded wholly or partially by the State's Long Range Building Program, and do not represent a commitment of funds on the part of MSU.

As of June 30, 2021, the University of Montana (UM) has spent \$16.1 million of \$48.6 million in budget authorizations for capital and maintenance projects.

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, 2021, the Game Warden & Peace Officers' Retirement System (GWPORS) was not in compliance and did not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortized in 30 years or less as of the fiscal year ended June 30, 2021.

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BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	\$ 142,964	\$ 142,964	\$ 142,810	\$ (154)
Taxes:				
Natural resource	73,910	73,910	68,068	(5,842)
Individual income	1,464,438	1,464,438	1,734,627	270,189
Corporate income	167,209	167,209	263,869	96,660
Property	310,394	310,394	309,495	(899)
Fuel	—	—	—	—
Other	255,740	255,740	253,940	(1,800)
Charges for services/fines/forfeits/settlements	46,638	46,638	45,488	(1,150)
Investment earnings	—	—	5,093	5,093
Sale of documents/merchandise/property	302	302	251	(51)
Rentals/leases/royalties	10	10	8	(2)
Contributions/premiums	(274)	(274)	—	274
Grants/contracts/donations	21	21	13,665	13,644
Federal	21,117	21,117	10,767	(10,350)
Federal indirect cost recoveries	38	38	164	126
Other revenues	127	127	379	252
Total revenues	<u>2,482,634</u>	<u>2,482,634</u>	<u>2,848,624</u>	<u>365,990</u>
EXPENDITURES				
Current:				
General government	409,511	409,511	385,619	23,892
Public safety	346,427	346,427	310,373	36,054
Transportation	213	213	174	39
Health and human services	566,288	566,288	490,805	75,483
Education	1,132,486	1,132,486	1,119,344	13,142
Natural resources	43,782	43,782	38,226	5,556
Debt service (Note RSI-1):				
Principal retirement	—	—	295	(295)
Interest/fiscal charges	—	—	247	(247)
Capital outlay (Note RSI-1)	—	—	7,436	(7,436)
Total expenditures	<u>2,498,707</u>	<u>2,498,707</u>	<u>2,352,519</u>	<u>146,188</u>
Excess of revenue over (under) expenditures	<u>(16,073)</u>	<u>(16,073)</u>	<u>496,105</u>	<u>512,178</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	—	—	—	—
General capital asset sale proceeds	107	107	119	12
Refunding bond issued	—	—	—	—
Payment to refunding bond escrow agent	—	—	—	—
Bond premium	—	—	—	—
Bond proceeds	—	—	—	—
Energy conservation loans	—	—	—	—
Transfers in (Note 12)	81,943	81,943	85,085	3,142
Transfers out (Note 12)	(279,411)	(279,411)	(330,993)	(51,582)
Total other financing sources (uses)	<u>(197,361)</u>	<u>(197,361)</u>	<u>(245,789)</u>	<u>(48,428)</u>
Net change in fund balances (Budgetary basis)	<u>(213,434)</u>	<u>(213,434)</u>	<u>250,316</u>	<u>463,750</u>
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	—	—	39	39
2. Securities lending costs	—	—	(10)	(10)
3. Inception of lease/installment contract	—	—	193	193
4. Adjustments for nonbudgeted activity	—	—	—	—
(GAAP basis)	<u>(213,434)</u>	<u>(213,434)</u>	<u>250,538</u>	<u>463,972</u>
Fund balance - July 1	—	—	592,810	592,810
Prior period adjustments	—	—	13,335	13,335
Increase (decrease) in inventories	—	—	(384)	(384)
Fund balances - June 30	<u>\$ (213,434)</u>	<u>\$ (213,434)</u>	<u>\$ 856,299</u>	<u>\$ 1,069,733</u>

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances. The original and final budget figures reflect adjustments to the original budget for various reasons, including legislative and executive changes.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
\$ 302,717	\$ 302,717	\$ 299,019	\$ (3,698)	\$ —	\$ —	\$ —	\$ —
82,709	82,709	64,910	(17,799)	—	—	—	—
—	—	—	—	—	—	—	—
20	20	11	(9)	—	—	—	—
20,266	20,266	20,066	(200)	—	—	—	—
264,819	264,819	274,417	9,598	—	—	—	—
170,675	170,675	171,436	761	2	2	—	(2)
130,282	130,282	134,556	4,274	7,741	7,741	7,925	184
—	—	5,167	5,167	—	—	572	572
9,927	9,927	8,967	(960)	15	15	—	(15)
1,637	1,637	1,120	(517)	—	—	—	—
34,164	34,164	35,092	928	—	—	—	—
8,200	8,200	6,580	(1,620)	100	100	44	(56)
9,449	9,449	6,079	(3,370)	5,942,744	5,942,744	4,692,258	(1,250,486)
4,697	4,697	56,502	51,805	97,487	97,487	98,207	720
3,914	3,914	3,302	(612)	1,341	1,341	1,335	(6)
1,043,476	1,043,476	1,087,224	43,748	6,049,430	6,049,430	4,800,341	(1,249,089)
352,348	352,244	195,503	156,741	4,016,179	4,016,179	834,438	3,181,741
103,448	103,448	85,732	17,716	82,003	82,003	58,076	23,927
353,920	353,920	254,862	99,058	739,242	739,242	129,320	609,922
257,915	257,915	217,830	40,085	3,482,647	3,482,647	2,710,754	771,893
89,955	89,955	85,051	4,904	922,666	922,666	289,715	632,951
415,748	415,748	216,845	198,903	229,238	229,238	128,353	100,885
—	—	2,994	(2,994)	—	—	135	(135)
—	—	1,230	(1,230)	—	—	11	(11)
—	—	88,961	(88,961)	—	—	427,568	(427,568)
1,573,334	1,573,230	1,149,008	424,222	9,471,975	9,471,975	4,578,370	4,893,605
(529,858)	(529,754)	(61,784)	467,970	(3,422,545)	(3,422,545)	221,971	3,644,516
50	50	437	387	—	—	—	—
556	556	617	61	—	—	—	—
24,875	24,875	24,896	21	—	—	—	—
—	—	(23,935)	(23,935)	—	—	—	—
—	—	8,799	8,799	—	—	—	—
65,724	65,724	56,904	(8,820)	—	—	—	—
—	—	149	149	—	—	—	—
323,874	323,874	209,877	(113,997)	1,683,884	1,683,884	2,058	(1,681,826)
(100,956)	(100,956)	(63,008)	37,948	(2,877,747)	(2,877,747)	(229,171)	2,648,576
314,123	314,123	214,736	(99,387)	(1,193,863)	(1,193,863)	(227,113)	966,750
(215,735)	(215,631)	152,952	368,583	(4,616,408)	(4,616,408)	(5,142)	4,611,266
—	—	47	47	—	—	—	—
—	—	(10)	(10)	—	—	—	—
—	—	4,137	4,137	—	—	57	57
—	—	(11,899)	(11,899)	—	—	—	—
(215,735)	(215,631)	145,227	360,858	(4,616,408)	(4,616,408)	(5,085)	4,611,323
—	—	1,836,115	1,836,115	—	—	(6,799)	(6,799)
—	—	(591)	(591)	—	—	564	564
—	—	(1,551)	(1,551)	—	—	—	—
\$ (215,735)	\$ (215,631)	\$ 1,979,200	\$ 2,194,831	\$ (4,616,408)	\$ (4,616,408)	\$ (11,320)	\$ 4,605,088

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 2021, reverted governmental fund appropriations were as follows: \$96.6 million in the General Fund, \$260.7 million in the State Special Revenue Fund, and \$332.0 million in the Federal Special Revenue Fund. Agencies are allowed to carry forward 30.0% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP

for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous non-budgeted 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)

	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability (TPL)							
Service costs	\$ 1,748	\$ 1,772	\$ 1,664	\$ 1,628	\$ 1,578	\$ 1,653	\$ 1,594
Interest	4,842	4,458	4,503	4,044	3,986	3,934	3,824
Differences between expected and actual experience	(262)	2,743	(2,901)	862	(1,341)	(1,032)	—
Changes of assumptions	1,912	—	—	3,865	—	—	—
Refunds of contributions	—	—	(149)	—	—	—	—
Benefit payments	(4,038)	(3,846)	(3,723)	(3,554)	(3,416)	(3,041)	(3,023)
Net change in total pension liability	4,202	5,127	(606)	6,845	807	1,514	2,395
Total pension liability – beginning	65,319	60,192	60,798	53,953	53,146	51,632	49,237
Total pension liability – ending	\$ 69,521	\$ 65,319	\$ 60,192	\$ 60,798	\$ 53,953	\$ 53,146	\$ 51,632
Plan Fiduciary Net Position							
Contributions – employer	\$ 1,988	\$ —	\$ 1,085	\$ 1,800	\$ 1,806	\$ 1,684	\$ 1,651
Contributions – member	560	517	575	488	729	534	481
Net investment income	2,827	5,687	8,467	10,368	1,779	3,843	12,421
Refunds of contributions	—	—	(149)	—	—	—	—
Benefit payments	(4,038)	(3,846)	(3,723)	(3,554)	(3,416)	(3,041)	(3,023)
Administrative expense	(157)	(123)	(264)	(254)	(197)	(136)	(100)
Other	—	—	7	—	(3)	—	—
Net change in plan fiduciary net position	1,180	2,235	5,998	8,848	698	2,884	11,430
Plan fiduciary net position - beginning	104,886	102,651	96,653	87,805	87,107	84,223	72,793
Plan fiduciary net position - ending	\$ 106,066	\$ 104,886	\$ 102,651	\$ 96,653	\$ 87,805	\$ 87,107	\$ 84,223
Net Pension (Asset) – Beginning	\$ (39,567)	\$ (42,459)	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)	\$ (23,556)
Net Pension (Asset) – Ending	\$ (36,545)	\$ (39,567)	\$ (42,459)	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)
Plan fiduciary net position as a percentage of TPL	152.57%	160.58%	170.54%	158.97%	162.74%	163.90%	163.12%
Covered payroll	\$ 8,001	\$ 7,382	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525	\$ 6,355
Net pension (asset) as a percentage of covered payroll	(456.76)%	(535.99)%	(582.35)%	(514.12)%	(489.19)%	(521.00)%	(513.00)%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 2,138	\$ 1,988	\$ —	\$ 1,085	\$ 1,800	\$ 1,786	\$ 1,684
Contributions made in relation to the contractually required contributions	2,138	1,988	—	1,085	1,800	1,786	1,684
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 8,282	\$ 8,001	\$ 7,382	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525
Contributions as a percentage of covered payroll	25.82%	24.85%	0.00%	14.88%	25.81%	26.00%	26.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2021

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, 2020, determined as of June 30, 2020.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%
Merit increases	0%
Total salary increases	3.50%, including inflation
Inflation	2.40%
Investment rate of return	7.34%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.08%

Changes of assumptions: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability (TPL)							
Service costs	\$ 3,337	\$ 3,453	\$ 3,643	\$ 3,665	\$ 3,799	\$ 3,598	\$ 3,464
Interest	17,688	16,926	16,294	15,121	14,545	14,113	13,518
Changes in benefits	—	—	—	—	—	1,856	—
Difference between expected and actual experience	(993)	2,413	590	2,774	18	267	—
Changes of assumptions	141,055	—	—	7,892	—	—	—
Benefit payments	(12,685)	(12,063)	(11,546)	(11,037)	(10,482)	(10,001)	(9,443)
Refunds of contributions	(331)	(582)	(322)	(245)	(94)	—	—
Net change in total pension liability	148,071	10,147	8,659	18,170	7,786	9,833	7,539
Total pension liability – beginning	237,728	227,581	218,922	200,752	192,966	183,133	175,594
Total pension liability – ending	\$ 385,799	\$ 237,728	\$ 227,581	\$ 218,922	\$ 200,752	\$ 192,966	\$ 183,133
Plan Fiduciary Net Position							
Contributions – employer	\$ 6,003	\$ 5,845	\$ 5,858	\$ 5,782	\$ 5,916	\$ 5,840	\$ 5,736
Contributions – non-employer	226	233	250	263	243	—	—
Contributions – member	2,170	2,002	2,387	1,950	1,917	1,624	1,458
Net investment income	4,101	8,269	12,283	15,099	2,605	5,738	18,677
Benefit payments	(12,685)	(12,063)	(11,546)	(11,037)	(10,482)	(10,001)	(9,443)
Administrative expense	(163)	(127)	(256)	(248)	(197)	(144)	(109)
Refunds of contributions	(331)	(582)	(322)	(245)	(94)	—	—
Other	(131)	2	8	—	(2)	—	—
Net change in plan fiduciary net position	(810)	3,579	8,662	11,564	(94)	3,057	16,319
Plan fiduciary net position – beginning	152,778	149,199	140,537	128,973	129,067	126,010	109,691
Plan fiduciary net position – ending	\$ 151,968	\$ 152,778	\$ 149,199	\$ 140,537	\$ 128,973	\$ 129,067	\$ 126,010
Net Pension Liability – Beginning	\$ 84,950	\$ 78,382	\$ 78,385	\$ 71,779	\$ 63,899	\$ 57,123	\$ 65,903
Net Pension Liability – Ending	\$ 233,831	\$ 84,950	\$ 78,382	\$ 78,385	\$ 71,779	\$ 63,899	\$ 57,123
Plan fiduciary net position as a percentage of TPL	39.39%	64.27%	65.56%	64.20%	64.24%	67.00%	69.00%
Covered payroll	\$ 15,608	\$ 15,178	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549	\$ 14,149
Net pension liability as a percentage of covered payroll	1498.15%	559.69%	513.95%	530.38%	469.88%	439.00%	404.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 6,599	\$ 6,209	\$ 6,051	\$ 5,843	\$ 5,706	\$ 6,161	\$ 5,782
Contributions in relation to the contractually required contributions	6,599	6,209	6,051	5,843	5,706	6,161	5,782
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 16,631	\$ 15,608	\$ 15,178	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549
Contributions as a percentage of covered payroll	39.68%	39.78%	39.87%	38.31%	38.61%	40.00%	40.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2021

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, 2020, determined as of June 30, 2020.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%
Merit increases	0% to 6.30%
Total salary increases	3.50% to 10.02%, including inflation
Inflation	2.40%
Investment rate of return	7.34%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.18%

Changes of assumptions: The discount rate was lowered from 7.65% to 4.43%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability (TPL)							
Service costs	\$ 8,029	\$ 8,004	\$ 8,098	\$ 8,623	\$ 8,403	\$ 8,008	\$ 7,850
Interest	18,535	17,618	16,018	14,269	12,911	12,398	11,258
Difference between expected and actual experience	(2,027)	(4,728)	4,781	3,743	2,705	731	—
Changes of assumptions	85,967	—	—	5,878	—	—	—
Benefit payments	(8,247)	(7,350)	(6,523)	(5,810)	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,200)	(1,001)	(1,105)	(1,036)	(1,066)	—	—
Net change in total pension liability	101,057	12,543	21,269	25,667	17,885	15,785	13,879
Total pension liability – beginning	247,013	234,470	213,201	187,534	169,649	153,864	139,985
Total pension liability – ending	<u>\$ 348,070</u>	<u>\$ 247,013</u>	<u>\$ 234,470</u>	<u>\$ 213,201</u>	<u>\$ 187,534</u>	<u>\$ 169,649</u>	<u>\$ 153,864</u>
Plan Fiduciary Net Position							
Contributions - employer	\$ 4,868	\$ 4,686	\$ 4,613	\$ 4,464	\$ 4,278	\$ 4,088	\$ 3,762
Contributions - member	5,803	5,566	5,512	5,278	5,036	4,924	4,462
Net investment income	5,583	11,125	15,573	18,590	3,167	6,435	20,069
Benefit payments	(8,247)	(7,350)	(6,523)	(5,810)	(5,068)	(5,352)	(5,229)
Administrative expense	(241)	(202)	(369)	(329)	(269)	(200)	(162)
Refunds of contributions	(1,200)	(1,001)	(1,105)	(1,036)	(1,066)	—	—
Other	(4)	1	(19)	(1)	(31)	—	—
Net change in plan fiduciary net position	6,562	12,825	17,682	21,156	6,047	9,895	22,902
Plan fiduciary net position – beginning	206,348	193,523	175,841	154,685	148,638	138,743	115,841
Plan fiduciary net position – ending	<u>\$ 212,910</u>	<u>\$ 206,348</u>	<u>\$ 193,523</u>	<u>\$ 175,841</u>	<u>\$ 154,685</u>	<u>\$ 148,638</u>	<u>\$ 138,743</u>
Net Pension Liability – Beginning	<u>\$ 40,665</u>	<u>\$ 40,947</u>	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>	<u>\$ 24,144</u>
Net Pension Liability – Ending	<u>\$ 135,160</u>	<u>\$ 40,665</u>	<u>\$ 40,947</u>	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>
Plan fiduciary net position as a percentage of TPL	61.17%	83.54%	82.54%	82.48%	82.48%	87.00%	90.00%
Covered payroll	\$ 53,825	\$ 51,677	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885	\$ 41,637
Net pension liability as a percentage of covered payroll	251.11%	78.69%	80.57%	75.66%	69.73%	47.00%	36.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
*(dollars in thousands)***

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 5,394	\$ 4,837	\$ 4,644	\$ 4,574	\$ 4,447	\$ 4,240	\$ 4,040
Contributions in relation to the contractually required contributions	5,394	4,837	4,644	4,574	4,447	4,240	4,040
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 60,023	\$ 53,825	\$ 51,677	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885
Contributions as a percentage of covered payroll	8.99%	8.99%	8.99%	9.00%	9.01%	9.00%	9.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2021**

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, 2020, determined as of June 30, 2020.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%
Merit increases	0% to 6.30%
Total salary increases	3.50% to 10.02%, including inflation
Inflation	2.40%
Investment rate of return	7.34%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.16%

Changes of assumptions: The discount rate was lowered from 7.65% to 5.65%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	48.997235%	39.140686%	39.546272%	53.049189%	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	\$ 1,292,651	\$ 818,162	\$ 825,387	\$ 1,033,200	\$ 906,880	\$ 749,414	\$ 663,174
Employer's covered payroll	\$ 654,193	\$ 638,674	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286	\$ 597,083
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	197.59%	128.10%	128.93%	159.28%	145.86%	120.82%	111.07%
Plan fiduciary net position as a percentage of the total pension liability	68.90%	73.85%	73.47%	74.00%	75.00%	78.00%	80.00%

Schedule of Employer Contributions ¹

For the Fiscal Year Ended June 30

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 78,878	\$ 58,504	\$ 56,183	\$ 54,844	\$ 56,256	\$ 59,073	\$ 58,575
Contributions in relation to the contractually required contributions	78,878	58,504	56,183	54,844	56,256	59,073	58,575
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 715,875	\$ 654,193	\$ 638,674	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286
Contributions as a percentage of covered payroll	11.02%	8.94%	8.80%	8.57%	8.67%	9.50%	9.44%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, determined as of June 30, 2020.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%
Merit increases	0% to 4.80%
Total salary increases	3.50% to 8.47%, including inflation
Inflation	2.40%
Investment rate of return	7.34%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.30%

Changes of assumptions: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	14.215404%	24.411533%	24.917247%	1.007464%	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	\$ 375,032	\$ 510,277	\$ 520,058	\$ 19,622	\$ 16,287	\$ 13,365	\$ 11,978
Plan fiduciary net position as a percentage of the total pension liability	68.90%	73.85%	73.47%	74.00%	75.00%	78.00%	80.00%

Schedule of Nonemployer Contributions ¹

For the Fiscal Year Ended June 30

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 21,180	\$ 35,008	\$ 34,642	\$ 34,706	\$ 28,763	\$ 30,800	\$ 32,397
Contributions in relation to the contractually required contributions	21,180	35,008	34,642	34,706	28,763	30,800	32,397
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

The State contributes a statutory appropriation from General Fund per Section 19-3-320, MCA.

Changes of assumptions: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	4.758893%	4.876949%	4.872800%	4.856692%	5.454386%	5.637055%	5.535000%
Employer's proportionate share of the net pension liability	\$ 5,800	\$ 4,067	\$ 3,663	\$ 3,696	\$ 9,582	\$ 5,434	\$ 2,304
Employer's covered payroll	\$ 4,041	\$ 3,915	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836	\$ 3,580
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	143.53%	103.88%	96.88%	101.71%	248.88%	141.66%	64.36%
Plan fiduciary net position as a percentage of the total pension liability	75.92%	81.89%	82.68%	81.00%	63.00%	75.00%	87.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30**

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 607	\$ 530	\$ 513	\$ 496	\$ 368	\$ 389	\$ 388
Contributions in relation to the contractually required contributions	607	530	513	496	368	389	388
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 4,628	\$ 4,041	\$ 3,915	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836
Contributions as a percentage of covered payroll	13.12%	13.12%	13.10%	13.12%	10.13%	10.10%	10.11%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year ended June 30, 2021**

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, 2020, determined as of June 30, 2020. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage Inflation	3.50%
Merit increases	0% to 6.30%
Total salary increases	3.50% to 10.02%, including inflation
Inflation	2.40%
Investment rate of return	7.34%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, set back 1 year for males
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.16%

Changes of assumptions: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)**

	2021	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	66.853347%	67.063878%	67.124706%	67.085433%	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	\$ 163,514	\$ 133,487	\$ 114,956	\$ 119,354	\$ 119,708	\$ 110,756	\$ 105,106
Plan fiduciary net position as a percentage of the total pension liability	64.84%	68.84%	70.95%	68.00%	66.00%	67.00%	67.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 17,395	\$ 16,677	\$ 15,941	\$ 15,283	\$ 13,215	\$ 13,752	\$ 13,433
Contributions in relation to the contractually required contributions	17,395	16,677	15,941	15,283	13,215	13,752	13,433
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, 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: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.378643%	2.013129%	2.300917%	2.233929%	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	\$ 3,722	\$ 2,309	\$ 2,650	\$ 2,525	\$ 2,583	\$ 2,454	\$ 1,806
Employer's covered payroll	\$ 1,276	\$ 1,051	\$ 1,103	\$ 1,022	\$ 974	\$ 986	\$ 735
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	291.69%	219.70%	240.25%	247.06%	265.20%	249.00%	245.00%
Plan fiduciary net position as a percentage of the total pension liability	75.34%	80.08%	79.03%	78.00%	75.00%	77.00%	77.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30**

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 665	\$ 599	\$ 494	\$ 518	\$ 472	\$ 475	\$ 142
Contributions in relation to the contractually required contributions	665	599	494	518	472	475	142
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 1,415	\$ 1,276	\$ 1,051	\$ 1,103	\$ 1,022	\$ 974	\$ 986
Contributions as a percentage of covered payroll	47.00%	46.94%	47.00%	46.96%	46.18%	49.00%	14.40%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, determined as of June 30, 2020. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%
Merit increases	0% to 6.30%
Total salary increases	3.50% to 10.02%, including inflation
Inflation	2.40%
Investment rate of return	7.34%, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin as a % of payroll	0.13%

Changes of assumptions: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.656380%	69.323577%	67.972164%	67.876338%	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	\$ 105,867	\$ 79,524	\$ 78,285	\$ 76,724	\$ 77,448	\$ 68,892	\$ 66,384
Plan fiduciary net position as a percentage of the total pension liability	75.34%	80.08%	79.03%	78.00%	75.00%	77.00%	77.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30**

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 17,897	\$ 17,147	\$ 16,209	\$ 15,272	\$ 14,042	\$ 13,635	\$ 13,573
Contributions in relation to the contractually required contributions	17,897	17,147	16,209	15,272	14,042	13,635	13,573
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, 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: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%	100%	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	\$ 9,106	\$ 6,907	\$ 7,667	\$ 10,087	\$ 10,599	\$ 10,504	\$ 5,089
Plan fiduciary net position as a percentage of the total pension liability	81.42%	85.23%	83.48%	78.00%	76.00%	76.00%	87.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30**

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 2,578	\$ 2,475	\$ 2,361	\$ 2,207	\$ 2,054	\$ 2,024	\$ 1,913
Contributions in relation to the contractually required contributions	2,578	2,475	2,361	2,207	2,054	2,024	1,913
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: The discount rate was lowered from 7.65% to 7.34%. The investment rate of return was lowered from 7.65% to 7.34%. The inflation rate was reduced from 2.75% to 2.40%.

**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)

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.303331%	2.411113%	2.554088%	2.860298%	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	\$ 51,812	\$ 46,493	\$ 47,407	\$ 48,227	\$ 57,016	\$ 56,230	\$ 72,168
Employer's covered payroll	\$ 22,384	\$ 23,250	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252	\$ 32,937
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	231.47%	199.97%	195.29%	178.99%	197.18%	179.00%	219.00%
Plan fiduciary net position as a percentage of the total pension liability	64.95%	68.64%	69.09%	70.00%	67.00%	69.00%	70.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30**

(dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 16,103	\$ 16,686	\$ 16,538	\$ 17,298	\$ 17,396	\$ 16,946	\$ 16,234
Contributions in relation to the contractually required contributions	16,103	16,686	16,538	17,298	17,396	16,946	16,234
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 21,776	\$ 22,384	\$ 23,250	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252
Contributions as a percentage of covered payroll	73.95%	74.54%	71.13%	71.26%	64.56%	58.00%	52.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, determined as of June 30, 2020. 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
Asset valuation method	4-year smoothed market
Wage inflation	3.25%
Merit increase	0 to 4.51% for non-university members and 1.00% for university members
Total salary increases	3.25% to 7.76% for non-university members and 4.25% for university members, including inflation
Inflation	2.40%
Investment rate of return	7.34%, net of pension plan investment expense, and including inflation
Mortality (healthy)	RP-2000 Healthy Combined mortality table projected to 2022 adjusted for partial credibility setback for 2 years
Mortality (disabled)	RP-2000 Disabled mortality table for males set back 3 years, for females set forward 2 years
Admin as a % of payroll	0.45%

Changes of assumptions: The discount rate was lowered from 7.50% to 7.34%. The investment rate of return was lowered from 7.50% to 7.34%. The inflation rate was reduced from 2.50% to 2.40%.

**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)**

	2021	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	36.554642%	37.112880%	37.735743%	38.133267%	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	\$ 822,282	\$ 715,637	\$ 700,417	\$ 642,958	\$ 707,527	\$ 647,092	\$ 596,724
Plan fiduciary net position as a percentage of the total pension liability	64.95%	68.64%	69.09%	70.00%	67.00%	69.00%	70.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 46,701	\$ 44,841	\$ 44,333	\$ 43,718	\$ 43,028	\$ 42,400	\$ 42,806
Contributions in relation to the contractually required contributions	46,701	44,841	44,333	43,718	43,028	42,400	42,806
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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, 2020, 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 \$25.0 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: The discount rate was lowered from 7.50% to 7.34%. The investment rate of return was lowered from 7.50% to 7.34%. The inflation rate was reduced from 2.50% to 2.40%.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for the State of Montana OPEB plan.

Total OPEB Liability and Related Ratios				
Last 10 Fiscal Years ⁽¹⁾				
(in thousands)				
Total OPEB Liability	2021	2020	2019	2018
Service cost	\$ 1,734	\$ 1,946	\$ 2,062	\$ 1,889
Interest	1,333	1,586	1,990	2,014
Difference between expected and actual experience	(6,137)	(9,409)	—	(4,723)
Changes of assumptions or other inputs	104,439	(1,877)	2,895	(295)
Benefit payments	(1,196)	(601)	(1,709)	1,705
Net change in Total OPEB Liability	100,173	(8,355)	5,238	590
Total OPEB Liability - Beginning	47,342	55,697	50,459	49,869
Total OPEB Liability - Ending	<u>\$ 147,515</u>	<u>\$ 47,342</u>	<u>\$ 55,697</u>	<u>\$ 50,459</u>
State and discretely presented component units' proportion of the collective Total OPEB Liability	100 %	100 %	100 %	100 %
Covered employee payroll	\$ 689,871	\$ 690,563	\$ 702,688	\$ 675,661
Total OPEB Liability as a percentage of covered employee payroll	21.38 %	6.86 %	7.93 %	7.47%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes in Actuarial Assumptions and Methods

June 30, 2021: Changes in assumptions for 2021 were due to no retiree contribution increase and a decrease in the discount rate from 2.75% to 2.23%.

June 30, 2020: Changes in actuarial assumptions include a participation rate reduction from 55% to 40% based on recent experience study, a revision to rates per the Retirement System pension valuations as of July 1, 2019, and the interest/discount rate was based on the average of multiple March 31, 2020 municipal bond rate sources.

June 30, 2019: Changes in actuarial assumptions include interest rate based upon March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

June 30, 2018: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in Benefit Terms

June 30, 2021: None

June 30, 2020: None

June 30, 2019: None

June 30, 2018: Medical plans moved from Cigna to Allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016 and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for MUS plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years ⁽¹⁾
(in thousands)

Total OPEB Liability	2021	2020	2019	2018
Service cost	\$ 1,412	\$ 1,736	\$ 1,952	\$ 1,954
Interest	777	1,130	1,495	1,410
Difference between expected and actual experience	(17,388)	(15,015)	—	(1,323)
Changes of assumptions or other inputs	45,674	(1,791)	1,351	(182)
Benefit payments	(13)	1,441	(888)	(679)
Net change in Total OPEB Liability	30,462	(12,499)	3,910	1,180
Total OPEB Liability - Beginning	26,849	39,348	35,438	34,258
Total OPEB Liability - Ending	<u>\$ 57,311</u>	<u>\$ 26,849</u>	<u>\$ 39,348</u>	<u>\$ 35,438</u>
State and discretely presented component units' proportion of the collective Total OPEB Liability	95.18 %	94.92 %	95.59 %	95.62 %
Covered employee payroll ⁽²⁾	\$ 415,074	\$ 418,193	\$ 451,613	\$ 434,243
Total OPEB Liability as a percentage of covered employee payroll	13.81 %	6.42 %	9.11 %	8.53 %

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

⁽²⁾ Amount reported is for the whole MUS plan for 2018 and 2019. Community Colleges were included due to lack of ability to separate covered employee payroll for those years.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:*Changes in Actuarial Assumptions and Methods*

June 30, 2021: Changes in assumptions for 2021 were due to no retiree contribution increase and a decrease in the discount rate from 2.75% to 2.23%.

June 30, 2020: Changes in actuarial assumptions include a participation rate reduction from 55% to 40% based on recent experience study, a revision to rates per the Retirement System pension valuations as of July 1, 2019, and the interest/discount rate was based on the average of multiple March 31, 2020 municipal bond rate sources.

June 30, 2019: Changes in actuarial assumptions include interest rate based upon March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

June 30, 2018: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements, lapse rates were removed to reflect a return to standard retiree contribution levels, added employees covered by the MUS-RP, changes in revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes of Benefit Terms

June 30, 2021: Carrier options reduced to one.

June 30, 2020: Changes in benefit terms include increased annual deductible and out-of-pocket maximums.

June 30, 2019: None

June 30, 2018: Increased deductible, increased out-of-pocket limits for Medica and RX, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retirees became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services and massage therapy moved into rehabilitation benefit.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

**Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information**

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
1. Premiums and investment Revenue	\$ 95,150	\$ 98,599	\$ 98,885	\$ 99,369	\$ 100,693	\$ 84,297	\$ 80,764	\$ 79,257	\$ 76,505	\$ 75,911
2. Unallocated expenses including overhead	\$ 4,617	\$ 4,691	\$ 5,150	\$ 5,111	\$ 5,196	\$ 5,129	\$ 5,198	\$ 4,787	\$ 3,938	\$ 4,063
3. Estimated losses and expenses end of accident year	\$ 103,924	\$ 96,326	\$ 93,392	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331
4. Net paid (cumulative) as of:										
End of policy year	\$ 93,363	\$ 83,896	\$ 82,211	\$ 80,393	\$ 75,601	\$ 76,400	\$ 79,388	\$ 63,317	\$ 61,964	\$ 56,981
One year later		93,665	91,306	89,050	84,575	85,796	88,943	69,073	67,988	62,937
Two years later			91,453	89,140	84,729	85,894	89,261	69,074	68,024	62,968
Three years later				89,161	84,738	86,002	89,264	69,076	68,024	62,974
Four years later					84,740	86,038	89,271	69,076	68,024	62,974
Five years later						86,121	89,283	69,076	68,024	62,974
Six years later							89,283	69,076	68,024	62,974
Seven years later								69,076	68,024	62,974
Eight years later									68,024	62,974
Nine years later										62,974
5. Re-estimated ceded losses and expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 103,924	\$ 96,326	\$ 93,392	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331
One year later		95,730	93,028	89,036	84,567	86,148	88,824	71,700	68,349	63,446
Two years later			91,453	89,140	84,729	85,894	89,261	69,074	68,024	62,968
Three years later				89,161	84,738	86,002	89,264	69,076	68,024	62,974
Four years later					84,740	86,038	89,271	69,076	68,024	62,974
Five years later						86,121	89,283	69,076	68,024	62,974
Six years later							89,283	69,076	68,024	62,974
Seven years later								69,076	68,024	62,974
Eight years later									68,024	62,974
Nine years later										62,974
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ —	\$ (597)	\$ (1,940)	\$ (1,265)	\$ (1,063)	\$ (1,112)	\$ 1,931	\$ (2,800)	\$ (1,302)	\$ (1,357)

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2021

	Amount to Subrecipients	Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003 State Commissions		\$217,660
94.006 AmeriCorps	\$3,311,790	\$3,566,883
94.009 Training and Technical Assistance		\$147,663
94.013 Volunteers in Service to America		\$561,415
94.027 AmeriCorps VISTA Recruitment Support		\$9,857
	TOTAL	\$4,503,478
DEPARTMENT OF AGRICULTURE		
10.001 Agricultural Research Basic and Applied Research eExtension Foundation SA-2021-61		\$18,581
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$11,802
10.093 Voluntary Public Access and Habitat Incentive Program		\$1,069,586
10.156 Federal-State Marketing Improvement Program		\$103,078
10.162 Inspection Grading and Standardization		\$20,771
10.163 Market Protection and Promotion		\$25,839
10.170 Specialty Crop Block Grant Program - Farm Bill		\$92,308
10.175 Farmers Market and Local Food Promotion Program	\$457,962	\$1,943,705
10.310 National Center for Appropriate Technology 810361047 Agriculture and Food Research Initiative (AFRI)		\$254
University of Idaho AD 1865-884868		\$4,083
10.433 Rural Housing Preservation Grants		\$14,964
10.435 State Mediation Grants		(\$34,807)
10.475 Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		\$2,529
10.500 Cooperative Extension Service		\$1,061,879
Kansas State University A00-0983-S075	\$51,140	\$578,521
Kansas State University A00-0983-S069		\$3,077
University of Missouri C00059381-8		\$2,910
University of Missouri C00067296-3		(\$5,960)
Washington State University 134191.G004011		\$28,913
10.536 CACFP Training Grants		\$5,760
10.541 Child Nutrition-Technology Innovation Grant		\$14,602
10.542 COVID-19 - Pandemic EBT Food Benefits		\$179,599
10.557 COVID-19 - WIC Special Supplemental Nutrition Program for Women, Infants, and Children		\$27,514,501
10.557 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	\$3,628,609	\$1,240,105
		\$10,033,656
CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL		
		\$4,503,478

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, 2021

	Amount to Subrecipients	Expenditures
10.558	COVID-19 - Child and Adult Care Food Program	\$468,657
10.558	Child and Adult Care Food Program	\$7,625,149
10.560	State Administrative Expenses for Child Nutrition	\$1,275,070
10.567	Food Distribution Program on Indian Reservations	\$4,164,416
10.572	WIC Farmers' Market Nutrition Program (FMNP)	\$40,708
10.574	Team Nutrition Grants	\$336,407
10.575	Farm to School Grant Program	\$89,693
10.576	Senior Farmers Market Nutrition Program	\$66,200
10.578	WIC Grants To States (WGS)	\$612
10.582	Fresh Fruit and Vegetable Program	\$1,510,792
10.652	Forestry Research	\$388,173
	Arthur Carhart National Wilderness Training Center 18-CS-11132466-125	\$2,373
10.664	Cooperative Forestry Assistance	\$4,697,882
	Gallatin County 2018-578	\$22,346
	Gallatin County 2018-579	\$21,843
10.674	Wood Utilization Assistance	\$29,236
10.676	Forest Legacy Program	\$3,211,557
10.678	Forest Stewardship Program	\$274
10.680	Forest Health Protection	\$74,394
	National Wilderness Stewardship Alliance W12021	\$34
10.684	International Forestry Programs	\$3,344
10.689	Community Forest and Open Space Conservation Program (CFP)	\$28,259
10.691	Good Neighbor Authority	\$362,815
10.697	State & Private Forestry Hazardous Fuel Reduction Program	\$192,953
10.698	State & Private Forestry Cooperative Fire Assistance	\$11,057
10.699	Partnership Agreements	\$79,189
10.902	Soil and Water Conservation	\$313,506
10.912	Environmental Quality Incentives Program	\$69,654
10.924	Conservation Stewardship Program	\$108,659
10.931	Agricultural Conservation Easement Program	\$108,659
10.UXX	Miscellaneous Non-Major Grants	\$73,914
	TOTAL	\$69,308,081
Child Nutrition Cluster		
10.553	School Breakfast Program	\$1,448,530
10.555	National School Lunch Program	\$6,836,019
10.556	Special Milk Program for Children	\$4,437

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, 2021

	Amount to Subrecipients	Expenditures
10.559 COVID-19 - Summer Food Service Program for Children	\$29,000,000	\$29,000,000
10.559 Summer Food Service Program for Children	\$34,643,315	\$35,033,089
10.579 Child Nutrition Discretionary Grants Limited Availability	\$69,576	\$660,894
	TOTAL	\$73,240,091
Food Distribution Cluster		
10.565 Commodity Supplemental Food Program	\$286,459	\$2,086,088
10.568 COVID-19 - Emergency Food Assistance Program (Administrative Costs)	\$52,986	\$81,032
10.569 Emergency Food Assistance Program (Food Commodities)	\$394,711	\$4,476,773
	TOTAL	\$6,643,893
Forest Service Schools and Roads Cluster		
10.665 Schools and Roads - Grants to States	\$12,197,140	\$12,200,420
	TOTAL	\$12,200,420
SNAP Cluster		
10.551 Supplemental Nutrition Assistance Program		\$229,517,522
10.561 COVID-19 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		\$155,412
10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$288,060	\$13,736,630
	TOTAL	\$243,409,564
DEPARTMENT OF AGRICULTURE TOTAL		\$404,802,049
11.303 Economic Development Technical Assistance		\$161,352
11.550 Public Telecommunications Facilities Planning and Construction Corporation for Public Broadcasting 1492		\$222,618
11.611 COVID-19 - Manufacturing Extension Partnership		\$175,013
11.611 Manufacturing Extension Partnership Hawaii Technology Development Oregon Manufacturing Extension	\$37,738	\$878,237
		\$84,127
		\$3,061
	TOTAL	\$1,524,408
Economic Development Cluster		
11.307 Economic Adjustment Assistance	\$3,400	\$84,292
11.307 Economic Adjustment Assistance 05-19-02445		\$318,254
11.307 Economic Adjustment Assistance 05-79-73005		\$3,082,439
	TOTAL	\$3,484,985
DEPARTMENT OF COMMERCE TOTAL		\$5,009,393

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2021

	Amount to Subrecipients	Expenditures
DEPARTMENT OF DEFENSE		
12.002	Procurement Technical Assistance For Business Firms	
	Big Sky Economic Development Corporation SP4800-20-2-2022	\$68,569
	Big Sky Economic Development Corporation SP4800-19-2-1922	\$8,401
12.005	Conservation and Rehabilitation of Natural Resources on Military Installations	\$386,457
12.110	Planning Assistance to States	\$330,257
12.112	Payments to States in Lieu of Real Estate Taxes	\$2,914
12.357	ROTC Language and Culture Training Grants	
	Institute of International Education, Inc. PGO1801-UMT-16-PGO-051-PO6	\$98,191
	Institute of International Education, Inc. PGO1801-UMT-16-PGO-051-PO4	(\$5,365)
12.400	Military Construction, National Guard	\$6,651,295
12.401	National Guard Military Operations and Maintenance (O&M) Projects	\$23,903,602
12.404	National Guard Challenge Program	\$4,762,158
12.579	Language Training Center	
	Institute of International Education, Inc. PG1801-UMT-16-LTC-052-PO5	\$4,738,324
	Institute of International Education, Inc. PGO1801-UMT-16-LTC-052-PO3	\$175,489
	Institute of International Education, Inc. PGO1801-UMT-16-LTC-052-PO7	\$497,018
12.620	Troops to Teachers Grant Program	\$698,646
12.630	Basic, Applied, and Advanced Research in Science and Engineering	
	National Science Teachers Association #21-871-010	\$23,167
	Technology Student Association	\$36,557
12.903	GenCyber Grants Program	
12.UXX	Miscellaneous Non-Major Grants	
	Pacific States Marine Fisheries Commission 20-144P	\$5,657
	Pacific States Marine Fisheries Commission 21-129P	\$426,381
	Pacific States Marine Fisheries Commission 20-105P	\$177,685
	Pacific States Marine Fisheries Commission 21-179P	\$558,736
		\$1,334,112
		\$40,847
	TOTAL	\$44,919,098
DEPARTMENT OF EDUCATION		
84.002	Adult Education - Basic Grants to States	\$1,114,639
84.010	Title I Grants to Local Educational Agencies	\$46,504,595
84.011	Migrant Education State Grant Program	\$1,315,315
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	
84.016	Undergraduate International Studies and Foreign Language Programs	\$207,749
84.031	Higher Education Institutional Aid	\$27,628
		\$749,824
	DEPARTMENT OF DEFENSE TOTAL	\$44,919,098

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, 2021

	Amount to Subrecipients	Expenditures
84.048		
84.126	\$3,775,459	\$5,618,818
84.144		\$9,274,285
84.177	\$59,288	\$59,288
84.181	\$360,964	\$250,541
84.184	\$90,000	\$1,307,155
84.187		\$963,320
84.196	\$227,373	\$355,127
84.287	\$5,129,993	\$276,282
84.299		\$5,463,197
		\$20,143
		\$105,078
		\$140,277
		\$7,559
		\$5,485
		\$3,827
84.323	\$156,094	\$615,636
84.325		\$98,663
84.326		\$135,920
		\$57,289
		\$13,758
84.334	\$1,944,752	\$4,041,704
84.358	\$930,252	\$970,411
84.365	\$307,238	\$973,236
84.367	\$9,114,419	\$9,588,436
84.369		\$4,069,233
84.371	\$11,654,504	\$12,022,247
84.372		\$911,101
84.377	\$89,884	\$425,457
84.411		\$163,070
84.419	\$396,771	\$396,771
84.424	\$5,159,135	\$5,391,236
84.998		\$6,421
84.UXX		\$97,230
	TOTAL	\$115,564,599

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2021

	Amount to Subrecipients	Expenditures
Education Stabilization Fund		
84.425C COVID-19 - Governor's Emergency Education Relief (GEER) Fund	\$789,359	\$8,342,112
84.425D COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	\$26,805,123	\$27,217,106
84.425E COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student Aid Portion		\$17,641,529
84.425F COVID-19 - HEERF Institutional Portion		\$40,471,569
84.425L COVID-19 - HEERF Minority Serving Institutions (MSIs)		\$35,628
84.425M COVID-19 - HEERF Strengthening Institutions Program (SIP)		\$801,056
84.425R COVID-19 - Coronavirus Response and Relief Supplemental Appropriations Act, 2021 – Emergency Assistance for Non-Public Schools (CRRSA EANS) program		\$13,394
	TOTAL	\$94,522,394
Special Education Cluster (IDEA)		
84.027 Special Education Grants to States	\$35,663,761	\$38,963,898
84.173 Special Education Preschool Grants	\$1,186,785	\$1,189,761
	TOTAL	\$40,153,659
Student Financial Assistance Cluster		
84.007 COVID-19 - Federal Supplemental Educational Opportunity Grants		\$2,000
84.007 Federal Supplemental Educational Opportunity Grants		\$1,719,057
84.033 Federal Work-Study Program		\$1,634,018
84.038 Federal Perkins Loan Program - Federal Capital Contributions		\$23,678,953
84.063 Federal Pell Grant Program		\$36,026,968
84.268 Federal Direct Student Loans		\$141,309,606
84.379 Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		\$3,962
	TOTAL	\$204,374,564
TRIO Cluster		
84.042 TRIO Student Support Services		\$2,197,866
84.044 TRIO Talent Search	\$8,936	\$1,335,152
84.047 TRIO Upward Bound		\$1,870,167
	TOTAL	\$5,403,185
DEPARTMENT OF ENERGY		
81.041 State Energy Program		\$375,718
81.042 Weatherization Assistance for Low-Income Persons		\$3,444,301
81.086 Conservation Research and Development Utah Clean Cities DOE-FOA-0002014	\$2,416,826	\$2,455
81.119 State Energy Program Special Projects State of Utah EE0008610		\$5,748
	DEPARTMENT OF EDUCATION TOTAL	\$460,018,402

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, 2021

	Amount to Subrecipients	Expenditures
81.121	Nuclear Energy Research, Development and Demonstration	\$15,000
	Los Alamos National Security, LLC 577352	\$23,676
81.138	State Heating Oil and Propane Program	\$9,452
81.UXX	Miscellaneous Non-Major Grants	\$185,905
	Pacific States Marine Fisheries Commission 20-18G	\$25,917
	Pacific States Marine Fisheries Commission 21-066G	\$67,557
	TOTAL	\$4,155,729
	DEPARTMENT OF HEALTH AND HUMAN SERVICES	DEPARTMENT OF ENERGY TOTAL
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$24,127
93.042	COVID-19 - Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$19,200
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$94,519
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	\$139,237
93.048	COVID-19 - Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	\$1,454
93.051	Alzheimer's Disease Demonstration Grants to States	\$191,856
93.052	COVID-19 - National Family Caregiver Support, Title III, Part E	\$357,458
93.052	National Family Caregiver Support, Title III, Part E	\$930,675
93.068	Chronic Diseases: Research, Control, and Prevention	\$995,352
	National Association of Chronic Disease Directors (NACDD) 3192019	\$16,225
93.069	Public Health Emergency Preparedness	\$2,399,793
93.070	Environmental Public Health and Emergency Response	\$43,915
93.071	Medicare Enrollment Assistance Program	\$127,804
93.072	Lifespan Respite Care Program	\$245,666
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	\$107,019
93.090	Guardianship Assistance	\$2,757,765
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	\$250,328
93.103	Food and Drug Administration Research	\$250,959
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	\$1,333,398
93.107	COVID-19 - Area Health Education Centers	\$89,488
93.110	Maternal and Child Health Federal Consolidated Programs	\$2,361,709
	Family Voices, Inc. 2020-429	\$14,964
	Texas Health Institute UH7MC30776	\$2,400
	Utah State University PO463210-E	\$8,698
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	\$178,560

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2021

	Amount to Subrecipients	Expenditures
93.127	Emergency Medical Services for Children	\$151,315
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	\$139,318
93.136	Injury Prevention and Control Research and State and Community Based Programs	\$374,466
93.150	Projects for Assistance in Transition from Homelessness (PATH)	\$367,602
93.155	Rural Health Research Centers	\$441,515
	National Rural Health Association 2020 STATE RURAL HEALTH ASSOCI	\$3,340
	National Rural Health Association 2021 SRHA TECHNICAL ASSISTANCE	\$2,572
93.165	Grants to States for Loan Repayment Program	\$150,114
93.178	Nursing Workforce Diversity	\$2
93.184	Disabilities Prevention	\$450,178
	University of Alabama NU27DD001157	\$15,291
93.217	Family Planning Services	\$2,074,422
93.235	Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	\$106,680
93.236	Grants to States to Support Oral Health Workforce Activities	\$417,321
93.240	State Capacity Building	\$308,674
93.241	State Rural Hospital Flexibility Program	\$855,037
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	\$2,209,385
93.251	Universal Newborn Hearing Screening	\$140,643
93.262	Occupational Safety and Health Program	\$248,206
93.268	COVID-19 - Immunization Cooperative Agreements	\$3,942,598
93.268	Immunization Cooperative Agreements	\$12,432,900
93.270	Viral Hepatitis Prevention and Control	\$116,249
93.297	Teenage Pregnancy Prevention Program	(\$104,690)
93.300	National Center for Health Workforce Analysis	
	University of California, San Francisco 11723SC	\$17,113
93.301	COVID-19 - Small Rural Hospital Improvement Grant Program	\$927,478
93.305	PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	\$843,162
		\$239,341
93.307	Minority Health and Health Disparities Research	\$9,375,000
93.323	COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	\$35,848,347
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	(\$634,279)
93.324	State Health Insurance Assistance Program	\$516,832
93.336	Behavioral Risk Factor Surveillance System	\$416,857
		\$363,276

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2021

	Amount to Subrecipients	Expenditures
93.354	COVID-19 - Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	\$1,648,162
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	(\$8,764)
93.359	COVID-19 - Nurse Education, Practice Quality and Retention Grants	\$7,800
93.369	ACL Independent Living State Grants	\$334,714
93.421	The Institute for Rehabilitation and Research 2021-YR1-SILC-UMONTANA Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	\$24,877
93.423	Association of University Centers on Disabilities 32-21-8814 1332 State Innovation Waivers	\$57,867
93.426	Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke-Financed in part by 2018 Prevention and Public Health Funds	\$242,310
93.432	ACL Centers for Independent Living	\$1,932,596
93.433	The Institute for Rehabilitation and Research 2021-YR1-CL-UMONTANA ACL National Institute on Disability, Independent Living, and Rehabilitation Research Meeting the Challenge, Inc. Shepherd Center SHEP-19-0013 University of Massachusetts B00125545	\$99,510 \$490,873 \$3,736 \$80,688 \$5,774 (\$745)
93.434	Every Student Succeeds Act/Preschool Development Grants	\$1,233,910
93.435	Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke-	\$178,714
93.448	Food Safety and Security Monitoring Project	\$13,403
93.449	Ruminant Feed Ban Support Project	\$898,593
93.464	ACL Assistive Technology	\$516,832
93.469	Assistive Technology Alternative Financing Program	\$182,223
93.470	Alzheimer's Disease Program Initiative (ADPI)	\$252,917
93.471	Title IV-E Kinship Navigator Program	\$3,583,539
93.498	COVID-19 - Provider Relief Fund	\$191,004
93.500	Pregnancy Assistance Fund Program	\$91,223
93.504	Family to Family Health Information Centers	\$8,140
93.516	Public Health Training Centers Program University of Colorado FY21.641.004 University of Colorado Denver FY19.641.005	\$9,943
93.526	Grants for Capital Development in Health Centers	\$221,940
93.556	Promoting Safe and Stable Families	\$347
93.558	Temporary Assistance for Needy Families	\$626,584
93.563	Child Support Enforcement	\$13,217,983

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, 2021

	Amount to Subrecipients	Expenditures	
93.566	Refugee and Entrant Assistance State/Replacement Designee Administered Programs	\$197,209	\$327,998
93.568	COVID-19 - Low-Income Home Energy Assistance	\$281,646	\$355,126
93.568	Low-Income Home Energy Assistance	\$5,233,256	\$18,827,043
93.569	COVID-19 - Community Services Block Grant	\$580,428	\$583,981
93.569	Community Services Block Grant	\$2,835,170	\$3,437,877
93.586	State Court Improvement Program		\$199,654
93.590	Community-Based Child Abuse Prevention Grants		\$226,284
93.597	Grants to States for Access and Visitation Programs		\$103,770
93.599	Chafee Education and Training Vouchers Program (ETV)		\$332,116
93.603	Adoption and Legal Guardianship Incentive Payments		\$309,022
93.630	Developmental Disabilities Basic Support and Advocacy Grants	\$504,046	\$512,400
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	\$42,448	\$612,648
93.636	ACA - Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	\$152,284	\$226,991
93.643	Children's Justice Grants to States		\$63,561
93.645	Stephanie Tubbs Jones Child Welfare Services Program		\$682,215
93.658	Foster Care Title IV-E	\$1,199,329	\$17,927,637
	University of Denver SC37941-03-00 / PO167077		\$51,172
	University of Denver SC37941-03-01/PO169707		\$85,298
93.659	Adoption Assistance		\$14,062,252
93.665	COVID-19 - Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	\$450,085	\$652,798
93.667	Social Services Block Grant	\$156,504	\$7,597,190
93.669	Child Abuse and Neglect State Grants		\$60,320
93.671	COVID-19 - Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services		\$94,613
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services		\$857,791
93.674	Chafee Foster Care Independence Program	\$400,789	\$1,257,003
93.732	Mental and Behavioral Health Education and Training Grants	\$34,019	\$1,639,197
93.747	COVID-19 - Elder Abuse Prevention Interventions Program		\$1,761
93.747	Elder Abuse Prevention Interventions Program		\$510,093
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	\$90,019	\$344,079
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	\$157,150	\$1,081,075
93.767	COVID-19 - Children's Health Insurance Program		\$4,190,112
93.767	Children's Health Insurance Program		\$71,643,053
93.788	Opioid STR		\$4,475,539
93.791	Money Follows the Person Rebalancing Demonstration	\$3,137,018	\$394,377

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, 2021

	Amount to Subrecipients	Expenditures
93.800	Organized Approaches to Increase Colorectal Cancer Screening	\$53,490
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	(\$107)
93.822	Health Careers Opportunity Program	\$539,405
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	\$3,822,889
93.884	Grants for Primary Care Training and Enhancement	\$315,340
93.889	COVID-19 - National Bioterrorism Hospital Preparedness Program	\$988,721
93.889	National Bioterrorism Hospital Preparedness Program	\$1,112,619
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	\$2,168,121
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	\$454,326
	Montana Health Research & Education Foundation RORP.MORH.01.2019-2020	\$91,867
93.913	Grants to States for Operation of State Offices of Rural Health	\$5,201
93.917	COVID-19 - HIV Care Formula Grants	\$40,156
93.917	HIV Care Formula Grants	\$2,180,714
93.940	HIV Prevention Activities Health Department Based	\$925,036
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	\$200,408
93.958	Block Grants for Community Mental Health Services	\$2,054,541
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$2,629,073
93.969	PPHF Geriatric Education Centers	\$271,051
93.970	Health Professions Recruitment Program for Indians	\$470,414
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	\$288,882
93.982	Mental Health Disaster Assistance and Emergency Mental Health	\$596,108
93.994	Maternal and Child Health Services Block Grant to the States	\$2,318,115
93.UXX	Miscellaneous Non-Major Grants	\$171,714
	American Association on Health & Disability	\$7,239
	TOTAL	\$316,808,189
Aging Cluster		
93.044	COVID-19 - Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	\$699,571
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	\$1,836,895
93.045	COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services	\$1,850,329
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	\$3,499,662
93.053	Nutrition Services Incentive Program	\$963,960
	TOTAL	\$9,948,788

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, 2021

	Amount to Subrecipients	Expenditures
CCDF Cluster		
93.575 COVID-19 - Child Care and Development Block Grant		\$3,455,686
93.575 Child Care and Development Block Grant	\$7,996,060	\$26,599,885
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund		\$9,131,661
	TOTAL	\$39,187,232
Head Start Cluster		
93.600 Head Start		\$117,104
Stone Child College 90YT000038-01-00		\$69,747
	TOTAL	\$186,851
Medicaid Cluster		
93.775 State Medicaid Fraud Control Units		\$617,953
93.777 COVID-19 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare		\$342,493
93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare		\$2,488,557
93.778 COVID-19 - Medical Assistance Program		\$69,994,744
93.778 Medical Assistance Program	\$418,616	\$1,738,478,194
	TOTAL	\$1,811,921,941
Student Financial Assistance Cluster		
93.264 Nurse Faculty Loan Program (NFLP)		\$6,062
93.342 Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students		\$276,427
93.364 Nursing Student Loans		\$2,767,378
93.925 Scholarships for Health Professions Students from Disadvantaged Backgrounds		\$325,318
	TOTAL	\$3,375,185
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$2,181,428,186
DEPARTMENT OF HOMELAND SECURITY		
97.008 Non-Profit Security Program	\$49,761	\$49,761
97.012 Boating Safety Financial Assistance		\$979,572
97.023 Community Assistance Program State Support Services Element (CAP-SSSE)		\$234,474
97.029 Flood Mitigation Assistance	\$15,588	\$15,588
97.033 Disaster Legal Services		\$20,000
97.036 COVID-19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$7,770,286	\$42,045,221
97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$1,277,382	\$1,306,822
97.039 Hazard Mitigation Grant	\$178,930	\$247,779
97.041 National Dam Safety Program		\$195,910
97.042 Emergency Management Performance Grants	\$1,746,377	\$3,380,265
97.044 Assistance to Firefighters Grant		\$220,604
97.045 Cooperating Technical Partners		\$7,629,969

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, 2021

	Amount to Subrecipients	Expenditures
97.046	Fire Management Assistance Grant	\$10,025,175
97.047	Pre-Disaster Mitigation	\$1,294,068
97.050	COVID-19 - Presidential Declared Disaster Assistance to Individuals and Households - Other Needs	\$46,572,237
97.067	Homeland Security Grant Program Kalispell Sheriff's Office 19-SPWSPW-12-008 VO	\$5,333,017
97.082	Earthquake Consortium	\$7,899
	TOTAL	\$49,193
	TOTAL	\$120,388,345
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT	
	DEPARTMENT OF HOMELAND SECURITY TOTAL	
	\$120,388,345	
14.228	COVID-19 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$4,291
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$5,835,637
14.231	COVID-19 - Emergency Solutions Grant Program	\$2,547,680
14.231	Emergency Solutions Grant Program	\$140,125
14.239	Home Investment Partnerships Program	\$4,694,332
14.241	COVID-19 - Housing Opportunities for Persons with AIDS	\$160,592
14.241	Housing Opportunities for Persons with AIDS	\$895,428
14.275	Housing Trust Fund	\$9,075,210
14.326	Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities	\$178,123
	TOTAL	\$24,195,609
	Housing Voucher Cluster	
14.871	COVID-19 - Section 8 Housing Choice Vouchers	\$100,342
14.871	Section 8 Housing Choice Vouchers	\$23,741,610
14.879	Mainstream Vouchers	\$10,345
	TOTAL	\$23,852,297
	Section 8 Project-Based Cluster	
14.195	Section 8 Housing Assistance Payments Program	\$25,570,407
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	\$1,812,682
	TOTAL	\$27,383,089
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	
	\$75,430,995	
	DEPARTMENT OF JUSTICE	
16.017	Sexual Assault Services Formula Program	\$336,891
16.034	COVID-19 - Coronavirus Emergency Supplemental Funding Program	\$2,108,937
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	\$60,500
16.540	Juvenile Justice and Delinquency Prevention	\$424,619
16.543	Missing Children's Assistance	\$279,220

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, 2021

	Amount to Subrecipients	Expenditures
16.548		\$2,568
16.550		\$121
16.554		\$422,902
16.560		\$15,274
16.571		\$48,678
16.575	\$6,743,208	\$7,677,648
16.576		\$462,000
16.582		\$265,894
16.585		\$743,240
		\$387,995
		\$885,964
16.588	\$830,281	
16.589		
		\$18,424
16.590	\$69,400	\$118,148
16.593	\$89,022	\$95,887
16.609	\$28,509	\$32,633
16.710		\$249,813
16.726		
		\$60,272
		\$1,256
16.738	\$690,033	\$880,281
16.741		\$345,857
16.742		\$211,495
16.745		\$60,043
16.750		\$119,253
16.758		\$86,416
16.816		\$16,080
16.818		\$42,455
16.827		
		\$87,051
16.831		\$90,406
16.833	\$8,881	\$329,103
16.838		\$9,265
16.839		\$389,906
	TOTAL	\$17,366,495
	DEPARTMENT OF JUSTICE TOTAL	\$17,366,495

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, 2021

DEPARTMENT OF LABOR	Amount to Subrecipients	Expenditures
17.002 Labor Force Statistics		\$734,876
17.005 Compensation and Working Conditions		\$92,853
17.201 Registered Apprenticeship	\$49,064	\$299,422
17.225 COVID-19 - Unemployment Insurance		\$565,892,687
17.225 Unemployment Insurance		\$192,462,498
17.235 Senior Community Service Employment Program	\$455,526	\$475,626
17.245 Trade Adjustment Assistance		\$154,536
17.268 H-1B Job Training Grants		
Northern Wyoming Community College 011717-1		\$259,833
17.271 Work Opportunity Tax Credit Program (WOTC)		\$85,766
17.273 Temporary Labor Certification for Foreign Workers		\$366,960
17.277 COVID-19 - WIOA National Dislocated Worker Grants / WIA National Emergency Grants	\$50,000	\$154,227
17.277 WIOA National Dislocated Worker Grants / WIA National Emergency Grants	\$177,323	\$307,619
17.504 Consultation Agreements		\$535,876
17.600 Mine Health and Safety Grants		\$387,756
	TOTAL	\$762,210,535
Employment Service Cluster		
17.207 Employment Service/Wagner-Peyser Funded Activities		\$5,609,105
17.801 Disabled Veterans' Outreach Program (DVOP)		\$713,982
	TOTAL	\$6,323,087
WIOA Cluster		
17.258 WIOA Adult Program	\$334,331	\$2,155,659
17.259 WIOA Youth Activities	\$1,500,517	\$2,047,520
17.278 WIOA Dislocated Worker Formula Grants		\$1,428,637
	TOTAL	\$5,631,816
DEPARTMENT OF STATE		
19.009 Academic Exchange Programs - Undergraduate Programs	\$21,364	\$249,057
World Learning CBPSA19-MSUB01		\$7,087
19.010 Academic Exchange Programs - Hubert H. Humphrey Fellowship Program		
Institute of International Education, Inc. 3000208789		\$85,016
19.040 Public Diplomacy Programs		\$28,604
19.401 Academic Exchange Programs - Scholars		
19.408 Academic Exchange Programs - Teachers	\$237,410	\$547,437
International Research & Exchanges Board FY20-FTEA-MSU-02		\$21,664
	DEPARTMENT OF LABOR TOTAL	\$774,165,438

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, 2021

	Amount to Subrecipients	Expenditures
19.415 Professional and Cultural Exchange Programs - Citizen Exchanges	\$5,250	\$150,136
American Councils for International Education S-ECAGD-20-CA-0043		\$31,935
Aspen Institute SI_UOM1_SUBR_2020		\$36,735
19.600 Bureau of Near Eastern Affairs		
Georgetown University MSU-20200710		\$134,313
Georgetown University		\$6,331
	TOTAL	\$1,298,315
	DEPARTMENT OF STATE TOTAL	\$1,298,315
DEPARTMENT OF THE INTERIOR		
15.025 Services to Indian Children, Elderly and Families		\$11,975
15.034 Agriculture on Indian Lands		
Fort Belknap Community Council A10AV00583		\$57,455
15.130 Indian Education Assistance to Schools		\$1,812
15.159 Cultural Resources Management		\$9,529
15.225 Recreation and Visitor Services		\$46,977
15.228 BLM Wildland Urban Interface Community Fire Assistance		\$18,719
15.230 Invasive and Noxious Plant Management		\$29,953
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$302,749
15.233 Forests and Woodlands Resource Management		\$75,650
15.236 Environmental Quality and Protection		\$790,541
15.244 Fisheries and Aquatic Resources Management		\$70,814
15.247 Wildlife Resource Management		\$213,753
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$2,129,812
15.252 Abandoned Mine Land Reclamation (AMLR)		\$1,976,483
15.427 Federal Oil and Gas Royalty Management State and Tribal Coordination		\$500,252
15.517 Fish and Wildlife Coordination Act		\$273,813
15.524 Recreation Resources Management		\$80,813
15.608 Fish and Wildlife Management Assistance		\$66,849
15.628 Multistate Conservation Grant		
North Carolina State University 2018-0319-06		\$526
15.634 State Wildlife Grants	\$3,218	\$573,799
15.637 Migratory Bird Joint Ventures	\$19,622	\$19,622
15.657 Endangered Species Conservation – Recovery Implementation Funds		\$592,816
15.660 Endangered Species - Candidate Conservation Action Funds		\$28,346
State of Utah 186103		\$5,036
15.663 National Fish and Wildlife Foundation		\$13,893

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, 2021

	Amount to Subrecipients	Expenditures
15.666 Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	\$80,000	\$115,000
15.670 Adaptive Science		\$131,887
15.904 Historic Preservation Fund Grants-In-Aid	\$246,646	\$1,059,242
15.916 Outdoor Recreation Acquisition, Development and Planning	\$131,929	\$172,247
15.945 Cooperative Research and Training Programs – Resources of the National Park System		\$22,984
15.954 National Park Service Conservation, Protection, Outreach, and Education		\$27,943
15.959 Education Program Management		
Cherokee School		\$3,310
Paschal Sherman Indian School		\$11,710
15.UXX Miscellaneous Non-Major Grants		\$97,939
	TOTAL	\$9,534,249
Fish and Wildlife Cluster		
15.605 Sport Fish Restoration		\$11,448,490
15.611 Wildlife Restoration and Basic Hunter Education	\$223,550	\$15,775,797
15.626 Enhanced Hunter Education and Safety		\$77,462
	TOTAL	\$27,301,749
DEPARTMENT OF THE INTERIOR TOTAL		
		\$36,835,998
DEPARTMENT OF TRANSPORTATION		
20.106 COVID-19 - Airport Improvement Program		\$396,524
20.106 Airport Improvement Program		\$624,098
20.215 Highway Training and Education		\$150,000
20.232 Commercial Driver's License Program Implementation Grant		\$57,037
20.505 Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	\$413,702	\$458,309
20.509 COVID-19 - Formula Grants for Rural Areas	\$17,302,826	\$17,448,893
20.509 Formula Grants for Rural Areas	\$3,201,305	\$4,206,804
20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated	\$119,112	\$332,354
20.614 National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		\$80,997
20.700 Pipeline Safety Program State Base Grant		\$130,470
20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants	\$54,187	\$59,317
20.725 PHMSA Pipeline Safety Underground Natural Gas Storage Grant		\$4,187
20.933 National Infrastructure Investments		\$2,209,484
City of Kallisell UPN#2038/032 - 022NH15(32)		\$4,708,432
	TOTAL	\$30,866,906
Federal Transit Cluster		
20.526 Bus and Bus Facilities Formula Program	\$2,449,771	\$2,449,771
	TOTAL	\$2,449,771

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, 2021

	Amount to Subrecipients	Expenditures
FMCSA Cluster		
20.218 Motor Carrier Safety Assistance		\$3,265,397
20.237 Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements		\$459,860
		\$3,725,257
Highway Planning and Construction Cluster		
20.205 Highway Planning and Construction	\$2,372,305	\$490,190,383
20.219 Recreational Trails Program	\$1,601,256	\$1,713,045
20.224 Federal Lands Access Program		\$4,125,387
	TOTAL	\$496,028,815
Highway Safety Cluster		
20.600 State and Community Highway Safety	\$228,799	\$1,750,922
20.616 National Priority Safety Programs	\$534,250	\$2,754,837
	TOTAL	\$4,505,759
Transit Services Programs Cluster		
20.513 Enhanced Mobility of Seniors and Individuals with Disabilities	\$362,101	\$463,941
	TOTAL	\$463,941
DEPARTMENT OF TRANSPORTATION TOTAL		
		\$538,040,449
DEPARTMENT OF TREASURY		
21.019 COVID-19 - Coronavirus Relief Fund		\$1,136,022,390
Butte-Silver Bow MT21-114		(\$3,417)
MontTECH UM#2021-160		\$75,735
MontTECH 2021-244		\$5,729
MontTECH 2021-085		\$8,611
21.023 COVID-19 - Emergency Rental Assistance Program		\$10,442,585
21.027 COVID-19 - Coronavirus State Fiscal Recovery Fund (CSFRF)		\$15,053,295
21.UXX Miscellaneous Non-Major Grants		\$4,465
	TOTAL	\$1,161,609,393
DEPARTMENT OF VETERANS AFFAIRS		
64.005 Grants to States for Construction of State Home Facilities		\$2,703,868
64.015 COVID-19 - Veterans State Nursing Home Care		\$213,048
64.015 Veterans State Nursing Home Care		\$5,529,282
64.041 VHA Outpatient Specialty Care		\$180,691

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, 2021

	Amount to Subrecipients	Expenditures
64.124 All-Volunteer Force Educational Assistance		\$80,576
64.203 Veterans Cemetery Grants Program		\$901,118
	TOTAL	\$9,608,583
 DEPARTMENT OF VETERANS AFFAIRS TOTAL		
		\$9,608,583
 ELECTION ASSISTANCE COMMISSION		
90.404 COVID-19 - 2018 HAVA Election Security Grants	\$178,598	\$222,373
90.404 2018 HAVA Election Security Grants	\$322,760	\$580,407
	TOTAL	\$802,780
 ELECTION ASSISTANCE COMMISSION TOTAL		
		\$802,780
 ENVIRONMENTAL PROTECTION AGENCY		
66.034 Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		\$293,031
66.040 State Clean Diesel Grant Program		\$505,790
66.202 Congressionally Mandated Projects		
66.204 Multipurpose Grants to States and Tribes		\$21,700
66.419 Water Pollution Control State, Interstate, and Tribal Program Support		\$132,348
66.433 State Underground Water Source Protection		\$26,750
66.444 Lead Testing in School and Child Care Program Drinking Water (SDWA 1464(d))		\$62,097
66.454 Water Quality Management Planning		\$86,652
66.460 Nonpoint Source Implementation Grants		\$2,337,388
66.461 Regional Wetland Program Development Grants		\$82,206
66.466 Chesapeake Bay Program		
National Fish and Wildlife Foundation 0602.18.062653		\$309,455
66.605 Performance Partnership Grants		\$5,193,795
66.608 Environmental Information Exchange Network Grant Program and Related Assistance		\$423,035
66.708 Pollution Prevention Grants Program		\$288,728
66.716 Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		
eXtension Foundation SA-2020-59		\$8,882
66.717 Source Reduction Assistance		\$49,707
66.802 Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		\$1,937,138
66.804 Underground Storage Tank Prevention, Detection and Compliance Program		\$382,068
66.805 Leaking Underground Storage Tank Trust Fund Corrective Action Program		\$538,962
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements		\$210,409
66.817 State and Tribal Response Program Grants		\$738,889
	TOTAL	\$13,629,030

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, 2021

	Amount to Subrecipients	Expenditures
Clean Water State Revolving Fund Cluster		
66.458 Capitalization Grants for Clean Water State Revolving Funds		\$308,516,238
	TOTAL	\$308,516,238
Drinking Water State Revolving Fund Cluster		
66.468 Capitalization Grants for Drinking Water State Revolving Funds		\$180,962,795
	TOTAL	\$180,962,795
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	\$503,108,063
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.001 Employment Discrimination Title VII of the Civil Rights Act of 1964		\$79,042
	TOTAL	\$79,042
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	\$79,042
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001 High Intensity Drug Trafficking Areas Program		\$31,749
	TOTAL	\$31,749
	EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	\$31,749
FEDERAL COMMUNICATIONS COMMISSION		
32.004 Universal Service Fund - Schools and Libraries		\$16,829
	TOTAL	\$16,829
	FEDERAL COMMUNICATIONS COMMISSION TOTAL	\$16,829
GENERAL SERVICES ADMINISTRATION		
39.003 Donation of Federal Surplus Personal Property		\$164,080
39.011 Election Reform Payments		\$8,058
	TOTAL	\$172,138
	GENERAL SERVICES ADMINISTRATION TOTAL	\$172,138
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.310 COVID-19 - Grants to States		\$3,121
45.310 Grants to States		\$1,476,913
45.312 National Leadership Grants		\$77,999
	TOTAL	\$1,558,033
	INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL	\$1,558,033

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, 2021

	Amount to Subrecipients	Expenditures
LIBRARY OF CONGRESS		
42.UXX Miscellaneous Non-Major Grants		\$8,273
	TOTAL	\$8,273
LIBRARY OF CONGRESS TOTAL		
		\$8,273
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001 Science		\$44,805
University of Washington UWSC8987		\$31,270
43.008 Education		\$1
Sciencenter 2016-01-UMT/NINX16AM22G		\$6,439
	TOTAL	\$82,515
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		
		\$82,515
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003 National Historical Publications and Records Grants		\$11,805
	TOTAL	\$11,805
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL		
		\$11,805
NATIONAL ENDOWMENT FOR THE ARTS		
45.024 Promotion of the Arts Grants to Organizations and Individuals		\$16,392
Arts Midwest AM CASE #00023805		\$6
Arts Midwest CASE # 00026553		\$13,680
45.025 COVID-19 - Promotion of the Arts Partnership Agreements	\$424,400	\$424,400
45.025 Promotion of the Arts Partnership Agreements	\$430,523	\$795,099
	TOTAL	\$1,249,577
NATIONAL ENDOWMENT FOR THE ARTS TOTAL		
		\$1,249,577
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.129 Promotion of the Humanities Federal/State Partnership		
Humanities Montana 20R005		\$1
Humanities Montana 20C065		\$5,000
Humanities Montana		\$3,887
45.149 Promotion of the Humanities Division of Preservation and Access		\$25,428
National Endowment for the Humanities 18R048		\$416
45.160 Promotion of the Humanities Fellowships and Stipends		\$3,191
45.162 Promotion of the Humanities Teaching and Learning Resources and Curriculum Development		\$51,326
	TOTAL	\$89,249
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		
		\$89,249

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, 2021

	Amount to Subrecipients	Expenditures
PEACE CORPS		
45.400	Peace Corps' Global Health and PEPFAR Initiative Program	\$22,601
	TOTAL	\$22,601
PEACE CORPS TOTAL		
SMALL BUSINESS ADMINISTRATION		
59.037	COVID-19 - Small Business Development Centers	\$655,569
59.037	Small Business Development Centers MonTECH 2019-518	\$785,952
59.043	Women's Business Ownership Assistance Prospera Business Network	\$51,538
59.058	Federal and State Technology Partnership Program	\$15,300
59.061	State Trade Expansion	\$120,703
	TOTAL	\$342,436
	SMALL BUSINESS ADMINISTRATION TOTAL	\$1,971,498
SOCIAL SECURITY ADMINISTRATION		
96.008	Social Security - Work Incentives Planning and Assistance Program	\$65,064
	TOTAL	\$195,100
Disability Insurance/SSI Cluster		
96.001	Social Security Disability Insurance	\$6,203,256
	TOTAL	\$6,203,256
	SOCIAL SECURITY ADMINISTRATION TOTAL	\$6,398,356

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001 USAID Foreign Assistance for Programs Overseas		\$36,253
Rutgers, The State University of New Jersey S19050: PO#1137707		
AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL		
	\$36,253	
DEPARTMENT OF AGRICULTURE		
Agricultural Research Service		
10.001 Agricultural Research Basic and Applied Research		\$578,873
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$538,670
State of Iowa 21CRDWBTHARM,-0001		\$3,090
Utah State University 200592-390		\$2,216
Economic Research Service		
10.250 COVID-19 - Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		\$4,725
Foreign Agricultural Service		
10.610 Export Guarantee Program		\$25,309
Forest Service		
10.652 Forestry Research	\$3,418	\$2,420,467
Arthur Carhart National Wilderness Training Center 17-CS-11132466-344		\$156,712
Hydrosolutions Inc MSA 2017-TO1		(\$826)
National Wilderness Stewardship Alliance W12020		\$14,482
NatureServe MT-027-FY20		\$1,412
Tall Timbers Research UM-2021-046		\$21,573
Tall Timbers Research UM-2020-288		\$24,482
University of Vermont 29034SUB52911		\$4,375
10.664 Cooperative Forestry Assistance		\$107,168
10.680 Forest Health Protection	\$8,000	\$68,095
10.682 National Forest Foundation		\$21,371
10.684 International Forestry Programs		\$123,794
10.699 Partnership Agreements		\$34,331
University of Maine UMS-1216		\$28,718
10.707 Research Joint Venture and Cost Reimbursable Agreements		\$210,703

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Miscellaneous		
10.RD Miscellaneous Research and Development		\$6,040,926
Bravo 2 Whiskey, LLC		\$47,814
Duke University 313-0873		\$48,465
Duke University SUBCONTRACT NUMBER 313-0742		\$259,657
Nutronics, Inc. SUBK-MSU-VDHWFS2-01-012720		\$151,635
S2 Corp S2-1025-19-01		\$52,367
Tufts University ARMZ12-MSU/ PO# EP0166321		\$5,479
University of California, Davis A17-0837-S001		\$14,031
University of Maryland 31236-Z8409102		\$23
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		
North Dakota State University FAR0031981		\$12,283
University of California, Davis A20-3947-S001		\$11,457
University of Idaho AP4292-870300		\$7,015
University of Idaho AP1008-SB1-870848/P0057780		\$1
10.202 Cooperative Forestry Research		\$746,984
10.203 Payments to Agricultural Experiment Stations Under the Hatch Act		\$3,199,156
10.207 Animal Health and Disease Research		\$24,166
10.215 Sustainable Agriculture Research and Education		\$3,331,566
South Dakota State University 3TC473	\$2,253,550	\$7,079
Utah State University 200592-395	\$30,938	\$96,199
Utah State University 201207-554		\$26,925
Utah State University 200592-390		\$21,465
Utah State University 201207-597		\$16,991
Utah State University 201207-587		\$8
Utah State University 200592-384		\$4,241
10.217 Higher Education - Institution Challenge Grants Program	\$102,418	\$126,319
10.226 Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	\$111,303	\$288,951
10.227 1994 Institutions Research Program		
Aaniiih Nakoda College MSU-27076		\$8,801
Fort Peck Community College FPCC-092018-001		(\$20)
Little Big Horn College USDA NIFA TO LBHC TO MSU		(\$3,096)

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Salish Kootenai College UM-18-01		\$3,444
Salish Kootenai College 2		\$6,874
Salish Kootenai College MSU#1: 2017-38424-27077		\$30,171
10.304 Homeland Security Agricultural		
Kansas State University A00-0280-S002-A03 (S17045.03)	\$110,707	\$52,478
10.307 Organic Agriculture Research and Extension Initiative		\$415,816
Utah State University 202524-663		\$36,365
10.309 Specialty Crop Research Initiative	\$481,480	\$752,632
Colorado State University G-1363-04		\$8,011
University of Idaho AN4829-846776		\$46,427
10.310 Agriculture and Food Research Initiative (AFRI)	\$88,658	\$1,367,622
Kansas State University A21-0417-S002		\$143
Kansas State University S15184		(\$69)
North Dakota State University FAR0033228		\$5,647
University of California, Davis 201603566-08		\$202,701
University of Illinois Urbana-Champaign 078891-1539		\$3,327
University of New Hampshire L0015		\$49,007
University of Vermont 29034SUB51753		\$1,628
10.312 Biomass Research and Development Initiative Competitive Grants Program (BRDI)	\$31,433	\$127,769
10.318 Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		\$16,831
10.329 Crop Protection and Pest Management Competitive Grants Program	\$28,399	\$351,407
10.330 Alfalfa and Forage Research Program	\$1,590	\$65,684
University of California, Davis A18-0619-S003		\$1,861
10.500 Cooperative Extension Service		\$2,632,548
Washington State University 134194 G004012		\$12
10.525 Farm and Ranch Stress Assistance Network Competitive Grants Program		
Washington State University 139244 G004270		\$62,861
Natural Resources Conservation Service		
10.902 Soil and Water Conservation		\$181,626
Nature Conservancy MTBU122118_JB		(\$91)
Pheasants Forever, Inc. WLRW 2021-02		\$156,408
Pheasants Forever, Inc. 68-3A75-16-736		\$117,956
10.903 Soil Survey		\$143,779

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.912 Environmental Quality Incentives Program University of Illinois Urbana-Champaign 103926-18435		\$40,753 \$41,613
Risk Management Agency		\$51
10.460 Risk Management Education Partnerships		
Rural Business Cooperative Service		
10.350 Technical Assistance to Cooperatives		
National Association of Development Organizations 484.01		\$539
National Association of Development Organizations		\$5,380
National Association of Development Organizations 483.01		\$29,128
National Association of Development Organizations 482.01		\$63,245
National Association of Development Organizations #481 800.01		\$153,212
DEPARTMENT OF AGRICULTURE TOTAL		\$26,111,424
DEPARTMENT OF COMMERCE		
Economic Development Administration		
11.020 Cluster Grants	\$26,905	\$244,418
National Institute of Standards and Technology		\$1,046
11.609 Measurement and Engineering Research and Standards		
National Oceanic and Atmospheric Administration		
11.431 Climate and Atmospheric Research		\$444,527
University Corporation for Atmospheric Research SUBAWD000858		\$135,947
11.438 Pacific Coast Salmon Recovery Pacific Salmon Treaty Program		
Alaska Department of Fish and Game AKSSF-53005		\$2,627
11.459 Weather and Air Quality Research		\$117,913
11.467 Meteorologic and Hydrologic Modernization Development		
University Corporation for Atmospheric Research SUBAWD002072		\$14,979
11.472 Unallied Science Program		
North Pacific Research Board 1718B		(\$10)
U.S. Census Bureau		
11.016 Statistical, Research, and Methodology Assistance		\$144
DEPARTMENT OF COMMERCE TOTAL		\$961,591

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development North Carolina State University 2016-2896-04	\$1,382,778	\$2,119,148 \$167,638
Department of the Air Force		
12.800 Air Force Defense Research Sciences Program S2 Corp	\$170,449	\$22,592,266 \$386,822
S2 Corp #S2-1954-19-01F (3A)		\$540,528
S2 Corp #S2-1954-19-01A (3B)		\$663,918
Department of the Army		
12.005 Conservation and Rehabilitation of Natural Resources on Military Installations	\$37,444	\$388,975
12.420 Military Medical Research and Development Baylor College 7000001103	\$186,513	\$364,481 \$23,211
University of California, Davis A19-0382-S001		\$38,267
University of Texas at Austin UTA20-000476		\$6,417
12.431 Basic Scientific Research University of Maryland 92951-Z8310202	\$79,006	\$7,248,066 \$1,544,118
Department of the Navy		
12.300 Basic and Applied Scientific Research Pennsylvania State University S000044-ONR TPS Associates, Inc. PO MSU-7971/3002	\$142,085	\$2,386,097 \$50,862 (\$386)
Miscellaneous		
12.RD Miscellaneous Research and Development Charles River Analytics SC1812501	\$172,256	\$1,988,606 \$85,090
Office of the Secretary of Defense		
12.630 Basic, Applied, and Advanced Research in Science and Engineering		\$82,896
12.632 Legacy Resource Management Program		\$190
DEPARTMENT OF EDUCATION		\$40,677,210
Institute of Education Sciences		
84.305 Education Research, Development and Dissemination University of Missouri C00064217-1		\$135,935

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Office of Elementary and Secondary Education		
84.299 Indian Education -- Special Programs for Indian Children		\$24,130
Office of Innovation and Improvement		
84.336 Teacher Quality Partnership Grants		\$548,101
Office of Postsecondary Education		
84.217 TRIO McNair Post-Baccalaureate Achievement		\$275,565
		\$983,731
DEPARTMENT OF EDUCATION TOTAL		
		\$162,912
DEPARTMENT OF ENERGY		
81.121 Nuclear Energy Research, Development and Demonstration		\$158,280
81.049 Office of Science Financial Assistance Program		\$1,963,112
Bonneville Power Administration IAA 82184		\$113
Bonneville Power Administration 72725		\$8,513
Impossible Sensing LLC		\$6,156
Montana Emergent Technologies		\$21
University of Wyoming DE-SC0012671		\$8,054
Washington State University 134124-G003968		\$25,171
Washington State University 132345 SPC001690		\$298,800
Yale University GR104542 (CON-80001480)		\$299,437
81.086 Conservation Research and Development	\$80,501	\$2,776,998
81.087 Renewable Energy Research and Development	\$230,877	\$668,640
Bridger Photonics		\$130,523
Clemson University 2107-219-2023054		\$67,969
Michigan State University RC107739		\$104,379
University of Toledo F-2019-14		\$312,969
81.089 Fossil Energy Research and Development		\$46,010
New Mexico Institute of Mining P0019650		\$144,802
81.135 Advanced Research Projects Agency - Energy		
Cornell University 84185-11060		\$31,964
Miscellaneous		
81.RD Miscellaneous Research and Development		
Navarro Research and Engineering, Inc. LMCP7514		\$14,986
Sandia National Laboratories 1663302		\$1,726
Sandia National Laboratories 2183707		\$51,420

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Sandia National Laboratories 1922244		\$23,786
Sandia National Laboratories 2151826		\$29,563
		<hr/>
	DEPARTMENT OF ENERGY TOTAL	\$7,173,392
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Administration for Children and Families		
93.670 Child Abuse and Neglect Discretionary Activities		
Futures Without Violence 3075		\$30,249
Administration for Community Living		
93.433 ACL National Institute on Disability, Independent Living, and Rehabilitation Research	\$27,446	\$783,855
The Institute for Rehabilitation and Research 2020-YR4-UMONTANA-SCIMS		\$13,617
The Institute for Rehabilitation and Research 2021-Y5-017-UMONTANA-SCIMS	\$36,429	\$30,889
University of Kansas FY2017-048-M5		\$147,249
University of Kansas FY2017-048-M3 A3	\$57,068	\$104,707
Centers for Disease Control and Prevention		
93.136 COVID-19 - Injury Prevention and Control Research and State and Community Based Programs		\$473,957
93.262 Occupational Safety and Health Program		\$94,185
University of Colorado FY18.347.004		\$5,832
Utah State University 202633-668		\$13,696
Utah State University 203193-715		\$34,096
Food and Drug Administration		
93.103 Food and Drug Administration Research		\$14,764
Health Resources and Services Administration		
93.107 Area Health Education Centers		\$660,001
93.155 Rural Health Research Centers	\$360,156	
National Rural Health Association NRHA 2020		\$3,200
93.247 Advanced Nursing Education Workforce Grant Program		\$704,447
93.300 National Center for Health Workforce Analysis		
University at Albany, State University of New York 3-86321		\$55,200
93.301 Small Rural Hospital Improvement Grant Program	\$478,691	\$550,495
93.359 Nurse Education, Practice Quality and Retention Grants	\$170,000	\$835,581
93.913 Grants to States for Operation of State Offices of Rural Health		\$215,461
93.969 PPHF Geriatric Education Centers	\$30,225	\$87,127

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Miscellaneous		
93.RD Miscellaneous Research and Development	\$4,048,874	\$8,599,352
Boston Children's Hospital GENFD0001583403		\$663,544
National Institutes of Health		
93.113 Environmental Health	\$208,018	\$714,219
Michigan State University RC107307MON		\$124,110
University of New Mexico 3RY74 PILOT PROJECT		(\$1,897)
University of New Mexico 3RY74		\$1,153
University of Rochester 417656G/UR FAO GR510992		\$126,850
University of Rochester ROAES030940-01		\$213,313
93.121 Oral Diseases and Disorders Research		\$101,428
93.172 Human Genome Research		
Institute for Systems Biology 2018.0008		\$173,582
Southcentral Foundation 2018-201		\$19,278
University of Colorado FY21.1078.001		\$40,697
93.173 Research Related to Deafness and Communication Disorders		
Massachusetts General Hospital 300315		\$187,215
Promilad Biopharma Incorporated 2R42DC017641-02A1		\$139,879
93.233 National Center on Sleep Disorders Research		\$120,040
93.242 Mental Health Research Grants		\$92,231
Advanced Medical Electronics Corporation AME19_ANIMALHEADSTAGE-07		\$25,003
University of Washington UWSC10191 (BPO28076)	\$91,712	
93.273 Alcohol Research Programs		\$365,504
93.279 Drug Abuse and Addiction Research Programs		\$9,129
93.286 Discovery and Applied Research for Technological Innovations to Improve Human Health	\$178,103	\$1,368,892
93.307 Minority Health and Health Disparities Research	\$340,100	\$655,205
University of Arizona 575638 (UA 3036150 REQ 611244)		\$12,105
University of New Mexico 3RJN7		\$35,197
University of New Mexico Health Sciences Center 3RJN7 / PO		\$22,003
93.310 COVID-19 - Trans-NIH Research Support	\$247,447	\$381,056
93.310 Trans-NIH Research Support		\$300,575
University of Arkansas 54005-VDORA		\$87,654
93.350 National Center for Advancing Translational Sciences		\$56,731
University of Washington UWSC9979/BPO26008		\$4,882

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.351 University of Washington BPO26008 / UWSC9979 Research Infrastructure Programs		\$24,346
DermaXon 1R41RT003929		\$599,278
93.361 Nursing Research		\$4,920
Medical College of Wisconsin PO: 6166576		\$15,608
93.393 University of Florida UFDSP00012150 Cancer Cause and Prevention Research		\$150,075
93.838 Lung Diseases Research		\$447,053
93.846 Arthritis, Musculoskeletal and Skin Diseases Research	\$16,032	\$200,708
93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research	\$243,417	\$385,136
University of Utah 10053831-01		\$1,124,669
Yale University CON-80003000(GR112885)		\$280,174
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders	\$71,416	\$21,823
University of Washington UWSC10752/ BP034774		\$977,184
Yale University M17A12590-GR104248 (80001410)		\$39,959
93.855 Allergy and Infectious Diseases Research	\$1,362,683	\$1,273
Albert Einstein College of Medicine P0819131 (SUB NO: 31194A)		\$5,718,196
Arrevus Inc.		\$32,230
Emory University A156367		\$25,769
Mayo Clinic MSU-272768/PO#67660374		\$70,879
Michigan State University RC110226MSU		\$22,584
Oregon Health Sciences University 1016853_UMT		\$38,037
Promilad Biopharma Incorporated R42A118104		\$56,692
University of Kentucky 7800005601		\$100,138
University of Kentucky PO7800004770/320002108-19-191		\$689
University of Louisville Research Foundation UIRF 17-0750-01		\$1,277
University of Louisville Research Foundation UIRF-17-0750A-01		(\$5,293)
University of Notre Dame 202953MSU		\$94,440
93.859 COVID-19 - Biomedical Research and Research Training		\$178,894
93.859 Biomedical Research and Research Training	\$2,265,696	\$13
City of Missoula		\$16,934,084
Meadowlark Science and Education, LLC UM-OD01		\$32,440
Meadowlark Science and Education, LLC UM_GEN01		\$13,858
Northwest Indian College NWC-SA24226-MSU		\$34,250
		\$46,570

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Oklahoma State University 5-554009		\$20,646
Rutgers, The State University of New Jersey PO# 663268/ SUBAWARD #0222		\$182,824
University of Alaska UAA 20-0113		\$3,821
University of Nevada, Las Vegas GR11257 MSU-08-03-PILOT-BECKER		\$31,767
University of Nevada, Las Vegas GR11265-CP3		\$112,948
University of Nevada, Las Vegas GR11265-CEO		\$88,647
University of Nevada, Las Vegas GR11265-BERD		\$38,644
University of Nevada, Las Vegas GR11257 MSU-08-01-BERD		\$26,730
University of Nevada, Las Vegas GR11257 MSU-08-02-CEO		\$14,351
University of Nevada, Las Vegas GR09462 UMT-07-01-CP3		\$632
University of Nevada, Las Vegas TASK MSU-07-02-CEO (GR09456)		(\$4)
University of Nevada, Las Vegas GR09462 UMT-07-01-CEO		\$517
University of New Mexico 3REV9		\$67,404
University of New Mexico Health Sciences Center 3REV9		\$40,159
University of Utah 10047369-S2		\$41,679
University of Utah PO U000148335 / 10047369-S2		\$63,476
University of Washington UWSC9319		\$84,675
Virtici, LLC GM130166		\$81,450
Child Health and Human Development Extramural Research	\$2,178	\$497,792
University of Arkansas 51460 PO#G190121109		(\$1,244)
Washington University WU-20-478		\$19,185
Aging Research		\$53,183
Johns Hopkins University 2003050472		\$20,403
Michigan State University RC108877UM		\$13,203
University of Maryland 1000004418		\$15,242
University of Washington UWSC10030/BPO26347		\$111,809
Vision Research	\$78,966	\$273,003
University of California, Berkeley SUBAWARD NO. 00010266		\$42,079
Medical Library Assistance		
Augusta University Research Institute, Inc. 32242-1		\$7,707
Baylor College of Medicine 7000000701		\$15,334
National Network of Libraries NNLN PNR TECHNOLOGY IMPROVEMEN		\$5,034

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Substance Abuse and Mental Health Services Administration		
93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance		\$48,009
Browning Schools 2586-001		
93.276 Drug-Free Communities Support Program Grants		\$34,686
Washakie County		
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		
		\$49,221,282
DEPARTMENT OF JUSTICE		
Office of Justice Programs		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		\$117,651
DEPARTMENT OF JUSTICE TOTAL		
		\$117,651
DEPARTMENT OF STATE		
Bureau of Educational and Cultural Affairs		
19.408 Academic Exchange Programs - Teachers		
International Research & Exchanges Board FY20-FTEA-MSU-01		\$262,273
DEPARTMENT OF STATE TOTAL		
		\$262,273
DEPARTMENT OF THE INTERIOR		
Bureau of Indian Affairs and Bureau of Indian Education		
15.035 Forestry on Indian Lands		
Salish Kootenai College NBR-19-01		(\$238)
15.043 Indian Child and Family Education		(\$21,846)
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management		\$190,288
15.230 Invasive and Noxious Plant Management		\$406,545
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$252,830
15.232 Wildland Fire Research and Studies		\$32,128
15.236 Environmental Quality and Protection		\$73,694
15.247 Wildlife Resource Management		\$407,600
15.248 National Landscape Conservation System		\$102
Miscellaneous		
15.RD Miscellaneous Research and Development		\$1,426,796
Colorado State University G-63747-01	\$446,381	\$60,935

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
NatureServe MT-026-FY19		\$20,000
Oregon State University L0233A-A		\$288,222
Oregon State University L02226A-A		\$24,862
Oregon State University L0205A-A		\$880
Oregon State University L02312A-A		\$22,371
Oregon State University L0212A-A		\$550,899
Otak, Inc. 33172.003		\$31,896
PG Environmental, LLC 50002.001		(\$1,434)
PG Environmental, LLC 50002/001 140L0620F0455		\$41,074
PG Environmental, LLC 50002.006 TO 4		\$44,755
PG Environmental, LLC 50002/001		\$162,898
Portland State University 100006		(\$1,460)
Portland State University 1361 100182		\$48,256
Portland State University 1362		\$108,056
Portland State University 100145		\$161,908
Portland State University 100130		\$189,347
RRC Associates 33172.007		\$39,775
RRC Associates 33172.01		\$19,095
RRC Associates 33172.005		\$11,403
RRC Associates 33172.002		\$34,464
National Park Service		
15.915 Technical Preservation Services		\$5,333
15.926 American Battlefield Protection		\$1,449
15.945 Cooperative Research and Training Programs – Resources of the National Park System	\$43,588	\$1,182,609
University of California, Santa Cruz A20-0484-S001		\$2,481
University of Wyoming 1004490-UM		\$4,997
15.954 National Park Service Conservation, Protection, Outreach, and Education		\$125,665
U.S. Fish and Wildlife Service		
15.605 Sport Fish Restoration		
Wyoming Game and Fish Department 002822		\$48,020
15.608 Fish and Wildlife Management Assistance		\$161,865
15.611 Wildlife Restoration and Basic Hunter Education	\$18,469	\$1,578,195
Colorado Parks and Wildlife 220-IGA-142182		\$12,864
Idaho Department of Fish and Game IDFG-FY19-516		\$455

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Idaho Department of Fish and Game IDFA-MA-20151029		\$3,635
Idaho Department of Fish and Game IDFG-FY20-509 / 2021-038		\$31,334
Idaho Department of Fish and Game IDFG-MA-20151029		\$59,192
Missouri Department of Conservation 369-B	\$25,000	\$51,884
Missouri Department of Conservation CA-472		\$5,932
Missouri Department of Conservation 377-B		\$66,160
North Dakota Game and Fish Department		\$112,311
North Dakota Game and Fish Department W-68-R-3		\$265,772
State of South Dakota 19CS06W008		\$23,065
State of South Dakota 19CS06W012		\$230,513
15.615 Cooperative Endangered Species Conservation Fund		(\$1,242)
Washington State Department of Natural Resources 93-099848		\$6,901
15.631 Partners for Fish and Wildlife		
Blackfoot Challenge 2019-37		\$4,659
15.634 State Wildlife Grants		
Alaska Department of Fish and Game 19-145		\$45,573
Wyoming Game and Fish Department 003033		\$58,582
15.637 Migratory Bird Joint Ventures		\$30,239
15.654 National Wildlife Refuge System Enhancements		\$30,609
15.655 Migratory Bird Monitoring, Assessment and Conservation		\$126,846
15.657 Endangered Species Conservation – Recovery Implementation Funds		\$459,834
South Dakota Department of Game, Fish, and Parks 19-0600-048-01		\$356,247
15.660 Endangered Species - Candidate Conservation Action Funds		\$12,780
15.664 Fish and Wildlife Coordination and Assistance		\$100,585
15.665 National Wetlands Inventory		\$11,252
15.678 Cooperative Ecosystem Studies Units		\$951,174
U.S. Geological Survey		
15.805 Assistance to State Water Resources Research Institutes		\$107,314
15.807 Earthquake Hazards Program Assistance		\$58,912
15.808 U.S. Geological Survey Research and Data Collection		\$323,931
15.810 National Cooperative Geologic Mapping		\$481,290
15.812 Cooperative Research Units		\$447,530
15.814 National Geological and Geophysical Data Preservation		\$62,785

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
15.815 National Land Remote Sensing Education Outreach and Research AmericaView AV18-MT-01		\$22,409
15.820 National and Regional Climate Adaptation Science Centers University of Colorado 1559603		\$6,900
University of Colorado Boulder 1559947 PO 1001445221		\$8,009
University of Colorado Boulder PO 1001362655/1559255		\$28,763
University of Washington UWSC10097 BPO49075		\$36,587
University of Washington UWSC10097 BPO49076		\$37,146
University of Washington UWSC10097 BPO46197		\$20,261
University of Washington UWSC100967/BPO41681		\$7,273
University of Washington UWSC10097 BPO46197		\$22,267
University of Washington UWSC100967/BPO41680		\$9,105
15.980 National Ground-Water Monitoring Network		\$27,433
DEPARTMENT OF TRANSPORTATION		\$12,501,786
Federal Aviation Administration		
20.109 Air Transportation Centers of Excellence		\$127,571
Federal Highway Administration		
20.200 Highway Research and Development Program	\$237,321	\$735,513
Cadmus Group 4652FHWA-MTI-1		\$54,907
California Department of Transportation 65A0772		\$26,321
California Department of Transportation 65A0770		\$39,893
Idaho Department of Transportation 2016-01		(\$131)
Minnesota Department of Transportation 1003322 WORK ORDER NO. 4		\$178
Minnesota Department of Transportation 1044527		\$20,084
Minnesota Department of Transportation 1003322 WORK ORDER NO. 5		\$42,671
Nevada Department of Transportation P701-18-803 TASK 06		\$67,425
Nevada Department of Transportation P701-18-803 TASK 04		\$19,592
Nevada Department of Transportation P701-18-803 TASK 02		\$36,280
Nevada Department of Transportation P701-18-803 TASK 01		\$23,634
Nevada Department of Transportation P701-18-803 TASK 07		\$204
Nevada Department of Transportation P701-18-803 TASK 05	\$24,943	\$35,918
South Dakota Department of Transportation 311280 SD2016-03		\$2,438

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Washington State Department of Transportation T6737 TASK 12		\$22
Washington State Department of Transportation T6737 TASK 14		\$17,756
Washington State Department of Transportation T6737 TASK 13		\$24,017
20.205 Highway Planning and Construction	\$22,000	\$651,601
Center for Large Landscape Conservation		\$267
Iowa Department of Transportation TPF-5(435)		\$19,042
Iowa Department of Transportation TPF-5(290)		\$19,994
Kentucky Transportation Cabinet		\$3,979
Maryland Department of Transportation P01814 X-1	\$27,957	\$31,174
Minnesota Department of Transportation 1002306		(\$1)
State of Wyoming RS06219		\$42,634
Vermont Agency of Transportation GR1477		\$9,817
20.215 Highway Training and Education		\$8,869
Battelle Memorial Institute US001-0000804612 LINE 1		\$6,486
Battelle Memorial Institute US001-0000806715		\$52,087
Battelle Memorial Institute US001-0000804612		\$57,662
Federal Transit Administration		
20.514 Public Transportation Research, Technical Assistance, and Training		\$1,659
ICF International 19SSSK0091		
National Highway Traffic Safety Administration		
20.600 State and Community Highway Safety		
National Academies of Science BTS-15 UNIT 913 SUB0001557		\$103,949
North Dakota Department of Transportation 12191245		\$4,153
20.614 National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	\$5,658	\$168,971
20.616 National Priority Safety Programs		
Washington Traffic Safety Commission PROJECT # 2021-SUB-GRANTS-4353		\$5,719
Washington Traffic Safety Commission 20-VENDOR CONTRACT-4004 VC4196		\$53,116
Washington Traffic Safety Commission 2021-SUBGRANTS- 4268		\$11,520
Washington Traffic Safety Commission 2020-AG-3688		\$2,549
Washington Traffic Safety Commission 2020-VENDOR CONTRACT-4004		\$1,071
Washington Traffic Safety Commission 2021-SUB-GRANTS-4350		\$10,750

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Office of the Secretary		
20.701 University Transportation Centers Program	\$909,211	<u>\$1,458,680</u>
DEPARTMENT OF TREASURY		
Community Development Financial Institutions		\$4,000,041
21.020 Community Development Financial Institutions Program		<u>\$13,189</u>
DEPARTMENT OF VETERANS AFFAIRS		
VA Health Administration Center		\$13,189
64.054 Research and Development		<u>\$731,758</u>
ENVIRONMENTAL PROTECTION AGENCY		
66.202 Congressionally Mandated Projects		\$731,758
Idaho Department of Environmental Quality S613		\$20,927
Idaho Department of Environmental Quality 5574		\$44,485
Regional Wetland Program Development Grants		\$169,921
66.461 Science To Achieve Results (STAR) Research Program		
66.509 University of New Mexico 3RAW5 / 83615701		\$21,119
66.516 P3 Award: National Student Design Competition for Sustainability		\$8,540
66.716 Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		\$26,547
66.802 Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		
Dine' College 1819-16-513		\$23,671
66.808 Solid Waste Management Assistance Grants		\$17,083
66.951 Environmental Education Grants		\$24,057
Arizona State University ASUB00000207		\$225
66.962 Columbia River Basin Restoration (CRBR) Program		<u>\$17,259</u>
ENVIRONMENTAL PROTECTION AGENCY TOTAL		\$373,834

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
GENERAL SERVICES ADMINISTRATION		
39.003 Donation of Federal Surplus Personal Property		\$5,415
GENERAL SERVICES DIVISION TOTAL		\$5,415
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.312 National Leadership Grants	\$2,842	\$8,809
45.313 Laura Bush 21st Century Librarian Program		\$102,487
Drexel University 950022-P PO: U0212121		\$4
INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL		\$111,300
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.012 Space Technology	\$102,153	\$298,261
43.001 Science	\$741,103	\$4,738,531
Association of Universities for Research in Astronomy		\$7,584
Astrophysical Research Consortium SSP538		\$87,244
Bowling Green State University 10010205-UMT		\$30,967
California Institute of Technology, Jet Propulsion Laboratory 1649019		\$6,852
Dartmouth College R1148		\$27,169
Dartmouth College R1060		\$477,327
Georgia Institute of Technology AWD-000545-G1		\$1,559
Georgia Institute of Technology RH809-03		\$111,362
Lockheed Martin Corporation 8100002702		\$448,004
Predictive Science Inc.		\$36,031
Princeton University SUB0000396		\$15,639
SETI Institute SC3118		\$3,175
Smithsonian Astrophysical Observatory G08-19069X		(\$1,793)
Smithsonian Astrophysical Observatory G07-18086A		(\$423)
Smithsonian Astrophysical Observatory G09-20094X		\$52,004
Smithsonian Astrophysical Observatory SV9-89001		\$157,963
Southwest Research Institute K99081KJ		\$90,312
Space Telescope Science Institute HST-GO-14251.004-A		\$4,115
Space Telescope Science Institute HST-GO-15607.001.A		\$54,004
Space Telescope Science Institute HST-GO-13943.007-A		\$1,957
Stone Aerospace/PSC, Inc.		\$28,999

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
Stottler Henke Associates, Inc. DIS-MAESTRO2 MSU		\$128,573
Sustainable Bioproducts		\$85,929
University Corporation For Atmospheric Research SUBAWD002290		\$19,802
University of Alaska UAF 18-0082		\$46,799
University of Colorado Denver PO1001469105/1560348		\$582
University of Colorado Denver 1552610 / NNA15BB02A		\$59,343
University of Colorado Denver 1557527 (PO1001165441)		\$47,882
University of Maryland 3TB432		\$33,448
University of Massachusetts 20-010961 A		\$84,812
University of Minnesota A007438701		\$17,540
University of Washington UWSC12794 BPO 56293		\$7,046
University of Washington UWSC8879/BPA13182		\$10,139
University of Washington UWSC8879/BPO13182		\$76,851
43.008 Education	\$28,583	\$1,373,250
Stottler Henke Associates, Inc.		\$28,477
43.009 Cross Agency Support		\$43,019
Miscellaneous		
43.RD Miscellaneous Research and Development		
California Institute of Technology, Jet Propulsion Laboratory 1422120		\$178,744
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		\$8,919,079
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.129 Promotion of the Humanities Federal/State Partnership		
Humanities Montana 20R039		\$3,741
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		\$3,741
NATIONAL SCIENCE FOUNDATION		
47.041 Engineering Grants	\$33,331	\$1,851,223
Case Western Reserve University RES514053		\$13,666
Integrative Economics, LLC INTEGRATIVE ECONOMICS MSU STTR		\$4,101
University of Michigan SUBK00011355		\$51,144
47.049 Mathematical and Physical Sciences	\$477,798	\$3,027,565
Association of Universities for Research in Astronomy N87463C		\$25,964
University Wisconsin-Milwaukee 2034045458 (1534055370)		\$93,495

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
47.050 Geosciences	\$231,955	\$2,301,463
George Washington University 14-517		\$6,359
Lehigh University/Global Villa 543851-78002		\$14,640
University of Colorado 1555555 PO 1000879023		\$10,617
University of Colorado 1555338 - PO 1000856931		\$30,094
University of Colorado Denver 1555337/PO#1000855308		\$140,891
University of Hawaii at Manoa MA 1391		\$27,727
47.070 Computer and Information Science and Engineering		\$759,906
University of North Texas GF30041-1		(\$703)
47.074 Biological Sciences	\$253,831	\$8,288,717
Cary Institute of Ecosystem Studies 3340-200201873		\$31,865
USDA Rocky Mountain Research Station 16-JV-11221633-029		\$37,662
47.075 Social, Behavioral, and Economic Sciences	\$253,972	\$623,845
Bentley University 2313-02		\$4,088
47.076 COVID-19 - Education and Human Resources	\$88,343	\$135,490
47.076 Education and Human Resources	\$8,654	\$2,419,699
Aaniiih Nakoda College MSU-3753		\$138,992
Chief Dull Knife College		\$890
Colorado State University 96702-5		\$33,405
Mathematical Association of America MAA 3-8-710-891		\$17,664
Michigan State University RC104101MONTANA		\$63,090
Murray State University MOA No. 2020-075		\$15,719
Salish Kootenai College SKC-19-UOM-003		\$1,700
Salish Kootenai College HRD 1826637		\$61,565
Washington State University 131202 G004100		\$8,893
Washington State University 131202 G004098		\$9,517
47.078 Polar Programs	\$12,937	\$303,187
47.079 Office of International Science and Engineering		\$6,348
47.083 Office of Integrative Activities	\$1,368,883	\$6,369,568
North Carolina State University 2019-3154-01		\$32,275
South Dakota School of Mines SDSMT-MSU-20-10		\$218,933
South Dakota School of Mines SDSMT-MSU 18-04		\$447,326
Trustees of Dartmouth College R896/R897/1632738		\$129,705

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, 2021

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Alaska Fairbanks 539392		\$1,899
University of Alaska Fairbanks P0547157		\$3,314
University of Nebraska 25-6222-0984-050	\$10,811	\$419,006
University of Wyoming 1004809-UM		\$36,861
	NATIONAL SCIENCE FOUNDATION TOTAL	\$28,219,375
SOCIAL SECURITY ADMINISTRATION		
96.007 Social Security Research and Demonstration		
University of Wisconsin-Madison 0000000424		\$28,842
University of Wisconsin-Madison 0000001149		\$75,453
University of Wisconsin-Madison 0000000670		\$113,035
	SOCIAL SECURITY ADMINISTRATION TOTAL	\$217,330
	RESEARCH AND DEVELOPMENT CLUSTER TOTAL	\$180,641,655
	SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL	\$6,535,824,509

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, 2021

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, 2021. 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").

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 position, or, where applicable, its cash flows for the fiscal year ended June 30, 2021.

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 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 such as the Student Financial Assistance, Education and Stabilization Funds, and Research and Development programs. Certain other programs of the state, such as the Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs, also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantee Programs (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented using the basis of accounting described in each note. The Books for the Blind and Physically

Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of Federal Awards but is provided as additional information regarding the types of donations received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Coronavirus Relief Programs

The state of Montana expended \$2,124,534,188 under the various Coronavirus relief programs in fiscal year 2021. These programs are indicated by a "COVID-19" reference in front of the federal program name on the fiscal year 2021 Schedule of Expenditures of Federal Awards.

A summary of the federal programs that received funding under the various Coronavirus relief programs is shown on the following page:

ALN#	Coronavirus Relief Programs	FY 2021 Expenditures
10.250	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	\$4,725
10.542	Pandemic EBT Food Benefits	\$27,514,501
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	\$1,240,105
10.558	Child and Adult Care Food Program	\$468,657
10.559	Summer Food Service Program for Children	\$29,000,000
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$155,412
10.568	Emergency Food Assistance Program (Administrative Costs)	\$81,032
11.611	Manufacturing Extension Partnership	\$175,013
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$4,291
14.231	Emergency Solutions Grant Program	\$2,551,796
14.241	Housing Opportunities for Persons with AIDS	\$160,592
14.871	Section 8 Housing Choice Vouchers	\$100,342
16.034	Coronavirus Emergency Supplemental Funding Program	\$2,108,937
17.225	Unemployment Insurance	\$565,892,687
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	\$154,227
20.106	Airport Improvement Program	\$396,524
20.509	Formula Grants for Rural Areas	\$17,448,893
21.019	Coronavirus Relief Fund	\$1,136,109,048
21.023	Emergency Rental Assistance Program	\$10,442,585
21.027	Coronavirus State Fiscal Recovery Fund (CSFRF)	\$15,053,295
45.025	Promotion of the Arts Partnership Agreements	\$424,400
45.310	Grants to States	\$3,121
47.076	Education and Human Resources	\$135,490
59.037	Small Business Development Centers	\$655,569
64.015	Veterans State Nursing Home Care	\$213,048
84.007	Federal Supplemental Educational Opportunity Grants	\$2,000
84.425	Education Stabilization Fund	\$94,522,394
90.404	2018 HAVA Election Security Grants	\$222,373
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$19,243
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	\$699,571
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	\$1,943,566
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	\$1,454
93.052	National Family Caregiver Support, Title III, Part E	\$358,170
93.107	Area Health Education Centers	\$89,488
93.136	Injury Prevention and Control Research and State and Community Based Programs	\$473,957
93.268	Immunization Cooperative Agreements	\$3,942,598
93.301	Small Rural Hospital Improvement Grant Program	\$927,478
93.310	Trans-NIH Research Support	\$381,056
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	\$35,848,347
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	\$1,648,162
93.359	Nurse Education, Practice Quality and Retention Grants	\$58,840
93.498	Provider Relief Fund	\$3,583,539
93.568	Low-Income Home Energy Assistance	\$355,126
93.569	Community Services Block Grant	\$583,981
93.575	Child Care and Development Block Grant	\$3,455,686
93.665	Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	\$652,798
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	\$94,613
93.747	Elder Abuse Prevention Interventions Program	\$1,761
93.767	Children's Health Insurance Program	\$4,190,112
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	\$342,493
93.778	Medical Assistance Program	\$69,994,744
93.859	Biomedical Research and Research Training	\$13
93.889	National Bioterrorism Hospital Preparedness Program	\$988,721
93.917	HIV Care Formula Grants	\$40,156
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$42,045,221
97.050	Presidential Declared Disaster Assistance to Individuals and Households - Other Needs	\$46,572,237
	Total Coronavirus Relief Programs	\$2,124,534,188

The state also received \$6,936,454 in donated supplies and equipment under Assistance Listing Number (ALN - formerly CFDA Number) #97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters). Of this amount, \$4,087,031 was distributed to non-state entities. These amounts are not shown on the Schedule of Expenditures of Federal Awards.

Families First Coronavirus Response Act

Section 6008 of the Families First Coronavirus Response Act provided a temporary 6.2 percentage point increase to each qualifying state and territory's Federal Medical Assistance Percentage (FMAP) under section 1905(b) of the Social Security Act. In fiscal year 2021, the state paid an additional \$69,994,744 for the Medical Assistance Program (ALN #93.778).

Food Distribution Program

The amount reported for Food Distribution programs (ALN #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 2021, Montana distributed \$479,752 of food commodities under ALN #10.567 to other states.

The state of Montana distributed \$10,754,862 in commodities in fiscal year 2021. The June 30, 2021 value of commodities stored at the state's warehouse is \$5,752,070, 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 (ALN #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 (ALN #93.268) includes the dollar value of vaccine doses received during fiscal year 2021. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2021, Montana received 188,102 vaccine doses valued at \$10,680,679.

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, 2020 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2021:

ALN #	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2021 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 319,274,382
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 182,779,058
	Total State Revolving Loan Programs	\$ 502,053,440

ALN #	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2021 Ending Balance
	University Loans	
84.038	Federal Perkins Loan Program_Federal Capital Contributions	\$19,262,938
93.264	Nurse Faculty Loan Program (NFLP)	\$3,331
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$258,273
93.364	Nursing Student Loans	\$2,350,002
	Total Student Financial Assistance Programs	\$21,874,544

Perkins Loan Programs

Under the Perkins Loan Extension Act of 2015, universities participating in this program are no longer permitted to make Perkins Loan disbursements after June 30, 2018. Institutions may choose to continue servicing their existing Perkins Loans until such time the institution's outstanding loans have been paid in full or otherwise retired. Both Montana State University and the University of Montana have chosen to continue to service their current loans.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (ALN #11.307) consists of two separate awards, which are reported on the Schedule of Expenditures of Federal Awards at the June 30, 2021 ending loan balances.

The amount of loans outstanding as of June 30, 2021 is \$318,254 for award number 05-19-02445 and \$3,082,439 for award number 05-79-73005. The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Title IX SSED Revolving Loan Fund		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2021		\$ 262,407
Cash & Investments FYE 2021		\$ 185,838
FY 2020 Admin paid out of RLF Income		\$ -
Unpaid Principal of loans written of during FY		\$ -
		\$ 448,245
Federal Percentage		71%
Federal Share of Revolving Loan Fund		\$ 318,254

Award Number: 05-79-73005		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Economic Adjustment Assistance		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2021		\$ 5,050,071
Cash & Investments FYE 2021		\$ 1,089,475
FY 2021 Admin paid out of RLF Income		\$ 25,332
Unpaid Principal of loans written of during FY		\$ -
		\$ 6,164,878
Federal Percentage		50%
Federal Share of Revolving Loan Fund		\$ 3,082,439

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 2021. The amount of the loan outstanding as of June 30, 2021 is \$4,925,641.

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, 2021, the loan outstanding is \$1,600,735, and reimbursable interest during construction is \$158,293.

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, 2021 will be issued by May 31, 2022.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2021.

Note 4. Assistance Listing Number

The Assistance Listing Number (formerly CFDA number) is a unique number assigned to identify a federal assistance listing.

The complete Assistance Listing Number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs with an unknown ALN number were assigned a number in the format **.UXX or **.RD. Also refer to Note 13.

Note 5. Program Clusters

As defined by 2 CFR section 200.1, 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:

ALN #	Student Financial Assistance Cluster	FY 21 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	\$1,721,057
84.033	Federal Work-Study Program	\$1,634,018
84.038	Federal Perkins Loan Program_Federal Capital Contributions	\$23,678,953
84.063	Federal Pell Grant Program	\$36,026,968
84.268	Federal Direct Student Loans	\$141,309,606
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	\$3,962
93.264	Nurse Faculty Loan Program (NFLP)	\$6,062
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$276,427
93.364	Nursing Student Loans	\$2,767,378
93.925	Scholarships for Health Professions Students From Disadvantaged Backgrounds - Scholarships for Disadvantaged Students (SDS)	\$325,318
	Total Student Financial Assistance Cluster	\$207,749,749

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 23.34% of the original acquisition cost of the property.

Property received under ALN #81.UXX, Miscellaneous Non-major Grants, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2021. The negative amount reflects property sold (title transferred at public sale) or other disposition.

ALN #	Program	FY 21 Amount	FY 21 Ending Inventory
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	\$5,415	\$129,993
10.500	Cooperative Extension Service	\$0	\$3,157
10.664	Cooperative Forestry Assistance	(\$4,517)	\$4,483,019
10.UXX	Miscellaneous – Non-major Grants	\$0	\$136,426
15.UXX	Miscellaneous – Non-major Grants	\$0	\$3,553
39.003	Donation of Federal Surplus Personal Property	\$164,080	\$357,884
81.UXX	Miscellaneous – Non-major Grants	\$0	\$2,370
43.UXX	Miscellaneous – Non-major Grants	(\$4,376)	\$660,814
47.UXX	Miscellaneous – Non-major Grants	(\$7,877)	\$114,737

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 23.34% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2021:

ALN #	Program	FY 21 Amount	FY 21 Ending Inventory
12.UXX	Miscellaneous – Non-major Grants	\$140,212	\$3,360,350

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 (ALN #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) on June 30, 2021 was \$929,210.

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 (ALN #17.225).

State UI Expenditures	\$ 180,116,013
Federal UI Expenditures	<u>578,239,171</u>
Total	\$ 758,355,184

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 includes federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency or university. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency or university, is shown below:

ALN#	Federal Program	Amount to Subrecipients
Non Research and Development		
10.170	Specialty Crop Block Grant Program - Farm Bill	\$9,615
16.833	National Sexual Assault Kit Initiative	\$8,881
21.019	Coronavirus Relief Fund	\$719,734,982
84.048	Career and Technical Education -- Basic Grants to States	\$3,140,770
93.667	Social Services Block Grant	\$156,504
93.788	Opioid STR	\$317,970
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$332,918
Total - Non Research and Development		\$723,701,640
Research and Development Cluster		
15.611	Wildlife Restoration and Basic Hunter Education	\$18,469
20.205	Highway Planning and Construction	\$22,000
93.859	Medical Assistance Program	\$2,700
Total Research and Development Cluster		\$43,169

Note 13. Federal Awards Not Having an Assistance Listing Number

The following schedules contain contract or grant numbers associated with awards that did not have an Assistance Listing 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 Assistance Listing Numbers for Research and Development Awards (XX.RD)

Federal Agency	State Agency	Contract or Grant Number	Amount				
DEPARTMENT OF AGRICULTURE	10.RD	Montana State University - Bozeman	17-CS-11010200-019	\$870			
			17-CS-11011100-012	\$5,525			
			17-JV-11221636-068	\$264			
			18-CS-11011800-017	\$5,446			
			19-CS-11011100-031	\$2,983			
			2021-21031900002	\$31,911			
			31236-Z8409102	\$23			
			313-0873	\$48,465			
			59-0206-5-003	\$7			
			59-0206-5-004	(\$70)			
			669618	\$200,000			
			70RSAT19TPIA00001 / CPO#0001	\$1,837,607			
			70RSAT19TPIA00001 / CPO#0002	\$975,685			
			70RSAT19TPIA00001 / CPO#0003	\$285,843			
			75N91019P00691	\$6,509			
			A17-0837-5001	\$14,031			
			AG-3151-C-17-0012	\$76,132			
			ARM212-MSU/ PO# EP0166321	\$5,479			
			FA701418C5000	\$200,813			
			FA701418C5004	\$193,831			
			G19AC00047	\$27,726			
			M67854-18-3-1330	\$2,163,509			
			MSU-ARF ORBC MOU	\$5,010			
			S2-1025-19-01	\$52,367			
			SUBCONTRACT NUMBER 313-0742	\$259,657			
			SUBK-MSU-VDHWFS2-01-012720	\$151,635			
			W912HZ-18-2-0010	\$13,298			
			Unknown	\$55,841			
			DEPARTMENT OF DEFENSE	12.RD	University of Montana - Missoula	N62473-19-2-0005	\$146,206
						SC1812501	\$85,090
						W911KB-19-2-1500	\$750,344
						W911KB-19-2-1501	\$3,918
						W9126G-19-2-0035	\$18,901
W9126G-20-2-0016	\$146,346						
W9128F20F0402	\$516,999						
W9128F20P0030	\$81,277						
Montana State University - Bozeman	FA701420C0048	\$216,964					
	FA701420C0045	\$107,651					
DEPARTMENT OF ENERGY	81.RD	Montana Technological University				1663302	\$1,726
						1922244	\$23,786
						2151826	\$29,563
						2183707	\$51,420
			University of Montana - Missoula	LMCP7514	\$14,986		
DEPARTMENT OF HEALTH AND HUMAN SERVICES	93.RD	University of Montana - Missoula	75N3019C00045 Mod #4	\$480,490			
			75N93019C00045 COVID	\$85,173			
			75N93019C00045	\$1,743,497			
			75N93020C00039	\$1,128,244			
			GENFD0001583403	\$663,544			
			HHSN272201400050C	\$1,442,521			
			HHSN272201800048C	\$3,595,434			
			Department of Public Health and Human Services	HHS283201600001C	\$123,993		
DEPARTMENT OF THE INTERIOR	15.RD	University of Montana - Missoula	100006	(\$1,460)			
			100130	\$189,347			
			100145	\$161,908			
			1361 100182	\$48,256			
			1362	\$108,056			
			140B0619F0343	\$4,704			
			140F0619C0021	(\$1,014)			
			140F0619P0068	\$26,315			
			140F0619P0069	(\$878)			
			140L0618F0380	(\$1,328)			
			140L0619F0248	\$43,009			
			140L0619F0249	\$195,859			

Schedule of Unknown Federal Assistance Listing Numbers for Research and Development Awards (XX.RD)

Federal Agency	State Agency	Contract or Grant Number	Amount
		140L0619F0291	\$6,742
		140L0619F0292	\$256,525
		140L0619F0301	\$418,065
		140L0619F0302	\$6,237
		140L0619F0342	\$6,170
		140L0619F0359	\$48,942
		140L0619F0360	\$11,506
		140L0619F0361	\$7,252
		140L0619F0378	\$12,320
		140L0620F0263	\$104,769
		140L0620F0364	\$28,217
		140L0620F0399	\$71,484
		140L0620F0500	\$44,839
		140L0620F0505	\$159
		140L0620F0519	\$2,643
		140L0620F0527	\$17,650
		140L619F0285	\$115,047
		33172.002	\$34,464
		33172.003	\$31,896
		33172.005	\$11,403
		33172.007	\$39,775
		33172.01	\$19,095
		50002.001	(\$1,434)
		50002.006 TO 4	\$44,755
		50002/001	\$162,898
		50002/001 140L0620F0455	\$41,074
		G-63747-01	\$60,935
		L0205A-A	\$880
		L0212A-A	\$550,899
		L02226A-A	\$24,862
		L02312A-A	\$22,371
		L0233A-A	\$288,222
		MT-026-FY19	\$20,000
		Unknown	\$1,562
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.RD	University of Montana - Missoula	1422120	\$178,744

Schedule of Unknown Federal Assistance Listing Numbers (**.UXX)

<i>Federal Agency</i>	<i>State Agency</i>	<i>Contract or Grant Number</i>	<i>Amount</i>
DEPARTMENT OF AGRICULTURE			
10.U03	Department of Natural Resources and Conservation	16-FI-11010200-019	\$5,231
10.U06		16-FI-11011500-026	\$362
10.U07		17-FI-11011600-013	\$6,774
10.U08		17-FI-11015200-003	\$21,875
10.U09		18-FI-11011600-026	\$12,775
10.U10		18-FI-11015200-008	\$14,746
10.U12		DNRC-BLM-18-001	\$393
10.U13	Montana State University - Bozeman	19-CS-11015600-018	\$258
10.U14	Montana Technological University	17-CS-11015600-005	\$2,500
10.U15	Department of Fish, Wildlife and Parks	12034320P0030	\$9,000
DEPARTMENT OF DEFENSE			
12.U02	University of Montana - Missoula	W9128F-17-2-0028	\$5,947
12.U05	Department of Fish, Wildlife and Parks	20-105P	\$1,334,112
12.U06		20-144P	\$177,685
12.U08		W9128F-20-D-0025	\$186,775
12.U11	Department of Natural Resources and Conservation	Unknown	\$140,212
12.U12	Department of Fish, Wildlife and Parks	21-129P	\$558,736
12.U13		21-179P	\$40,847
12.U14		W9128D-20-D-0025	\$93,447
DEPARTMENT OF EDUCATION			
84.U01	Office of Public Instruction	Contract # ED-IES-14-C-0086	\$97,230
DEPARTMENT OF ENERGY			
81.U02	Department of Fish, Wildlife and Parks	20-18G	\$25,917
81.U03		00-UGPR-34	\$152,134
81.U05		21-066G	\$67,557
81.U06	Department of Natural Resources and Conservation	0201.20.068676	\$33,771
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.U02	Department of Public Health and Human Services	HHSF223201810079C	\$171,714
93.U03	University of Montana - Missoula	Unknown	\$7,239
DEPARTMENT OF THE INTERIOR			
15.U01	Department of Fish, Wildlife and Parks	140G0219P0131	\$89,950
15.U02		140L3620P0006	\$5,000
15.U03		140P1321P0027	\$2,989
DEPARTMENT OF TREASURY			
21.U01	Department of Administration	Unknown	\$4,465
LIBRARY OF CONGRESS			
42.U02	Montana Historical Society	FED 19-016	\$8,273

FY20 FINANCIAL SECTION

FY20 FINANCIAL SECTION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 2020, 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 22, 2021. 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 as a basis for designing 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 attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

The Department of Public Health and Human Services' internal controls over Medicaid and Children's Health Insurance Program eligibility determinations did not consistently operate as designed in fiscal year 2020. When these controls do not operate as designed, the state of Montana is at risk of misapplying match requirements between the General Fund and Federal Special Revenue Fund sources, or of not identifying ineligible participants. Collectively, these two programs incur over \$2 billion in benefit and claims expenditures annually.

Compliance and Other Matters

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

The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans. The Montana Constitution and state law require all retirement systems to be actuarially sound. The actuarial valuations as of June 30, 2020, indicate the Game Wardens' and Peace Officers,' Highway Patrol Officers,' and Public Employees' retirement systems are not actuarially sound as they amortize in 40, 39, and 35 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 our audit are described in the separately issued Public Employees' Retirement Administration report (20-08A), and in the state of Montana financial audit report (#20-01A), and are addressed in the Corrective Action Plan beginning on

page D-1 of this report. The responses in these reports were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 22, 2021

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Report on Financial Statements

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, 2020, and the related notes to the financial statements 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 includes the design, implementation, and maintenance of 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 represent 14.93 percent, 30.30 percent, and 2.25 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 control 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. 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
Municipal Finance Programs	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	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 Municipal Finance Programs major funds, and the aggregate discretely presented component units and aggregate remaining fund information of the state of Montana, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in fiscal year 2020, the state adopted Governmental Accounting Standards Board Statement No. 84–Fiduciary Activities. This clarified how fiduciary activity is identified and reported. As a result, the types of activities reported in the fiduciary fund type have changed, and the Fiduciary Fund financial statements now report the Custodial Fund type instead of the Agency Fund Type. Our opinion is not modified with respect to this matter.

As discussed in Note 1C to the financial statements, in fiscal year 2020, the Unemployment Insurance Fund reports federal contributions to fund benefit claims related to the statewide unemployment impact of COVID-19. These federal contributions are reported as non-operating revenues. Additionally, the Federal Special Revenue Fund reports significant cash & cash equivalent and unearned revenue balances, associated with the unspent portion of the \$1.25 billion the state received from the Coronavirus Relief Fund, authorized by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. As discussed in Note 17 to the basic financial statements, the unspent portion will be expended during fiscal year 2021. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Postemployment Benefits 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 opinions 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021, 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 the effectiveness of the state of Montana's 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 22, 2021

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 is a narrative overview and analysis of the financial activities of the State of Montana for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State’s financial statements, which follow.

In late 2019, a novel strain of coronavirus (“COVID-19”) started to spread throughout the world, including to the United States, resulting in the World Health Organization proclaiming COVID-19 to be a pandemic and the President of the United States declaring a national emergency. In response to the spread of COVID-19, the United States government, state governments (including the State), local governments, and private industries have taken measures to limit social interactions in an effort to limit the spread of COVID-19. In March of 2020, Montana declared a state emergency, and a national emergency was announced in the United States shortly after. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President of the United States on March 27, 2020. In the following discussion and analysis, COVID-19 refers to this pandemic and CARES refers to the CARES Act funding.

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 2020 by \$10.2 billion compared with \$9.7 billion at the end of fiscal year 2019, representing a 5.6% increase in net position. Component units reported net position of \$2.2 billion at the end of fiscal year 2020 compared to \$2.1 billion at the end of fiscal year 2019, representing a 5.2% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2020, the State’s governmental funds reported combined ending fund balances of \$5.0 billion compared with \$4.5 billion at fiscal year 2019. This represents a \$434.9 million (9.6%) increase in total fund balance. Of the 2020 balance, \$1.9 billion is not in spendable form, primarily as permanent fund principal. Thus, \$3.1 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: \$1.2 billion restricted, \$1.4 billion committed, \$90.5 million assigned, and \$372.9 million unassigned. These changes are discussed in more detail in the financial analysis of the State’s major funds presented below.

The State’s business-type activity funds reported net position at the close of fiscal year 2020 in the amount of \$393.3 million compared with fiscal year 2019 net position of \$482.6 million. Of the 2020 business-type activity net position, \$22.0 million was reported as net investment in capital assets. Net position of \$371.3 million was in spendable form with \$21.0 million unrestricted and \$350.3 million restricted to expenditure for a specific purpose. This represents a \$90.0 million (19.5%) decrease in spendable net position from the fiscal year 2019 balance of \$461.3 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 increased by \$287.0 thousand, from \$127.1 million in fiscal year 2019 to \$127.4 million, a 0.2% increase in fiscal year 2020.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana’s basic financial statements. The State’s basic financial statements include three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. The report also contains

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

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements*. These financial statements also include the *notes to the financial statements*, which provide further detail and information related to the balances of the financial statements.

Government-wide Financial Statements

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

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

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

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

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

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

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

Fund Financial Statements - Reporting the State's Major Funds

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

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is

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

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government’s near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State’s finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana’s overall financial position increased from the last fiscal year, as reflected in the \$545.8 million increase (5.6%) in net position. This improvement resulted from the continued moderate growth, despite the initial impacts of COVID-19, particularly in tax and investment revenue. However, growth is not expected to persevere in fiscal year 2021, as the associated financial and economical affects of the pandemic are realized.

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 \$10.2 billion at the end of fiscal year 2020. Net position of both governmental and business-type activities increased by \$635.0 million (6.9%) and decreased by \$89.2 million (18.5%), respectively. These changes are explained in detail in the major fund analysis below.

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

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

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

Net Position
June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2020	2019	2020	2019	2020
Current and other assets	\$ 5,762,815	\$ 7,572,307	\$ 629,612	\$ 554,386	\$ 6,392,427	\$ 8,126,693
Capital assets	6,480,485	6,823,046	21,283	22,052	6,501,768	6,845,098
Total assets	12,243,300	14,395,353	650,895	576,438	12,894,195	14,971,791
Deferred outflows of resources	779,931	613,249	2,919	2,423	782,850	615,672
Long-term liabilities						
Due in more than one year	2,639,113	2,707,169	20,277	18,302	2,659,390	2,725,471
Other liabilities	976,135	2,251,217	147,328	163,594	1,123,463	2,414,811
Total liabilities	3,615,248	4,958,386	167,605	181,896	3,782,853	5,140,282
Deferred inflows of resources	212,056	219,243	3,641	3,645	215,697	222,888
Net investment in capital assets	6,402,612	6,743,003	21,266	22,035	6,423,878	6,765,038
Restricted	3,216,332	3,452,344	442,306	350,309	3,658,638	3,802,653
Unrestricted	(423,017)	(364,374)	18,996	20,976	(404,021)	(343,398)
Total net position	\$ 9,195,927	\$ 9,830,973	\$ 482,568	\$ 393,320	\$ 9,678,495	\$ 10,224,293

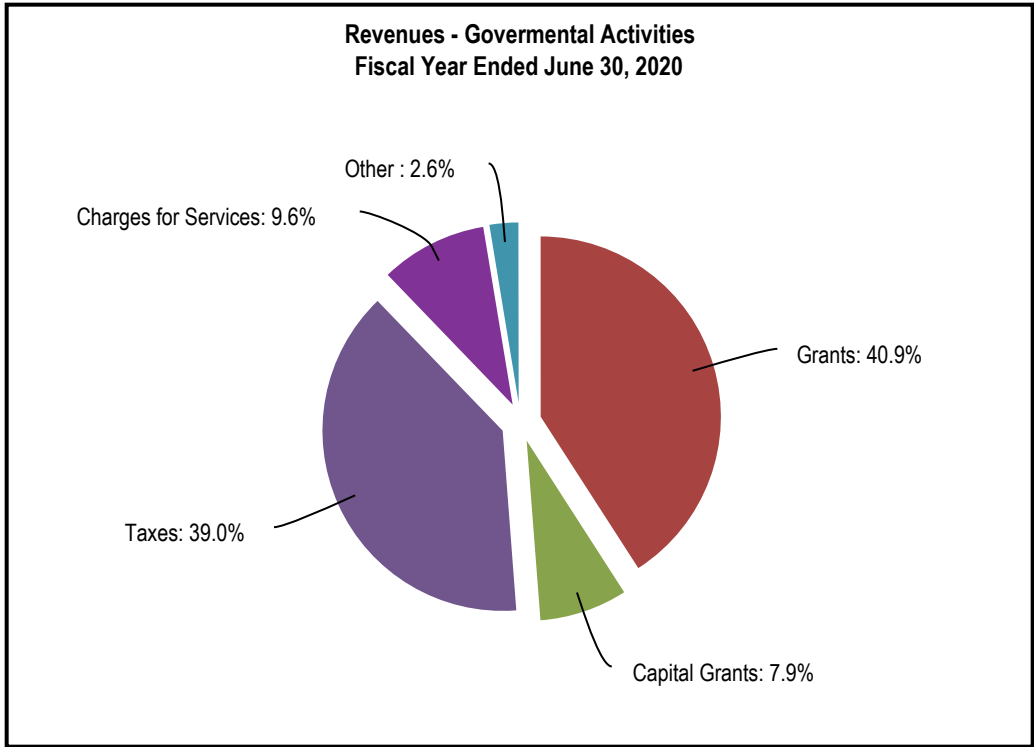
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

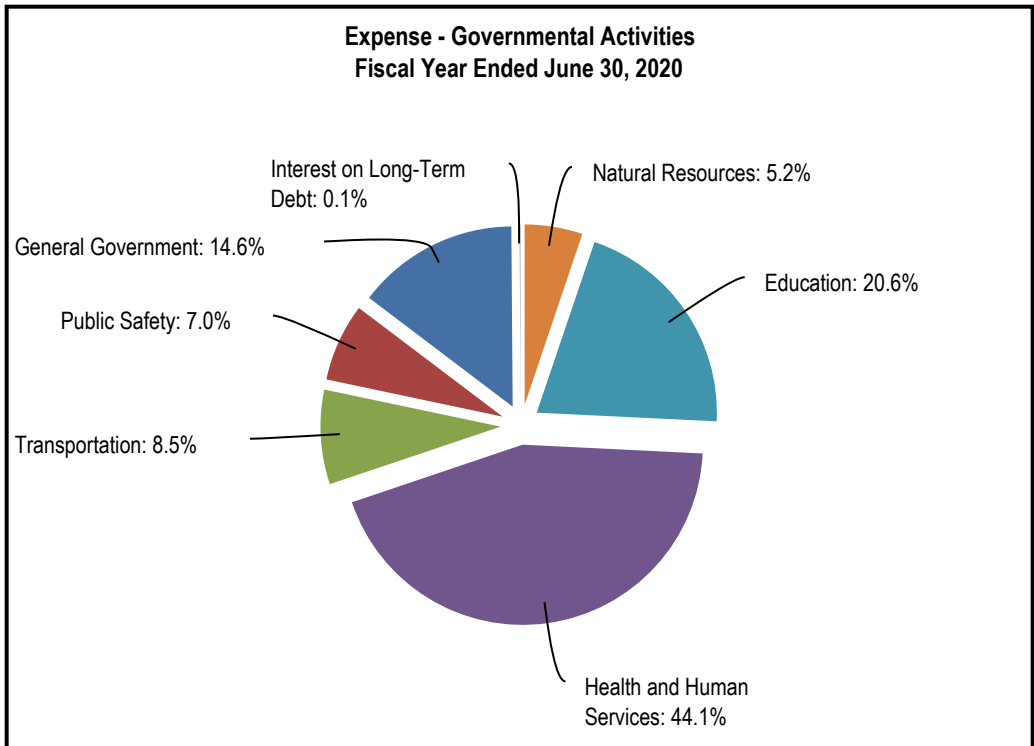
	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2020	2019	2020	2019	2020
Revenues:						
Program revenues						
Charges for services	\$ 623,732	\$ 686,335	\$ 426,701	\$ 443,048	\$ 1,050,433	\$ 1,129,383
Operating grants	2,611,941	2,930,307	68,243	71,422	2,680,184	3,001,729
Capital grants	527,900	564,431	512	950	528,412	565,381
General revenues						
Taxes	2,762,972	2,793,211	30,094	32,576	2,793,066	2,825,787
Other	248,070	186,194	2,398	504,749	250,468	690,943
Total revenues	<u>6,774,615</u>	<u>7,160,478</u>	<u>527,948</u>	<u>1,052,745</u>	<u>7,302,563</u>	<u>8,213,223</u>
Expenses:						
General government	829,657	957,534			829,657	957,534
Public safety	428,514	458,526			428,514	458,526
Transportation	547,907	557,290			547,907	557,290
Health and human service	2,680,251	2,896,774			2,680,251	2,896,774
Education	1,314,785	1,352,323			1,314,785	1,352,323
Natural resources	302,680	338,957			302,680	338,957
Interest on long-term debt	5,454	5,365			5,454	5,365
Unemployment Insurance			108,507	746,508	108,507	746,508
Liquor Stores			89,971	98,324	89,971	98,324
State Lottery			48,061	51,385	48,061	51,385
Municipal Finance Programs			2,937	2,542	2,937	2,542
Hail Insurance			933	1,154	933	1,154
Other Services			70,154	74,323	70,154	74,323
Prison Funds			9,307	8,506	9,307	8,506
MUS Group Insurance			88,330	100,958	88,330	100,958
MUS Workers Comp			3,887	657	3,887	657
Total expenses	<u>6,109,248</u>	<u>6,566,769</u>	<u>422,087</u>	<u>1,084,357</u>	<u>6,531,335</u>	<u>7,651,126</u>
Increase (decrease) in net position before transfers	665,367	593,709	105,861	(31,612)	771,228	562,097
Transfers	55,786	58,703	(55,786)	(58,703)	—	—
Change in net position	<u>721,153</u>	<u>652,412</u>	<u>50,075</u>	<u>(90,315)</u>	<u>771,228</u>	<u>562,097</u>
Net position, beg of year (as adjusted)	8,474,774	9,178,561	432,493	483,635	8,907,267	9,662,196
Net position, end of year	<u>\$ 9,195,927</u>	<u>\$ 9,830,973</u>	<u>\$ 482,568</u>	<u>\$ 393,320</u>	<u>\$ 9,678,495</u>	<u>\$ 10,224,293</u>

Governmental Activities

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

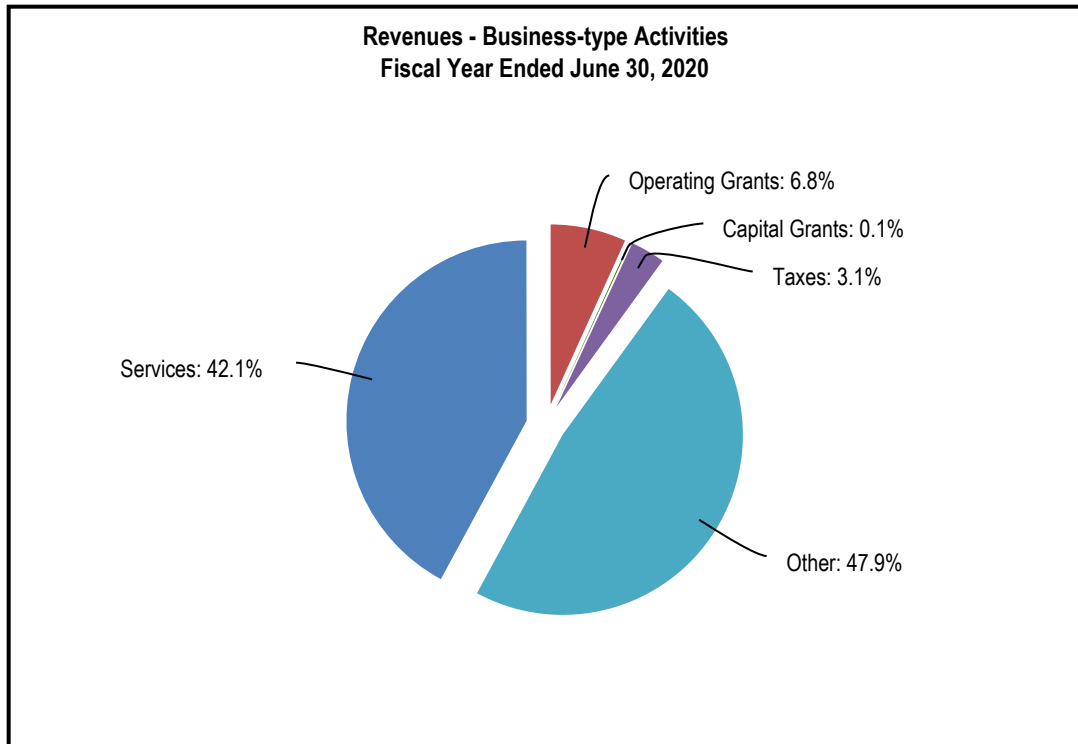


The following chart depicts expenses of the governmental activities for the fiscal year:



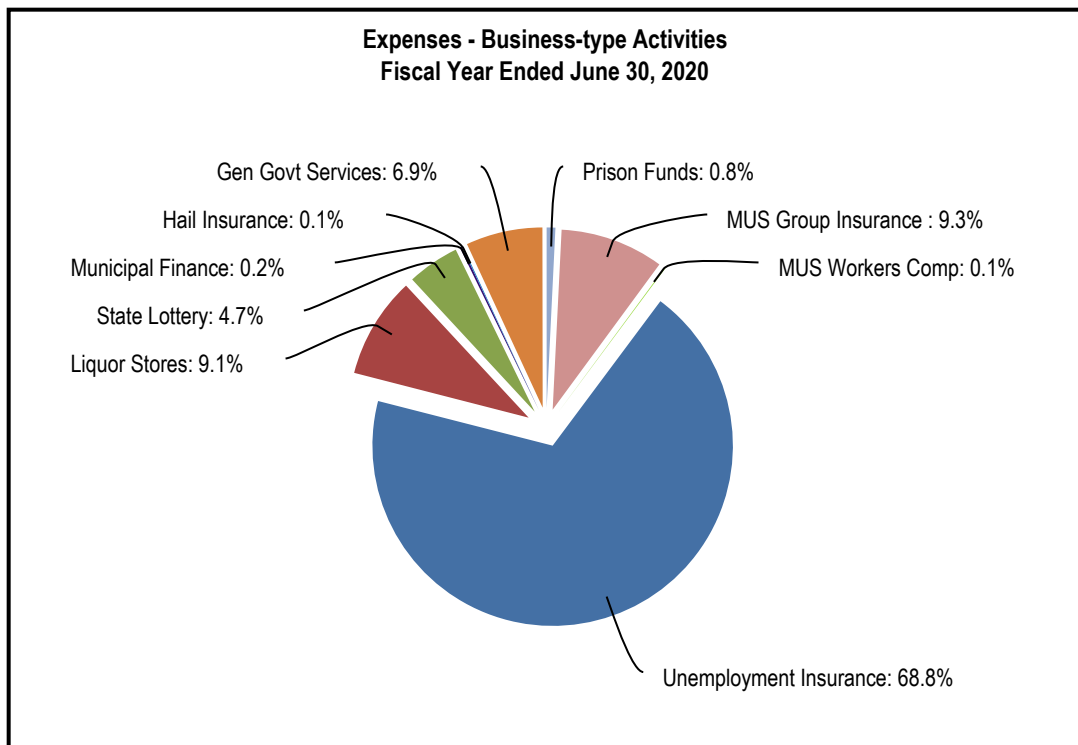
Business-type Activities

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



The Other Revenue in the above table is primarily related to additional federal funding received for Unemployment Insurance claims due to COVID-19.

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 \$5.0 billion. Of this total, \$3.1 billion (61.5%) constitutes spendable fund balance and \$1.9 billion (38.5%) 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 2020, the total fund balance of the General Fund was reported at approximately \$592.8 million. Of this balance, \$4.9 million is non-spendable. The remaining \$587.9 million is spendable with \$117.8 million committed, \$89.5 million assigned, and \$380.7 million unassigned. This spendable fund balance of the General Fund represents 19.3% of the \$3.1 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, \$72.7 million pertains to the projected general fund spend down of fund balance in fiscal year 2021 and \$16.8 million relates to outstanding encumbrances at the end of the fiscal year. The committed fund balance of \$117.8 million relates to the balance of the Budget Stabilization Reserve Fund, which is combined with the General Fund for financial statement presentation. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance increased by \$149.4 million when compared to the previously reported fund balance of \$443.4 million. Changes in both expenditures and revenues are discussed in detail below. The 2019 legislative session projected \$226.4 million of unassigned fund balance for fiscal year 2020, without regard to a fund balance spend down. The difference was primarily the result of a larger than anticipated beginning fund balance.

General Fund Revenues – Total General Fund revenues were \$2.4 billion for fiscal year 2020 (lower than legislative estimation), a 0.3% decrease from the \$2.5 billion reported in 2019 (which were lower than legislative estimation). Fiscal year 2020 tax revenue increased by 0.1% in total over 2019, with corporate income tax collections up 0.4% and individual income tax collections increased by 0.1%. Other noted decreases in revenues included investment earnings.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2020 increased by \$31.7 million (1.4%). This increase in expenditures occurred in the general government, public safety, education, and natural resources functions and the decrease in expenditures occurred in the health and human services function as follows:

- General government expenditures increased by \$11.6 million (3.2%)
- Public safety expenditures increased by \$7.7 million (2.4%)
- Education expenditures increased by \$45.8 million (4.4%)
- Natural resources expenditure increased by \$4.3 million (13.3%)
- Health and human services expenditures decreased by \$46.0 million (8.7%)

The expenditures in the health and human services function decreased for two reasons. The Montana HELP Act account was moved to the State Special Revenue Fund. The Centers for Medicare & Medicaid Services provided the Department of Public Health and Human Services an additional 6.2% federal funding for COVID-19, so the General Fund share of Medicaid expenditures went down.

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 2020, general fund appropriations that reverted to 2021 were \$64.9 million.

The Department of Public Health and Human Services had unspent appropriations of \$54.0 million related to Medicaid savings and other operational costs.

The Department of Revenue had unspent appropriations of \$3.0 million related to the funds available to local governing bodies pursuant to Section 15-1-402 (6)(d), MCA, regarding protested property taxes and other operational costs.

The Judicial Branch had unspent appropriations of \$1.7 million related to vacancy savings and operational costs.

The Department of Administration had unspent appropriations of \$1.4 million, and these were attributable to the cybersecurity enhancement project, state contributions to retirement funds, and other operational costs.

The Department of Natural Resources and Conservation had unspent appropriations of \$1.3 million related to operational costs.

The Department of Justice had unspent appropriations of \$1.0 million related to operational costs, statutory retirement transfers, and restricted State IT costs.

The remaining unspent appropriation of \$2.4 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund

The fund balance of the State Special Revenue Fund increased by \$122.3 million to \$1.8 billion. Revenues increased by \$7.5 million (0.7%) and expenditures increased \$84.6 million (8.0%), for fiscal year 2020. The largest increases in revenues are attributable to an increase in licenses and permits, other taxes collections, and contributions and premiums. The largest increases in expenditures are attributable to health and human services related expenditures and capital outlay expenditures for infrastructure. Other financing sources, such as bond proceeds, increased due to the General Obligation Bonds, Series 2020C was issued in fiscal year 2020. Primarily, transfers into the State Special Revenue Fund from other governmental funds resulted in an increase in fund balance.

During the COVID-19 pandemic, the State Emergency Coordination Center (SECC) received donated personal protective equipment (PPE) and directed to the Department of Public Health and Human Services to distribute to hospitals, long-term care facilities, EMS, and local DES. The value of the donated PPE was \$90.7 thousand. SECC also received a donation of \$20.0 thousand from an individual and directed to the Department of Public Health and Human Services to purchase hand sanitizer for local distribution.

Federal Special Revenue Fund

The fund balance of the Federal Special Revenue Fund increased by \$5.8 million (46.1%) to the balance of negative \$6.8 million. Revenues and expenditures increased by \$344.4 million (11.7%) and \$321.0 million (11.0%) respectively, for the fiscal year 2020. Revenue increases are attributable to increases in federal program revenue, including COVID-19 related federal funding. Expenditure increases are attributable to increases in health and human services, general government, and capital outlay related expenditures. The health and human services and general government related expenditure increase is attributable to COVID-19. The capital outlay expenditure increase of 15.6% is attributable to infrastructure expenditure increases by transportation.

Coal Severance Tax Permanent Fund

The fund balance of the Coal Severance Tax Permanent Fund increased by \$66.0 million (5.7%) to \$1.2 billion. Revenue decreased by \$5.7 million (5.4%) to \$99.9 million, primarily due to an decrease of natural resource tax revenue. Transfers out, which decreased by \$6.2 million (15.5%), and the increase in investment earnings helped lead to the increase in fund balance.

Land Grant Permanent Fund

The fund balance of the Land Grant Permanent Fund increased by \$71.6 million (9.2%) to \$845.7 million. Revenue decreased by \$3.1 million to a total of \$126.6 million, and the rentals, leases, and royalties were attributable to the decrease. The general capital asset sale proceeds increased by \$4.0 million to a total of \$11.0 million. Transfers out were \$61.6 million, which was a decrease of \$4.8 million compared to fiscal year 2019. Primarily, investment earnings and income generated by the State's trust lands resulted in an increase in fund balance.

Unemployment Insurance Enterprise Fund

Net position restricted for unemployment compensation decreased by \$113.1 million (32.2%). The decrease in net position is attributable to the substantially high volume of benefit claims due to COVID-19 in fiscal year 2020, accompanied by an increase in the federal funding through the Federal Pandemic Unemployment Compensation and Pandemic Unemployment Assistance in fiscal year 2020.

Municipal Finance Programs Fund

Net position decreased by 0.8% to \$5.4 million in fiscal year 2020. Financing income revenue decreased \$475.0 thousand, and investment earnings decreased \$242.0 thousand, while expenses from interest expense decreased \$247.0 thousand. Overall revenues and expenditures decreased (23.2)% and (13.4)%, which resulted in an decrease of \$43.0 thousand to net position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State’s investment in capital assets for its governmental and business-type activities, as of June 30, 2020, amounted to \$9.3 billion, with related accumulated depreciation of \$2.5 billion, leaving a net book value of \$6.8 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 \$343.3 million or 5.3% 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 2019.

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 increased from \$73.1 million at June 30, 2019, to \$90.3 million at June 30, 2020. There is cash available, of \$7.4 million at the end of fiscal year 2020, in debt service funds to service general obligation debt.

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

	Amount <i>(in thousands)</i>	Percentage of Personal Income ⁽¹⁾	State Debt Per Capita ⁽²⁾
General obligation debt	\$ 90,250	0.17%	\$ 84
Total State debt ⁽³⁾	\$ 137,701	0.30%	\$ 129

⁽¹⁾ Based on personal income for calendar year 2019.

⁽²⁾ Based on estimated 2019 Montana population.

⁽³⁾ Based on total of general obligation bonds, special revenue bonds, notes payable, and lease/installment purchase payable for the percentage and state debt per capita.

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

ECONOMIC CONDITION AND OUTLOOK

On March 3, 2020, Governor Bullock formed a multi-agency task force to coordinate the State’s preparations with respect to COVID-19. On March 12, 2020, Governor Bullock issued Executive Orders No. 2-2020 and 3-2020 declaring a State of Emergency in the State in response to the COVID-19 pandemic. Montana residents were under a Stay at Home Directive from March 28, 2020 through April 24, 2020. The State is now in a phased-in reopening.

Concerns stemming from COVID-19 have caused significant volatility in the United States financial markets, and in financial markets world-wide. Economic activity has been reduced in the near term as a result of actions required in response to the COVID-19 pandemic. The State expects that the economic repercussions associated with COVID-19

are likely to negatively affect the State's receipt of revenues in fiscal year 2021 from individual income tax, corporate income tax and alternative corporate income tax, gaming taxes, vehicle taxes, accommodations taxes, interest earnings, and other smaller sources. Current estimates project a total general fund revenue decline in fiscal year 2021 when compared to official pre-pandemic estimates, with, assuming that the prevalence and adverse effects of COVID-19 are diminished and/or more effectively contained, an estimated rebound in state revenue collections beginning in fiscal year 2022 and beyond. In addition, the volatility and loss of value in the investment markets may negatively affect the value of the State's investments and the valuations of the State's pension plans.

COVID-19 has significantly affected Montana's economy. Most business and service sectors in the State, including, without limitation, tourism and hospitality services, agriculture and natural resource extraction, are expected to experience decreases in operations and revenues, which are expected to result in decreased taxes, fees, assessments and other revenue to the State. The long-term effects of the pandemic on the economy and demographics are unknown, but there will likely be lasting impacts on Montana residents and businesses and the ways that people travel to, from, and within Montana. Montana has pronounced exposure to downturns in tourism, hospitality and the service industry, and those industries were most impacted at the onset of the pandemic. However, the State believes meaningful recovery is already taking place in those and other Montana industries.

As Montana works to respond to and recover from the unprecedented economic strain caused by COVID-19, the State is allocating emergency financing relief available from the federal government to those who have been hardest-hit by impacts of COVID-19. The financial assistance is funded through \$1.25 billion in federal emergency relief made available under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act.

The State cannot predict: (i) the duration or extent of the COVID-19 outbreak or any other outbreak or pandemic; (ii) the duration or expansion of travel restrictions and warnings – both domestically and internationally; (iii) whether additional countries or destinations will be added to the travel restrictions or warnings; (iv) what effect any COVID-19 or any other outbreak/pandemic-related travel restrictions or warnings may have on demand for travel; (v) whether and to what extent the COVID-19 outbreak or any other outbreak or pandemic may disrupt the local or global economy, manufacturing or supply chain, or whether any such disruption may adversely impact State-related operations and financial results; or (vi) whether any of the foregoing may have a material adverse effect on the finances and operations of the State.

The extent of the impact of the COVID-19 on the State's operational and financial performance, and on State's general financial condition, will depend on future developments, many of which are out of the State's control, including without limitation the implementation of federal aid; the duration and spread of the COVID-19 pandemic; restrictions, limitations and changes on school and university attendance, public gatherings and other public events; restrictions in operations of public and private businesses and organizations nationwide and internationally; and travel restrictions and other restrictions and measures taken in response to the COVID-19 pandemic. The State believes it may be months and perhaps years before the State is able to accurately determine the full impact that the various events surrounding COVID-19 have on the State's economy and financial condition.

Despite the economic effects of COVID-19, Montana's primary economic base remains concentrated in nonresident travel, agriculture, and mining, as well as service-providing industries. Per the 2020 Labor Day Report issued by the Montana Department of Labor and Industry, Montana experienced the longest economic expansion in history from July 2009 to February 2020. Montana had real wage growth of 1.6% in calendar year 2019. Montana's unemployment rate was as low as 3.5% in February 2020. In March 2020, the COVID-19 pandemic-induced recession appears to have been quite short, with employment levels quickly rebounding after the phased reopening of the economy. Unemployment claims hit a peak in April and continue to decrease steadily. Jobs have been quick to return with roughly 40,000 payroll positions added in May and June. Montana had the 16th smallest job loss among states, giving the state a smaller hurdle to overcome in the recovery. In July 2020, the Montana's unemployment rate was 6.4% with the national rate around 10.2%. Even with a strong recovery and rapid job growth, it is likely that the pandemic will have continued impacts on Montana's economy.

Montana had an estimated 1,068,778 population as of July 1, 2019. The Montana labor market has total nonfarm workers of 464,600 in August 2020 as compared to 484,700 in August 2019. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2020, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), and the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP) were not in compliance and did 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, 2020.

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

REQUESTS FOR INFORMATION

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

STATEMENT OF NET POSITION
JUNE 30, 2020
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 3,152,853	\$ 415,578	\$ 3,568,431	\$ 613,423
Receivables (net) (Note 4)	630,026	48,277	678,303	149,152
Due from primary government	—	—	—	1,325
Due from other governments	335,261	16,745	352,006	34,539
Due from component units	560	1,525	2,085	176
Internal balances	7,497	(7,497)	—	—
Inventories	28,754	4,424	33,178	5,058
Advances to component units	10,092	9,892	19,984	—
Long-term loans/notes receivable	525,184	41,969	567,153	597,356
Equity in pooled investments (Note 3)	2,565,490	18,641	2,584,131	51,492
Investments (Note 3)	215,456	2,728	218,184	2,142,283
Securities lending collateral (Note 3)	46,893	339	47,232	6,798
Net pension asset (Note 6)	39,567	—	39,567	—
Other assets	14,674	1,765	16,439	77,523
Depreciable capital assets and infrastructure, net (Note 5)	4,494,153	15,121	4,509,274	835,952
Land and nondepreciable capital assets (Note 5)	2,328,893	6,931	2,335,824	154,696
Total assets	14,395,353	576,438	14,971,791	4,669,773
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	613,249	2,423	615,672	77,561
LIABILITIES				
Accounts payable (Note 4)	743,939	49,961	793,900	127,328
Lottery prizes payable	—	3,152	3,152	—
Due to primary government	—	—	—	2,085
Due to other governments	20,694	248	20,942	4,648
Due to component units	1,325	—	1,325	176
Due to pension trust funds	34,357	—	34,357	—
Advances from primary government	—	—	—	19,984
Unearned revenue	1,214,220	5,380	1,219,600	92,837
Amounts held in custody for others	51,871	31	51,902	16,152
Securities lending liability (Note 3)	46,893	339	47,232	6,798
Other liabilities	4,504	—	4,504	22,862
Short-term debt (Note 11)	—	90,670	90,670	—
Long-term liabilities (Note 11):				
Due within one year	133,414	13,813	147,227	173,596
Due in more than one year	418,492	5,975	424,467	1,832,149
Net pension liability (Note 6)	2,243,084	11,510	2,254,594	186,395
Total OPEB liability (Note 7)	45,593	817	46,410	27,460
Total liabilities	4,958,386	181,896	5,140,282	2,512,470
DEFERRED INFLOWS OF RESOURCES (Note 4)	219,243	3,645	222,888	56,222

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET POSITION				
Net investment in capital assets	\$ 6,743,003	\$ 22,035	\$ 6,765,038	\$ 682,593
Restricted for:				
General government	32,617	—	32,617	—
Transportation	102,115	—	102,115	—
Health and human service	2,344	—	2,344	—
Natural resources	613,428	—	613,428	—
Public safety	217,332	—	217,332	—
Education	8,430	—	8,430	—
Funds held as permanent investments:				
Nonexpendable	1,887,735	—	1,887,735	440,886
Expendable	588,343	—	588,343	—
Unemployment compensation	—	238,429	238,429	—
Montana Board of Housing	—	—	—	159,911
Other purposes	—	111,880	111,880	237,847
Unrestricted	(364,374)	20,976	(343,398)	657,405
Total net position	\$ 9,830,973	\$ 393,320	\$ 10,224,293	\$ 2,178,642

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 957,534	\$ 249,885	\$ 245,338	\$ 668	\$ (461,643)
Public safety	458,526	182,773	34,960	—	(240,793)
Transportation	557,290	32,555	70,444	548,110	93,819
Health and human services	2,896,774	39,945	2,179,408	—	(677,421)
Education	1,352,323	2,531	196,537	683	(1,152,572)
Natural resources	338,957	178,646	203,620	14,970	58,279
Interest on long-term debt	5,365	—	—	—	(5,365)
Total governmental activities	6,566,769	686,335	2,930,307	564,431	(2,385,696)
Business-type activities:					
Unemployment Insurance	746,508	119,523	16,388	—	(610,597)
Liquor Stores	98,324	116,583	—	—	18,259
State Lottery	51,385	59,892	—	—	8,507
Municipal Finance Programs	2,542	7	2,482	—	(53)
Hail Insurance	1,154	1,182	33	—	61
Other Service	74,323	26,080	49,632	950	2,339
Prison Funds	8,506	7,532	—	—	(974)
MUS ¹ Group Insurance	100,958	108,624	2,384	—	10,050
MUS ¹ Workers Compensation	657	3,625	503	—	3,471
Total business-type activities	1,084,357	443,048	71,422	950	(568,937)
Total primary government	\$ 7,651,126	\$ 1,129,383	\$ 3,001,729	\$ 565,381	\$ (2,954,633)
Component units:					
Montana Board of Housing	\$ 24,455	\$ 1,742	\$ 25,151	\$ —	\$ 2,438
Facility Finance Authority	705	741	155	—	191
Montana State Fund	201,034	156,871	—	—	(44,163)
Montana State University	630,487	287,201	213,150	5,972	(124,164)
University of Montana	452,417	169,686	126,758	1,875	(154,098)
Total component units	\$ 1,309,098	\$ 616,241	\$ 365,214	\$ 7,847	\$ (319,796)

¹Montana University System

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net position:				
Net (expense) revenue	\$ (2,385,696)	\$ (568,937)	\$ (2,954,633)	\$ (319,796)
General revenues:				
Taxes:				
Property	327,629	—	327,629	—
Fuel	260,553	—	260,553	—
Natural resource	171,055	—	171,055	—
Individual income	1,455,150	—	1,455,150	—
Corporate income	185,358	—	185,358	—
Other (Note 1)	393,466	32,576	426,042	—
Unrestricted grants and contributions	740	496,499	497,239	—
Settlements	27,906	—	27,906	—
Unrestricted investment earnings	138,435	106	138,541	143,101
Transfers from primary government	—	—	—	244,663
Gain (loss) on sale of capital assets	11,070	134	11,204	156
Miscellaneous	8,043	8,012	16,055	1,036
Contributions to term and permanent endowments	—	—	—	37,057
Transfers between primary government	58,703	(58,703)	—	—
Total general revenues, contributions, and transfers	3,038,108	478,624	3,516,732	426,013
Change in net position	652,412	(90,313)	562,099	106,217
Total net position - July 1 - as previously reported	9,195,927	482,568	9,678,495	2,070,862
Adjustments to beginning net position (Note 2)	(17,366)	1,065	(16,301)	1,563
Total net position - July 1 - as adjusted	9,178,561	483,633	9,662,194	2,072,425
Total net position - June 30	\$ 9,830,973	\$ 393,320	\$ 10,224,293	\$ 2,178,642

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

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**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2020

(amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	\$ 528,914	\$ 989,208	\$ 1,264,153
Receivables (net)	434,693	86,629	75,438
Interfund loans receivable (Note 12)	95,979	101,954	—
Due from other governments	12,849	892	321,510
Due from other funds (Note 12)	26,471	13,737	2,882
Due from component units	—	304	17
Inventories	3,704	20,117	—
Equity in pooled investments (Note 3)	—	370,979	—
Long-term loans/notes receivable	—	498,389	6,214
Advances to other funds (Note 12)	355	28,348	—
Advances to component units	—	2,295	—
Investments (Note 3)	6,834	12,600	—
Securities lending collateral (Note 3)	—	6,957	—
Other assets	3,384	10,174	308
Total assets	\$ 1,113,183	\$ 2,142,583	\$ 1,670,522
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 289,190	\$ 188,550	\$ 237,358
Interfund loans payable (Note 12)	—	5,288	189,055
Due to other governments	170	19,336	1,188
Due to other funds (Note 12)	3,070	10,182	1,851
Due to component units	34,442	498	742
Advances from other funds (Note 12)	—	6,065	25,486
Unearned revenue	798	21,971	1,194,737
Amounts held in custody for others	7,060	40,003	125
Securities lending liability (Note 3)	—	6,957	—
Other liabilities	—	304	—
Total liabilities	334,730	299,154	1,650,542
DEFERRED INFLOWS OF RESOURCES			
	185,641	7,314	26,779
Fund balances (Note 14):			
Nonspendable	4,903	21,310	252
Restricted	—	1,146,404	—
Committed	117,773	668,401	—
Assigned	89,469	—	—
Unassigned	380,667	—	(7,051)
Total fund balances	592,812	1,836,115	(6,799)
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,113,183	\$ 2,142,583	\$ 1,670,522

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

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
\$ 55,978	\$ 31,215	\$ 60,335	\$	2,929,803
11,231	1,794	9,001		618,786
—	—	5		197,938
—	—	—		335,251
8	—	1,447		44,545
110	—	120		551
—	—	—		23,821
955,862	818,417	399,033		2,544,291
—	—	20,581		525,184
2,507	—	6,065		37,275
7,473	—	318		10,086
193,506	—	—		212,940
17,395	14,894	7,262		46,508
—	243	—		14,109
<u>\$ 1,244,070</u>	<u>\$ 866,563</u>	<u>\$ 504,167</u>	<u>\$</u>	<u>7,541,088</u>
\$ —	\$ —	9,699	\$	724,797
1,332	10	457		196,142
—	—	—		20,694
590	1,750	1,946		19,389
—	—	—		35,682
—	—	7,325		38,876
—	—	—		1,217,506
—	4,163	25		51,376
17,395	14,894	7,262		46,508
—	—	—		304
<u>19,317</u>	<u>20,817</u>	<u>26,714</u>		<u>2,351,274</u>
2,976	—	1,553		224,263
655,267	845,746	384,871		1,912,349
—	—	35,737		1,182,141
566,510	—	54,957		1,407,641
—	—	1,044		90,513
—	—	(709)		372,907
<u>1,221,777</u>	<u>845,746</u>	<u>475,900</u>		<u>4,965,551</u>
<u>\$ 1,244,070</u>	<u>\$ 866,563</u>	<u>\$ 504,167</u>	<u>\$</u>	<u>7,541,088</u>

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

JUNE 30, 2020

(amounts expressed in thousands)

Total fund balances - governmental funds	\$	4,965,551
Amounts reported for governmental activities in the Statement of Net Position are different due to:		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):		
Depreciable capital assets and infrastructure, net	\$	4,494,153
Land and nondepreciable capital assets		<u>2,328,893</u>
		6,823,046
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.		613,249
Other assets not available in the current period and therefore are not reported in the governmental funds:		
Net pension asset		39,567
Long-term receivables		(444)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets and liabilities and of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets, deferred outflows of resources, deferred inflows of resources and long-term liabilities reported in specific areas.		237,715
Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.		(12,149)
A portion of deferred inflows of resources represents an acquisition of net assets that will be recognized as an inflow of resources in a future period, which differs than that reported in the governmental funds.		5,021
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):		
Other long-term liabilities		(551,906)
Net pension liability		(2,243,084)
Total OPEB liability		<u>(45,593)</u>
		(2,840,583)
Total net position - governmental activities	\$	<u><u>9,830,973</u></u>

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, 2020
 (amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	\$ 132,654	\$ 285,639	\$ —
Taxes:			
Natural resource	69,726	64,110	—
Individual income	1,421,934	—	—
Corporate income	186,680	—	—
Property	308,093	19,536	—
Fuel	—	260,324	—
Other	237,274	151,174	—
Charges for services/fines/forfeits/settlements	33,453	106,641	7,358
Investment earnings	20,243	39,163	668
Securities lending income	—	75	37
Sale of documents/merchandise/property	273	12,536	—
Rentals/leases/royalties	8	1,346	—
Contributions/premiums	—	33,809	—
Grants/contracts/donations	11,315	19,503	72
Federal	18,889	6,642	3,180,500
Federal indirect cost recoveries	178	57,509	93,287
Other revenues	2,414	3,949	1,289
Total revenues	<u>2,443,134</u>	<u>1,061,956</u>	<u>3,283,211</u>
EXPENDITURES			
Current:			
General government	372,209	193,199	172,137
Public safety	321,661	96,834	25,892
Transportation	—	248,620	106,199
Health and human services	480,752	231,632	2,181,889
Education	1,082,324	76,644	193,684
Natural resources	36,263	195,389	90,770
Debt service:			
Principal retirement	208	3,603	103
Interest/fiscal charges	256	645	11
Capital outlay	11,681	90,705	460,057
Securities lending	—	46	7
Total expenditures	<u>2,305,354</u>	<u>1,137,317</u>	<u>3,230,749</u>
Excess of revenue over (under) expenditures	<u>137,780</u>	<u>(75,361)</u>	<u>52,462</u>
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	433	15,290	257
Insurance proceeds	48	34,366	—
General capital asset sale proceeds	76	892	—
Bond premium	—	4,361	—
Bond proceeds	—	28,900	—
Energy conservation loans	—	632	—
Transfers in (Note 12)	86,773	176,213	1,485
Transfers out (Note 12)	(76,949)	(64,180)	(48,633)
Total other financing sources (uses)	<u>10,381</u>	<u>196,474</u>	<u>(46,891)</u>
Net change in fund balances	<u>148,161</u>	<u>121,113</u>	<u>5,571</u>
Fund balances - July 1 - as previously reported	443,409	1,713,834	(12,614)
Adjustments to beginning fund balance (Note 2)	1,445	1,378	244
Fund balances - July 1 - as adjusted	<u>444,854</u>	<u>1,715,212</u>	<u>(12,370)</u>
Increase (decrease) in inventories	(203)	(210)	—
Fund balances - June 30	<u>\$ 592,812</u>	<u>\$ 1,836,115</u>	<u>\$ (6,799)</u>

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

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
\$ —	\$ 1,718	\$ —	\$ 420,011	
22,557	—	7,606	163,999	
—	—	—	1,421,934	
—	—	—	186,680	
—	—	—	327,629	
—	—	—	260,324	
—	—	3,997	392,445	
—	—	9,826	157,278	
77,197	59,787	40,226	237,284	
184	157	74	527	
—	9,937	—	22,746	
—	54,826	—	56,180	
—	—	—	33,809	
—	138	—	31,028	
—	—	—	3,206,031	
—	—	—	150,974	
—	—	—	7,652	
99,938	126,563	61,729	7,076,531	
—	4	32	737,581	
—	—	96	444,483	
—	—	—	354,819	
—	—	678	2,894,951	
—	—	13	1,352,665	
—	4,352	469	327,243	
—	—	30,835	34,749	
—	—	4,853	5,765	
—	—	49,096	611,539	
113	96	46	308	
113	4,452	86,118	6,764,103	
99,825	122,111	(24,389)	312,428	
—	—	—	15,980	
—	—	638	35,052	
—	11,021	8	11,997	
—	—	—	4,361	
—	—	—	28,900	
—	—	—	632	
2	6	68,662	333,141	
(33,787)	(61,585)	(24,937)	(310,071)	
(33,785)	(50,558)	44,371	119,992	
66,040	71,553	19,982	432,420	
1,155,737	774,193	456,054	4,530,613	
—	—	(136)	2,931	
1,155,737	774,193	455,918	4,533,544	
—	—	—	(413)	
\$ 1,221,777	\$ 845,746	\$ 475,900	\$ 4,965,551	

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, 2020

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	432,420
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Amounts reported for governmental activities in the Statement of Activities are different due to:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):

Capital outlay	\$	611,539	
Depreciation expense and amortization		<u>(254,930)</u>	356,609

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.			(542)
---	--	--	-------

Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.			34,712
--	--	--	--------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.			(33,261)
---	--	--	----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.			32,892
---	--	--	--------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease items reported in the Statement of Net Position.			<u>(170,418)</u>
---	--	--	------------------

Change in net position - governmental activities	\$		<u><u>652,412</u></u>
--	----	--	-----------------------

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

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2020
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 248,066	\$ 26,546	\$ 140,966	\$ 415,578	\$ 223,048
Receivables (net) (Note 4)	4,478	8,029	35,770	48,277	11,691
Interfund loans receivable (Note 12)	—	—	61	61	—
Due from other governments	16,745	—	—	16,745	10
Due from other funds (Note 12)	—	3,338	—	3,338	109
Due from component units	—	1,525	—	1,525	9
Inventories	—	—	4,424	4,424	4,933
Short-term investments (Note 3)	—	146	—	146	—
Securities lending collateral (Note 3)	—	—	339	339	386
Other current assets	—	—	370	370	565
Total current assets	269,289	39,584	181,930	490,803	240,751
Noncurrent assets:					
Advances to other funds (Note 12)	—	7,008	—	7,008	—
Advances to component units	—	9,892	—	9,892	—
Long-term investments (Note 3)	—	564	20,659	21,223	23,715
Long-term notes/loans receivable	2,266	39,703	—	41,969	—
Other long-term assets	—	—	1,395	1,395	—
Capital assets (Note 5):					
Land	—	—	800	800	—
Land improvements	—	—	3,830	3,830	95
Buildings/improvements	—	—	16,379	16,379	6,069
Equipment	—	4	9,806	9,810	264,670
Infrastructure	—	—	1,175	1,175	—
Construction work in progress	—	—	2,361	2,361	4,397
Intangible assets	—	—	1,521	1,521	551
Other capital assets	—	—	3,770	3,770	—
Less accumulated depreciation	—	(3)	(17,591)	(17,594)	(170,266)
Total capital assets	—	1	22,051	22,052	105,516
Total noncurrent assets	2,266	57,168	44,105	103,539	129,231
Total assets	271,555	96,752	226,035	594,342	369,982
DEFERRED OUTFLOWS OF RESOURCES (Note 4)					
	—	51	2,372	2,423	9,975

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2020
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 29,005	\$ 343	\$ 20,613	\$ 49,961	\$ 16,999
Lottery prizes payable	—	—	2,173	2,173	—
Interfund loans payable (Note 12)	1,500	—	80	1,580	277
Due to other governments	—	—	248	248	—
Due to other funds (Note 12)	—	—	16,324	16,324	1,924
Unearned revenue	2,621	—	2,759	5,380	1,264
Lease/installment purchase payable (Note 10)	—	1	10	11	2,866
Short-term debt (Note 11)	—	90,670	—	90,670	—
Bonds/notes payable - net (Note 11)	—	—	—	—	167
Amounts held in custody for others	—	—	31	31	494
Securities lending liability (Note 3)	—	—	339	339	386
Estimated insurance claims (Note 8)	—	—	12,942	12,942	39,209
Compensated absences payable (Note 11)	—	32	828	860	3,730
Total current liabilities	33,126	91,046	56,347	180,519	67,316
Noncurrent liabilities:					
Lottery prizes payable	—	—	979	979	—
Advances from other funds (Note 12)	—	—	—	—	5,407
Lease/installment purchase payable (Note 10)	—	1	14	15	4,170
Bonds/notes payable - net (Note 11)	—	—	—	—	243
Estimated insurance claims (Note 8)	—	—	4,581	4,581	33,608
Compensated absences payable (Note 11)	—	23	1,334	1,357	4,620
Arbitrage rebate tax payable (Note 11)	—	22	—	22	—
Net pension liability (Note 6)	—	269	11,241	11,510	52,221
Total OPEB liability (Note 7)	—	14	803	817	2,795
Total noncurrent liabilities	—	329	18,952	19,281	103,064
Total liabilities	33,126	91,375	75,299	199,800	170,380
DEFERRED INFLOWS OF RESOURCES (Note 4)	—	57	3,588	3,645	11,142
NET POSITION					
Net investment in capital assets	—	1	22,034	22,035	91,167
Restricted for:					
Unemployment compensation	238,429	—	—	238,429	—
Other purposes	—	274	111,606	111,880	—
Unrestricted	—	5,096	15,880	20,976	107,268
Total net position	\$ 238,429	\$ 5,371	\$ 149,520	\$ 393,320	\$ 198,435

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, 2020
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	\$ 126	\$ 7	\$ 196,619	\$ 196,752	\$ 160,006
Investment earnings	8,549	441	3,210	12,200	3,421
Securities lending income	—	—	4	4	6
Financing income	—	2,041	—	2,041	—
Contributions/premiums	119,397	—	125,820	245,217	227,049
Grants/contracts/donations	7,839	—	49,221	57,060	5,504
Other operating revenues	—	—	9,088	9,088	12,023
Total operating revenues	135,911	2,489	383,962	522,362	408,009
Operating expenses:					
Personal services	—	282	17,653	17,935	71,822
Contractual services	—	54	22,834	22,888	39,424
Supplies/materials	—	7	99,872	99,879	21,301
Benefits/claims	745,250	—	149,459	894,709	222,488
Depreciation	—	—	875	875	14,672
Amortization	—	—	541	541	541
Utilities/rent	—	53	1,119	1,172	7,608
Communications	—	8	971	979	11,376
Travel	—	2	249	251	469
Repairs/maintenance	—	—	1,437	1,437	27,904
Grants	—	—	—	—	230
Lottery prize payments	—	—	36,766	36,766	—
Securities lending expense	—	—	2	2	3
Arbitrage rebate tax	—	72	—	72	—
Interest expense	—	2,008	8	2,016	433
Other operating expenses	1,258	56	3,078	4,392	5,830
Total operating expenses	746,508	2,542	334,864	1,083,914	424,101
Operating income (loss)	(610,597)	(53)	49,098	(561,552)	(16,092)
Nonoperating revenues (expenses):					
Tax revenues (Note 1)	—	—	32,576	32,576	—
Grant revenue	496,499	—	—	496,499	—
Insurance proceeds	—	—	—	—	261
Gain (loss) on sale of capital assets	—	—	44	44	(48)
Federal indirect cost recoveries	—	—	225	225	13,478
Increase (decrease) value of livestock	—	—	(353)	(353)	—
Total nonoperating revenues (expenses)	496,499	—	32,492	528,991	13,691
Income (loss) before contributions and transfers	(114,098)	(53)	81,590	(32,561)	(2,401)
Capital contributions	—	—	1,184	1,184	107
Transfers in (Note 12)	—	—	458	458	36,137
Transfers out (Note 12)	—	—	(59,394)	(59,394)	(944)
Change in net position	(114,098)	(53)	23,838	(90,313)	32,899
Total net position - July 1 - as previously reported	351,527	5,413	125,628	482,568	165,979
Adjustments to beginning net position (Note 2)	1,000	11	54	1,065	(443)
Total net position - July 1 - as adjusted	352,527	5,424	125,682	483,633	165,536
Total net position - June 30	\$ 238,429	\$ 5,371	\$ 149,520	\$ 393,320	\$ 198,435

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, 2020
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	MUNICIPAL FINANCE PROGRAMS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	\$ 149,412	\$ 7	\$ 315,932	\$ 465,351	\$ 385,267
Payments to suppliers for goods and services	(3,499)	(248)	(120,966)	(124,713)	(111,093)
Payments to employees	—	(384)	(17,385)	(17,769)	(70,040)
Grant receipts (expenses)	7,830	—	49,381	57,211	5,261
Cash payments for claims	(744,996)	—	(149,826)	(894,822)	(184,467)
Cash payments for prizes	—	—	(37,048)	(37,048)	—
Other operating revenues	—	—	9,311	9,311	25,499
Other operating payments	(1,258)	—	(2,894)	(4,152)	(5,830)
Net cash provided by (used for) operating activities	(592,511)	(625)	46,505	(546,631)	44,597
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	—	—	32,576	32,576	—
Transfer to other funds	—	—	(62,239)	(62,239)	(944)
Transfer from other funds	—	—	457	457	36,142
Proceeds from interfund loans/advances	1,485	—	102	1,587	2,342
Payment of interfund loans and advances	—	—	(61)	(61)	—
Payment of principal and interest on bonds and notes	—	(16,756)	(8)	(16,764)	(728)
Grant receipt	479,806	—	—	479,806	—
Net cash provided by (used for) noncapital financing activities	481,291	(16,756)	(29,173)	435,362	36,812
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	262
Acquisition of capital assets	—	—	(2,238)	(2,238)	(12,656)
Proceeds from sale of capital assets	—	—	927	927	916
Net cash provided by (used for) capital and related financing activities	—	—	(1,311)	(1,311)	(11,478)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	(5,546)	2,581	(2,965)	10,998
Proceeds (loss) on sales or maturities of investments	—	8,218	—	8,218	—
Proceeds (loss) from securities lending transactions/ investments	—	—	4	4	6
Interest and dividends on investments	11,306	455	3,230	14,991	3,421
Payment of securities lending costs	—	—	(3)	(3)	(3)
Collections of principal and interest on loans	—	42,169	—	42,169	—
Cash payment for loans	—	(29,093)	—	(29,093)	—
Net cash provided by (used for) investing activities	11,306	16,203	5,812	33,321	14,422
Net increase (decrease) in cash and cash equivalents	(99,914)	(1,178)	21,833	(79,259)	84,353
Cash and cash equivalents, July 1	347,980	27,724	119,133	494,837	138,695
Cash and cash equivalents, June 30	\$ 248,066	\$ 26,546	\$ 140,966	\$ 415,578	\$ 223,048

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, 2020
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	MUNICIPAL	NONMAJOR	TOTAL	ACTIVITIES
		FINANCE PROGRAMS			INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (610,597)	\$ (53)	\$ 49,098	\$ (561,552)	\$ (16,092)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	—	—	875	875	14,672
Amortization	—	—	541	541	541
Securities lending expense	—	—	3	3	3
Investment earnings	(8,549)	(441)	(3,184)	(12,174)	(3,421)
Securities lending income	—	—	(4)	(4)	(6)
Financing income	—	(2,041)	—	(2,041)	—
Interest expense	—	2,008	8	2,016	432
Other revenue	—	—	225	225	13,476
Arbitrage rebate tax	—	(23)	—	(23)	—
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	(1,498)	—	(5,165)	(6,663)	(2,637)
Decr (Incr) in due from other funds	—	—	2	2	(29)
Decr (Incr) in due from component units	—	—	—	—	54
Decr (Incr) in due from other governments	(9)	—	166	157	(7)
Decr (Incr) in inventories	—	—	599	599	(602)
Decr (Incr) in other assets	—	—	(2)	(2)	355
Incr (Decr) in accounts payable	25,521	16	2,807	28,344	2,651
Incr (Decr) in due to other funds	—	—	1,476	1,476	82
Incr (Decr) in due to other governments	—	—	135	135	—
Incr (Decr) in lottery prizes payable	—	—	(281)	(281)	—
Incr (Decr) in unearned revenue	2,621	—	555	3,176	(115)
Incr (Decr) in amounts held in custody for others	—	—	—	—	494
Incr (Decr) in compensated absences payable	—	(16)	210	194	580
Incr (Decr) in total OPEB liability	—	1	(155)	(154)	(394)
Incr (Decr) in estimated claims	—	—	(1,546)	(1,546)	37,760
Incr (Decr) in other payables	—	—	7	7	(4,419)
Incr (Decr) in net pension liability and related accounts	—	(76)	135	59	1,219
Net cash provided by (used for) operating activities	\$ (592,511)	\$ (625)	\$ 46,505	\$ (546,631)	\$ 44,597
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	\$ —	\$ —	\$ 1,184	\$ 1,184	\$ 108
Incr (Decr) in fair value of investments	—	(9)	(905)	(914)	(1,050)
Total noncash transactions	\$ —	\$ (9)	\$ 279	\$ 270	\$ (942)

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 JUNE 30, 2020
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST FUNDS	CUSTODIAL FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 130,602	\$ 45,741	\$ 1,705,734	\$ 6,281
Receivables (net):				
Accounts receivable	22,235	—	—	668
Interest	65	—	809	—
Due from primary government	34,357	—	—	—
Due from other PERB plans	797	—	—	—
Long-term loans/notes receivable	9	—	—	—
Total receivables	<u>57,463</u>	<u>—</u>	<u>809</u>	<u>668</u>
Investments at fair value:				
Equity in pooled investments (Note 3)	11,658,386	—	13,139	—
Other investments (Note 3)	868,852	167,559	—	—
Total investments	<u>12,527,238</u>	<u>167,559</u>	<u>13,139</u>	<u>—</u>
Securities lending collateral (Note 3)	62,203	—	239	—
Capital Assets:				
Land	35	—	—	—
Buildings/improvements	973	—	—	—
Equipment	96	—	—	—
Accumulated depreciation	(281)	—	—	—
Intangible assets	5,309	—	—	—
Total capital assets	<u>6,132</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other assets	—	34,835	—	2,540
Total assets	<u>12,783,638</u>	<u>248,135</u>	<u>1,719,921</u>	<u>9,489</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>359</u>	<u>—</u>	<u>—</u>	<u>—</u>
LIABILITIES				
Accounts payable	1,247	21	780	672
Due to other PERB plans	797	—	—	—
Unearned revenue	369	—	—	—
Securities lending liability (Note 3)	62,203	—	239	—
Compensated absences payable	635	—	—	—
Net pension liability (Note 6)	1,488	—	—	—
Total OPEB liability (Note 7)	213	—	—	—
Total liabilities	<u>66,952</u>	<u>21</u>	<u>1,019</u>	<u>672</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>370</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION				
Restricted for:				
Pensions	12,136,708	—	—	—
Postemployment benefits other than pensions	579,967	—	—	—
Pool participants	—	—	1,718,902	—
Individuals, organizations, and other governments	—	248,114	—	8,817
Total net position	<u>\$ 12,716,675</u>	<u>\$ 248,114</u>	<u>\$ 1,718,902</u>	<u>\$ 8,817</u>

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST FUNDS	CUSTODIAL FUNDS
ADDITIONS				
Contributions/premiums:				
Employer	\$ 273,930	\$ —	\$ —	\$ —
Employee	260,267	—	—	—
Other contributions	118,680	18,278	1,615,814	—
Investment earnings:				
Net increase in fair value of investments	405,201	(926)	1,304	—
Interest, dividends, and other	24,836	1	23,686	17
Securities lending income	1,349	—	3	—
Total investment earnings	431,386	(925)	24,993	17
Less investment costs:				
Administrative investment expense	64,071	—	—	—
Securities lending expense	719	—	2	—
Net investment earnings	366,596	(925)	24,991	17
Charges for services	786	—	—	—
Other additions and miscellaneous	905	9,160	—	51,943
Total additions	1,021,164	26,513	1,640,805	51,960
DEDUCTIONS				
Benefits	986,936	—	—	—
Refunds	22,878	—	—	—
Distributions	—	38,336	1,310,284	47,848
Administrative expenses	13,286	758	—	—
Local assistance	12	—	—	—
Transfers to MUS-RP	268	—	—	—
Transfers to PERS-DCRP	1,984	—	—	—
Total deductions	1,025,364	39,094	1,310,284	47,848
Change in net position	(4,200)	(12,581)	330,521	4,112
Net position - July 1 - as previously reported	12,720,859	287,288	1,388,381	—
Adjustments to beginning net position (Note 2)	16	(26,593)	—	4,705
Net position - July 1 - as adjusted	12,720,875	260,695	1,388,381	4,705
Net position - June 30	\$ 12,716,675	\$ 248,114	\$ 1,718,902	\$ 8,817

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

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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 criterion includes appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

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

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

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

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

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

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

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

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The State of Montana has the ability to modify or approve: the budget, the rate or fee changes affecting revenues, and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of FFA. FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital

financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State of Montana may be pledged for the amounts so issued. FFA is attached to the Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

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

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

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

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

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

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

Fiduciary Fund Component Units

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

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

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

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

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

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

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 a \$95.8 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund; however, per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a \$27.2 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 to support the government's programs. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the State Special Revenue Fund.

Proprietary Funds

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

with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government. One specific fund is defined in statute as an Enterprise Fund, however, per GASB 34, this fund should be reported within Internal Service Funds. The respective effect on net position is approximately a \$5.2 million increase.

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

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

Fiduciary Funds

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

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

Private-Purpose Trust Funds – To account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. For example, unliquidated security bonds held on deposit from self-insured employers.

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).

Custodial Funds – To account for transactions related to assets held by the State as an agent for individuals, private organizations, and other governments. For example, monies belonging to one parent submitted by another as is the case with child support payments.

Major Governmental Funds

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

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

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

The Coal Severance Tax Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon an 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. For fiscal year 2020, federal and state contributions were also made to this fund due to increased claims related to the statewide unemployment impact of COVID-19.

The Board of Investments (BOI) Municipal Finance Programs Fund accounts for the programs created under the Municipal Finance Consolidation Act (MFCA) and the Economic Development Act. Primarily, this involves a MFCA revolving loan program that provides variable low interest rate loans to eligible Montana State agencies, universities, and local governments for a variety of projects statutorily defined. The funding for the revolving loan program is from the issuance of put bonds. The MFCA program also provides local government entities access to tax-exempt funds through the issuance of conduit (no-commitment) debt. In previous years this activity was referred to as the Economic Development Bonds Fund. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Equity in Pooled Investments

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

I. Investments

For agencies whose investment needs are not met by BOI's established investment pools, BOI provides separate investments, which are combined and reported as Separately Managed Accounts (SMA). SMA participants have direct fixed income, equity, and Montana mortgage and loan investments. SMA investments are reported at fair value. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred

stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Other State agencies, on a limited basis by statute, may administer other long-term investments. Most investments are reported at fair value on the Statement of Net Position. Further detail related to investments is provided in Note 3.

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds is capitalized. Interest incurred during the construction of capital assets for higher education component units is expensed. The State has chosen to use the depreciation approach for infrastructure assets. The State 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 on their fund financial statements. Capital assets in governmental funds are accounted for in the governmental activities of the government-wide financial statements, as is the associated depreciation and amortization. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 10 to 50 years for infrastructure, 7 to 20 years for building improvements, and 3 to 10 years for equipment. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate. Amortization is on a straight-line basis with estimated useful lives of 4 years for software (internally and externally generated), 30 years for land use rights, and 20 years for other intangibles.

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

K. Deferred Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investment, OPEB, and pension related components and are reported on the government-wide, proprietary fund, and fiduciary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue, which is neither a deferred outflow of resources nor a deferred inflow of resources, is recognized as a liability on government-wide, governmental and proprietary fund financial statements. Further detail related to deferred outflows of resources and deferred inflows of resources is provided in Note 4.

L. Long-term Obligations

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

M. Capital Leases

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

N. Bond Discounts/Premiums/Issuance Costs

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

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2019, was 17,412 hours. For fiscal year 2020, 1,562 sick leave hours, 703 annual leave hours, and 2,428 excess annual leave hours were contributed to the sick leave pool, and 5,227 hours were withdrawn, leaving a balance of 16,879 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

P. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA), a discretely presented component unit of the State. BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$88.3 million as of June 30, 2020. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

Q. Fund Balance/Net Position

Fund Balance

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

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

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

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes. Still 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. The projected spend down for fiscal year 2021 is \$72.7 million; thus, a related assignment of fund balance is reported at 2020 fiscal year-end.

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

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

General Fund - Fund Balance

As of June 30, 2020, the State maintains a Budget Stabilization Reserve Fund as required by statute. For financial reporting purposes, this fund is combined with the General Fund as it does not meet the GASB 54 requirements to be a special revenue fund as the Legislature prescribed. The June 30, 2020, committed fund balance in the General Fund of \$117.8 million, represents the Budget Stabilization Reserve Fund balance.

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

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance complies 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 \$3.8 billion.

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

R. Property and Income 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. Each of Montana's 56 counties collect property taxes. 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.

Calendar year 2019 State income tax filing deadline, normally April 15th of the subsequent year, was delayed to July 15, 2020 due to COVID-19. The State has determined that extending the income tax filing deadline did not have a material adverse effect on the State's liquidity for fiscal year 2020, nor will it in fiscal year 2021.

S. Other Taxes

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

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	\$ 24,637	\$ 34,417	\$ 2,930	\$ 19	\$ 62,003
Agriculture	—	10,625	—	—	10,625
Car rental	4,113	1,371	—	—	5,484
Cigarette/tobacco/etc.	32,745	45,158	1,556	—	79,459
Contractors gross receipts	6,729	—	—	—	6,729
Energy tax	7,235	40	—	—	7,275
Fire protection	—	3,686	—	—	3,686
Insurance premium	82,452	37,221	—	—	119,673
Light vehicle registration	44	5,085	—	—	5,129
Liquor tax	5,686	2,282	—	32,557	40,525
Livestock	—	4,991	—	—	4,991
Other taxes	143	1,744	—	—	1,887
Public service commission	—	5,249	—	—	5,249
Railroad car companies	4,293	—	—	—	4,293
Telephone license	11,581	—	—	—	11,581
Video gaming	57,447	6	—	—	57,453
Total other taxes	\$ 237,105	\$ 151,875	\$ 4,486	\$ 32,576	\$ 426,042

T. Tax Abatement

In the Montana Board of Investment’s (BOI) Commercial Loan Program within the SMA, 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.

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

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

During the fiscal year ended June 30, 2020, basic sector business entities made total user fee payments of \$8.9 million, representing \$7.5 million of principal and \$1.4 million in interest. During the fiscal year ended June 30, 2020, a total of \$14.0 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2020 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed			
	Tax Year 2019	Tax Year 2018	Total
Corporate income tax	\$ —	\$ 1,159	\$ 1,159
Individual income tax	6,476	6,320	12,796
Total amount claimed	<u>\$ 6,476</u>	<u>\$ 7,479</u>	<u>\$ 13,955</u>

U. Irrevocable Split Interest Agreements

Irrevocable split-interest agreements are used by donors to provide resources to two or more beneficiaries, including governments. These agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. The University of Montana campuses have three irrevocable split interest agreements during the fiscal year ended June 30, 2020. Further detail related to these agreements is provided in Note 3.

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

For the year ended June 30, 2020, the State of Montana implemented the provisions of GASB Statement No. 84, *Fiduciary Activities* (GASB 84). The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. This Statement establishes criteria for identifying fiduciary activities, while outlining reporting responsibilities of fiduciary funds in state and local governmental accounting. This Statement is designed to enhance consistency and comparability of information reported in financial statements for assessing government accountability and stewardship.

For the year ended June 30, 2020, the State of Montana implemented the provisions of GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 60* (GASB 90). The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government is holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund. This Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations.

For the year ended June 30, 2020, the State of Montana implemented the provisions of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). The objective of this Statement is to provide temporary relief in the form of delayed effective reporting periods for upcoming GASB pronouncements known to affect governmental financial statements. Guidance addressed in this Statement will help to safeguard the reliability of financial statements, which in turn will benefit the users of the financial statements.

For the year ended June 30, 2020, the State of Montana implemented the provisions of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* (GASB 97). The primary objectives of this Statement are to increase consistency and comparability related to the reporting of fiduciary component units; mitigate costs associated with financial reporting; enhance relevance, consistency, and comparability of financial reporting. The requirements of this Statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans.

B. Adjustments to Beginning Net Position

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), requires a retroactive restatement of financial statements for all prior periods presented, though primarily affects the Fiduciary Fund Financial Statements. If restatement for prior periods is not practicable, the cumulative effect of applying GASB 84 is presented as a restatement of beginning net position for the earliest period restated. In accordance with GASB 84, the State of Montana reclassified various fund activities and restated the beginning net position as follows. Some enterprise funds, previous private-purpose trust funds, and agency funds were reclassified as custodial funds, creating an increase to beginning net position in the amount of \$4.7 million. Some agency funds were reclassified to private-purpose trust funds, creating an increase to beginning net position in the amount of \$2.4 million. Some previous private-purpose trust funds were reclassified to governmental funds and custodial funds, creating a decrease to beginning net position in the amount of \$29.0 million.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	\$	6,051,526
Equity in pooled investments	\$	14,307,148
Investments	\$	3,427,444

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

A. General

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

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

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the UIP 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 UIP.

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

Currently, only the nine retirement funds that participate in the Consolidated Asset Pension Pool (CAPP), the Defined Contribution Disability Plan, and the Montana State Fund (MSF) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and Separately Managed Accounts (SMA) participant, which provides BOI staff with a broad strategic framework under which the investments are managed. The IPS's also reflect BOI approved asset allocation ranges.

By statute, local government entities can voluntarily invest in the Short Term Investment Pool (STIP). By statute, with a qualifying event, local government entities may also voluntarily invest in the Trust Funds Investment Pool (TFIP).

As of June 30, 2020, BOI separately managed investments outside of the pools on behalf of participants. The investments are combined for reporting purposes in the SMA portion of the UIP. In prior years, the SMA portion of the UIP was referred to as Separately Managed Investments (SMI). SMA participants include the State Treasurer's Cash Fund, State agency insurance reserves, and other State agencies. SMA participation is at the discretion of BOI staff for State agencies allowed to participate in the UIP.

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

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 UIP financial statements include the activity for MSF within SMA on a June 30, 2020, basis. MSF, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents and investments.

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

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

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

Investments reported at fair value are on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. 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. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.

Level 3 – Prices are determined using unobservable inputs, which generally results in BOI using the best information available and may include BOI's own data.

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

During fiscal year 2020, the custodial bank loaned BOI's public securities and received as collateral either: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and

structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2020. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2020 resulting from a borrower default. As of June 30, 2020, no securities were recalled and not yet returned.

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

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. 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. The Navigator portfolio had an average duration of 28 days and the average weighted final maturity of 91 days.

(d) Investment Pools and Separately Managed Accounts (SMA) are described in the following paragraphs.

Consolidated Asset Pension Pool (CAPP)

The CAPP IPS contain prescribed asset allocation ranges among the allowable asset classes and is subject to change as BOI adopts modifications. BOI annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS also contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner.

Due to a longer-term focus, CAPP's asset classes differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Investments
- Natural Resources
- Real Estate
- Core Fixed Income
- Non-Core Fixed Income
- Cash

The CAPP IPS is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Core Fixed Income Asset Class and Non-Core Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made.

As part of the asset allocation approved by the Board in November 2019, the Private Equity Pension Asset Class (PAC) is now referred to as the Private Investments PAC and the High Yield PAC is referred to as the Non-Core Fixed Income PAC. The assets within the U.S. Treasury Inflation Protected Securities (TIPS) PAC, Investment Grade PAC, Agency Mortgage Backed Securities PAC, U.S. Treasury and Agency PAC, Diversifying Strategies PAC, and Broad Fixed Income PAC were combined into the Core Fixed Income PAC. These changes were effective in December 2019. These changes did not have an impact on the underlying value of the securities within the impacted PAC's.

Trust Funds Investment Pool (TFIP)

The TFIP IPS provides for a 10% portfolio limit for non-core fixed income securities. TFIP invests primarily in investment grade, U.S. dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

Short Term Investment Pool (STIP)

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

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

BOI maintains a reserve account that may be used to offset losses within the STIP portfolio. The STIP reserve for the year ending June 30, 2020, is detailed as follows:

	STIP Reserve (in thousands)
Beginning STIP Reserve	\$ 47,528
STIP Reserve activity	
Investment Earnings:	
Interest income	650
Transfer of daily STIP income	3,510
Recoveries from write-offs	846
Credit enhancement fees	157
Total STIP Reserve activity	<u>5,163</u>
Transfers to STIP	<u>(127)</u>
Total STIP Reserve activity	<u>5,036</u>
Ending STIP Reserve	<u>\$ 52,564</u>

Separately Managed Accounts (SMA)

SMA invests primarily in investment grade, U.S. dollar denominated fixed income securities and custodial bank interest bearing demand deposit account. However, one participant portfolio has exposure to core real estate and high yield fixed income. The SMA portfolio also includes Veteran's Home Loan mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute.

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

Custodial Credit Risk (Cash and Cash Equivalents and Investments Held at Custodial Bank)

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial bank must have bank ratings from at least two Nationally Recognized Statistical Rating Organizations (NRSROs) on an annual basis.

As of June 30, 2020, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for BOI and held in the possession of BOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI. Therefore, BOI is not subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirements. Concentration of credit risk for 2020 is addressed within all IPS as set by BOI.

Credit Risk and Interest Rate Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for U.S. Government securities, the pools and SMA fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk.

As of June 30, 2020, the CAPP's cash equivalents position held at its custodial bank, \$193.5 million was held in unrated money market funds.

As a matter of STIP investment policy, BOI can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30, 2020, all the STIP money market investments were in US Governmental money markets and \$50 million was held on deposit in a short-term investment vehicle available through the custodial bank.

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

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

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

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2020. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months, or years) weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 46 days for the portfolio. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents have little discernible interest rate risk.

Foreign Currency Risk

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

Other Policy Considerations

For other risk, BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the Core Fixed average duration will be maintained in a range within 20% of the benchmark duration. The Core Fixed Income PAC and Non-Core Fixed Income 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 SMA is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

Fair Value of Derivative Instruments

The UIP invests in, currency forward contracts, credit default swaps, index futures (long duration), rights and warrants which are classified as investment derivative instruments. The investment derivative instruments decreased in fair value for the fiscal year ended June 30, 2020, by \$2.1 million. The contracts had a fair value of \$152 thousand as of June 30, 2020. The notional amount of the contracts was \$10.3 million.

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

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial bank's rating from at least two Nationally Registered Statistical Ratings Organizations (NRSROs) is reviewed on an annual basis.

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

Investments – As of June 30, 2020, the Municipal Finance Programs securities were recorded by the trustee in the name of BOI by specific account.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The Municipal Finance Programs investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits the concentration of credit risk by limiting portfolio investment types to 3.0% in any issuer with the exception of US Treasury and US Agency securities, as well as, any repurchase agreements with a financial institution. As of June 30, 2020, STIP concentration risk was within the policy as set by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Municipal Finance Programs US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality. Permitted investments, as described in the indenture, include, "Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

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

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

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

The Municipal Finance Program investments are categorized to disclose credit and interest rate risk as of June 30, 2020. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. The credit quality ratings have been calculated, excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as BOI determined that these securities did not contain these risk elements. There were no derivative transactions during the 2020 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 50.0% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$ 77,974
Uninsured and uncollateralized cash	2,705
Undeposited cash	1,305
Cash in US Treasury	254,942
Cash in MSU component units	6,543
Cash in UM component units	12,195
Less: outstanding warrants	(27,368)
	\$ 328,296

As of June 30, 2020, the carrying amount of deposits for component units was \$186.7 million, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	<u>Fair Value</u>
Treasuries ⁽¹⁾	\$ 430,142
Corporate commercial paper ⁽²⁾	398,071
Corporate notes ⁽²⁾	115,311
Certificates of deposit ⁽²⁾	300,206
Agency or government related ⁽²⁾	1,182,828
Money market fund unrated	261,528
Cash and cash equivalents ⁽²⁾	3,305,016
Less: STIP Adjustments ⁽³⁾	<u>(269,872)</u>
Total cash equivalents	<u>\$ 5,723,230</u>

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

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

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

As of June 30, 2020, local governments had invested \$1.7 billion, and component units of the State of Montana had invested \$331.5 million in STIP.

STIP Cash Equivalent Credit Quality Ratings as of

June 30, 2020

(in thousands)

	<u>Total Cash Equivalents</u>	<u>Credit Quality Rating</u>
Agency or government related	\$ 121,655	A-1+
Asset backed commercial paper	1,508,483	A-1+
Corporate commercial paper	385,100	A-1+
Certificates of deposit	43,029	A-1+
Total cash equivalents	<u>\$ 2,058,267</u>	

STIP

Credit Quality Rating and Weighted Average of Maturity as of

June 30, 2020

(in thousands)

<u>Security Investment Type</u>	<u>Total Fixed Income Investments at Fair Value</u>	<u>Credit Quality Rating</u>	<u>WAM (Days)</u>
Treasuries	\$ 430,142	A-1+	56
Agency or government related	1,182,828	A-1+	52
Corporate:			
Commercial paper	398,071	A-1+	72
Notes	115,311	A-1+	57
Certificates of deposit	300,206	A-1	56
Total STIP fixed income investments at fair value	<u>\$ 2,426,558</u>		

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	<u>Fair Value ⁽¹⁾</u>
CAPP:	
Consolidated asset pension pool	\$ 11,673,887
TFIP:	
Trust funds investment pool	<u>2,644,510</u>
Total pooled investments	14,318,397
Pool adjustments (net)	<u>(11,249)</u>
Total equity in pooled investments	<u>\$ 14,307,148</u>

⁽¹⁾ Includes cash/cash equivalents and investments.

As of June 30, 2020, the fair value of the underlying securities on loan was \$608.0 million. Collateral provided for the securities on loan totaled \$620.1 million, consisting of \$110.4 million in cash and \$509.7 million in securities.

As of June 30, 2020, 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, 2020, as required for applicable pools.

Credit Quality Rating and Effective Duration as of June 30, 2020
Fair Value (in thousands)

Security Investment Type	CAPP	TFIP	SMA	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Duration (Years)
Treasuries	\$ 643,374	\$ 348,714	\$ 282,470	\$ 1,274,558	AAA	3.24-12.52
Agency or Government Related	163,568	142,612	113,999	420,179	AAA	3.01-5.29
Asset-Backed Securities	88,048	83,281	57,768	229,097	AA+ to AAA	1.69-2.72
Mortgage-Backed Securities:						
Noncommercial	697,867	588,024	129,577	1,415,468	AAA	1.86-2.56
Commercial	144,057	149,106	33,534	326,697	AAA	4.60-6.97
Corporate:						
Financial	322,656	311,131	238,394	872,181	BBB+ to A-	3.84-4.65
Industrial	726,975	625,164	366,556	1,718,695	BB+ to A-	4.55-5.91
Industrial (Unrated)	444	1,382	505	2,331	NR	0.40-3.06
Utility	22,041	16,429	9,625	48,095	BBB- to BBB	3.48-6.04
Total fixed income investments at fair value	<u>\$ 2,809,030</u>	<u>\$ 2,265,843</u>	<u>\$ 1,232,428</u>	<u>\$ 6,307,301</u>		

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

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

relationship to benchmark quoted prices. Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy is based on the latest appraisal value. Investments measured at cost are included to account for all investments within each pool and SMA. These assets represent cash equivalents and Montana Mortgages and Loans.

Each of the investment pools and SMA has the following fair value measurements as of June 30, 2020:

	Investments Measured at Fair Value (in thousands)			
	June 30, 2020	Fair Value Measurements Using		
		Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by fair value level</u>				
Fixed income investments:				
Treasuries	\$ 1,704,700	\$ 1,704,700	\$ —	\$ —
Agency or Government Related	1,603,007	—	1,603,007	—
Asset Backed Securities	229,097	—	229,097	—
Mortgage Backed Securities:				
Noncommercial	1,415,468	—	1,415,468	—
Commercial	326,697	—	326,697	—
Corporate:				
Commercial Paper	398,071	—	398,071	—
Commercial Notes	115,311	—	115,311	—
Certificates of Deposit	300,206	—	300,206	—
Financial	872,181	—	872,181	—
Industrial	1,718,695	—	1,718,695	—
Industrial (Unrated)	2,331	—	2,331	—
Utility	48,095	—	48,095	—
Equity investments	3,997,407	3,997,407	—	—
International equity investments	1,974,031	1,974,031	—	—
Direct Real Estate	19,215	—	—	19,215
Residential Mortgages	2,167	—	—	2,167
Total investments by fair value level	<u>14,726,679</u>	<u>7,676,138</u>	<u>7,029,159</u>	<u>21,382</u>
<u>Investments measured at the net asset value (NAV)</u>				
Private Equity Partnerships	1,531,566			
Core Real Estate	711,902			
Non-Core Real Estate	484,230			
Natural Resources	261,683			
Real Estate High Income Fund	131,764			
Total investments measured at NAV	<u>3,121,145</u>			
Total investments measured at fair value	<u>17,847,824</u>			
<u>Investments at cost</u>				
Cash and cash equivalents held at custodial bank	3,520,543			
SMA Montana Mortgages and Loans	203,601			
Total investments not categorized	<u>3,724,144</u>			
Total investments	<u>\$ 21,571,968</u>			

The investments measured at NAV for the year ended June 30, 2020, are detailed below.

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Partnerships	\$ 1,531,566	\$ 1,038,167		
Core Real Estate	711,902	157,793	Monthly, quarterly	45-90 days
Non-Core Real Estate	484,230	502,567		
Natural Resources	261,683	265,305		
High Yield Bond Fund	131,764	—	Daily	1-3 days
Total investments measured at the NAV	<u>\$ 3,121,145</u>	<u>\$ 1,963,832</u>		

STIP and \$2.9 billion of SMA are included, and also reported in Tables 2 and 4, respectively.

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 are considered long-term. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all 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) 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 the investments in this category have been determined using the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

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

Natural Resources – This type includes private partnership funds that primarily invest in timber, energy and broad natural resource funds. 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 10 to 20 years. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the partners' capital.

Real Estate High Income Fund – This type consists of predominantly of real estate related instruments with an emphasis in U.S. 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 the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

As of the June 30, 2020, exchange date, BOI's foreign currency exposure by denomination and investment type are reported, in U.S. dollars, at fair value and is limited to CAPP. The following table excludes the foreign investments denominated in U.S. dollars for the American Depository Receipts (ADRs), sovereign debt and commingled index funds.

Foreign Currency Exposure by Country

Investment Type in US Dollar Equivalent

(in thousands)

Foreign Currency Denomination	Currency	International Equities	Private Equity	Real Estate Equity
Australian Dollar	\$ 48	\$ 22,100	\$ —	\$ —
Brazilian Real	18	14,424	—	—
Canadian Dollar	55	27,668	—	—
Danish Krone	—	13,133	—	—
EMU – Euro	1	178,067	16,278	1,144
Hong Kong Dollar	81	60,149	—	—
Hungarian Forint	—	1,504	—	—
Indonesian Rupiah	3	2,305	—	—
Japanese Yen	193	117,539	—	—
Malaysian Ringgit	4	161	—	—
Mexican Peso	18	8,729	—	—
New Israeli Sheqel	—	4,395	—	—
Korean Fortnit	33	23,391	—	—
New Zealand Dollar	1	259	—	—
Norwegian Krone	2	4,318	—	—
Philippine Peso	3	65	—	—
Polish Zloty	—	481	—	—
Pound Sterling	7	59,147	—	—
Singapore Dollar	145	7,856	—	—
South African Rand	—	7,091	—	—
South Korean Won	8	25,790	—	—
Swedish Krona	90	30,288	—	—
Swiss Franc	—	43,745	—	—
New Taiwan Dollar	10	2,366	—	—
Thailand Baht	4	3,729	—	—
Yuan Renminbi	51	10,603	—	—
Total cash and securities	\$ 775	\$ 669,303	\$ 16,278	\$ 1,144

Investments in alternative equity 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 following table shows the remaining BOI commitments to alternative equity managers.

Commitments to Fund Managers
(in thousands)

Pension Asset Class	Original Commitment	Commitment Remaining
Private Equities PAC	\$ 3,045,722	\$ 1,038,167
Real Estate PAC	2,060,130	660,360
Natural Resources PAC	584,412	265,305
Total	\$ 5,690,264	\$ 1,963,832

D. Investments

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

Long-term Investments

Department	Percent Administered
Board of Investments	50.39 %
Universities	17.83
MPERA (Montana Public Employee Retirement Administration)	24.96
College Savings Plan	4.58
Montana Board of Housing	1.16
Other ⁽¹⁾	1.08
Total	<u>100.00 %</u>

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

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

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

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2020	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	\$ 3,522	\$ 3,522	\$ —	\$ —
Agency/Government Related ⁽¹⁾	3,023	—	3,023	—
Government Securities	2,023	2,023	—	—
Stocks	6,521	6,521	—	—
Other	9,588	—	9,588	—
Total investments at fair value	24,677	12,066	12,611	—
<u>Investments at cost</u>				
Montana Mortgages and Loans ⁽³⁾	193,506			
Total investments at cost	193,506			
Total primary government	218,183			
Component units/fiduciary funds				
<u>Investments by fair value level</u>				
Treasuries ⁽¹⁾	278,948	278,948	—	—
Agency/Government Related ⁽¹⁾	110,976	—	110,976	—
Asset-Backed Securities ⁽¹⁾	57,768	—	57,768	—
Mortgage-Backed Securities ⁽¹⁾	129,577	—	129,577	—
Commercial Mortgage-Backed Securities ⁽¹⁾	33,534	—	33,534	—
Financial-Corporate ⁽¹⁾	238,394	—	238,394	—
Industrial-Corporate ⁽¹⁾	366,556	—	366,556	—
Industrial-Corporate (Unrated) ⁽¹⁾	505	—	505	—
Utility-Corporate ⁽¹⁾	9,625	—	9,625	—
Equity Investments	159,979	159,979	—	—
International Equity Investments	39,792	39,792	—	—
529 College Savings Plan	156,859	—	156,859	—
VEBA	8,226	8,226	—	—
State Auditor	10,699	6,037	4,662	—
MSU Investments ⁽²⁾	(18)	—	(18)	—
MSU Component Unit Investments ⁽²⁾	183,858	179,857	1,981	2,020
UM Component Unit Investments ⁽²⁾	202,595	147,083	45,309	10,203
Board of Housing ⁽²⁾	39,858	6,441	33,417	—
Total investments at fair value	2,027,731	826,363	1,189,145	12,223
<u>Investments at net asset value (NAV)</u>				
Core Real Estate	101,390			
Deferred Compensation ⁽²⁾	560,706			
Defined Contribution ⁽²⁾	294,648			
MSU Component Unit Investments ⁽²⁾	94,672			
UM Component Unit Investments ⁽²⁾	111,300			
UM Other Investments ⁽²⁾	420			
UM Interest in Split Interest ⁽²⁾	4,290			
Total investments at NAV	1,167,426			
<u>Investments at cost</u>				
MSU Component Unit Investments ⁽²⁾	14,104			
Total Investments at Cost	14,104			
Total component unit/fiduciary investments	3,209,261			
Total investments	\$ 3,427,444			
Securities lending investment pool	\$ 42,673			

- (1) The credit quality rating and duration are included in the above sections for the rated investments.
- (2) For more detail, refer to component unit separately issued financial statements.
- (3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included in SMA financial statements. This amount of \$10.1 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, 2020, the fair value of the investments on loan was \$133.7 million. Collateral provided for the investments on loan totaled \$136.5 million consisting of \$42.7 million in cash and \$93.8 million in securities.

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

Municipal Finance Programs – Rated Securities
Credit Quality Rating and Effective Duration as of
June 30, 2020
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating⁽¹⁾	Effective Duration⁽¹⁾
Short-term investments			
US Treasury obligations	\$ 146	AA+	0.46
Restricted investments			
US Treasury obligations	564	AA+	0.46
Total investments	<u>\$ 710</u>		

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

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

Accounts receivable, accounts payable, deferred outflows of resources, and deferred inflows of resources on the Statement of Net Position as of June 30, 2020, 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	\$ —	\$ 4,681	\$ 2,469	\$ 375	\$ —	\$ —	\$ 12,094
Contributions/premiums	—	—	—	11,200	—	—	1,195
Grants/contracts/donations	—	—	—	—	—	16	258
Investment income	2,799	—	509	118	1,794	6,005	3,126
License and permits	—	—	—	—	—	—	8,538
Other receivables	—	71,178	8,503	958	—	—	636
Reimbursements/overpayments	—	304	18,503	18	—	—	13,881
Taxes	8,426	—	530,391	—	—	3,003	65,748
Total receivables	11,225	76,163	560,375	12,669	1,794	9,024	105,476
Less: allowance for doubtful accounts	—	(726)	(125,682)	(978)	—	(24)	(19,290)
Receivables, net	\$ 11,225	\$ 75,437	\$ 434,693	\$ 11,691	\$ 1,794	\$ 9,000	\$ 86,186

	Business-type Activities		
	Municipal Finance Programs	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	\$ —	\$ 31,671	\$ —
Contributions/premiums	—	4,588	6,068
Loans/investment income	8,029	95	—
Other receivables	—	62	—
Reimbursements/overpayments	—	—	2,129
Total receivables	8,029	36,416	8,197
Less: allowance for doubtful accounts	—	(646)	(3,719)
Receivables, net	\$ 8,029	\$ 35,770	\$ 4,478

B. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred outflows ⁽¹⁾	\$ —	\$ 14,999	\$ 979	\$ —	\$ —
Pension deferred outflows ⁽²⁾	13	586,392	8,996	—	65
Refunding deferred outflows	—	—	—	1,805	—
Total deferred outflows	\$ 13	\$ 601,391	\$ 9,975	\$ 1,805	\$ 65

	Business-type Activities	
	Municipal Finance Programs	Nonmajor Enterprise Funds
OPEB deferred outflows ⁽¹⁾	\$ 5	\$ 282
Pension deferred outflows ⁽²⁾	46	2,090
Total deferred outflows	\$ 51	\$ 2,372

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

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

C. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued interest	\$ 6	\$ 431	\$ 27	\$ 1,655	\$ 50
Payroll	10,922	35,566	4,839	6	25,600
Tax refunds	—	188,354	—	—	—
Vendors/individuals	226,436	65,270	12,133	9,693	162,951
Payables, net	\$ 237,364	\$ 289,621	\$ 16,999	\$ 11,354	\$ 188,601

	Business-type Activities		
	Municipal Finance Programs	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued interest	\$ 302	\$ 3	\$ —
Payroll	30	1,276	—
Vendors/individuals	11	19,334	29,005
Payables, net	\$ 343	\$ 20,613	\$ 29,005

D. Deferred Inflows of Resources

	Governmental Activities			
	Federal Special Revenue	General Fund	Internal Service Funds	State Special Revenue
OPEB deferred inflows ⁽¹⁾	\$ —	\$ 26,005	\$ 1,698	\$ —
Pension deferred inflows ⁽²⁾	37	181,999	9,444	60
Total deferred inflows	<u>\$ 37</u>	<u>\$ 208,004</u>	<u>\$ 11,142</u>	<u>\$ 60</u>

	Business-type Activities	
	Municipal Finance Programs	Nonmajor Enterprise Funds
OPEB deferred inflows ⁽¹⁾	\$ 8	\$ 503
Pension deferred inflows ⁽²⁾	49	3,085
Total deferred inflows	<u>\$ 57</u>	<u>\$ 3,588</u>

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

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

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2020, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 737,025	\$ 16,546	\$ (75)	\$ 753,496
Construction work in progress	1,105,818	543,097	(426,664)	1,222,251
Easements	218,813	18,059	—	236,872
Museum and art	85,670	408	—	86,078
Other	29,842	354	—	30,196
Total capital assets not being depreciated	<u>2,177,168</u>	<u>578,464</u>	<u>(426,739)</u>	<u>2,328,893</u>
Capital assets being depreciated:				
Infrastructure	5,573,558	386,946	(201,537)	5,758,967
Land improvements	69,251	7,744	—	76,995
Buildings/improvements	605,637	17,788	(5,245)	618,180
Equipment	410,261	33,823	(13,466)	430,618
Easements - amortized	1,377	—	(73)	1,304
Other	5,566	210	—	5,776
Total capital assets being depreciated	<u>6,665,650</u>	<u>446,511</u>	<u>(220,321)</u>	<u>6,891,840</u>
Less accumulated depreciation for:				
Infrastructure	(1,700,168)	(195,227)	188,932	(1,706,463)
Land improvements	(33,438)	(3,220)	—	(36,658)
Buildings/improvements	(399,024)	(19,418)	545	(417,897)
Equipment	(270,662)	(24,236)	9,181	(285,717)
Other	(4,308)	(254)	—	(4,562)
Total accumulated depreciation	<u>(2,407,600)</u>	<u>(242,355)</u>	<u>198,658</u>	<u>(2,451,297)</u>
Total capital assets being depreciated, net	<u>4,258,050</u>	<u>204,156</u>	<u>(21,663)</u>	<u>4,440,543</u>
Intangible assets	<u>45,267</u>	<u>35,421</u>	<u>(27,078)</u>	<u>53,610</u>
Governmental activities capital assets, net	<u>\$ 6,480,485</u>	<u>\$ 818,041</u>	<u>\$ (475,480)</u>	<u>\$ 6,823,046</u>

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

Business-type Activities	Beginning Balance	Increases ⁽¹⁾	Decreases ⁽¹⁾	Ending Balance
Capital assets not being depreciated:				
Land	\$ 800	\$ —	\$ —	\$ 800
Construction work in progress	6,887	2,361	(6,887)	2,361
Other	3,640	205	(75)	3,770
Total capital assets not being depreciated	<u>11,327</u>	<u>2,566</u>	<u>(6,962)</u>	<u>6,931</u>
Capital assets being depreciated:				
Infrastructure	1,175	—	—	1,175
Land improvements	3,830	—	—	3,830
Buildings/improvements	10,199	6,180	—	16,379
Equipment	9,573	419	(182)	9,810
Total capital assets being depreciated	<u>24,777</u>	<u>6,599</u>	<u>(182)</u>	<u>31,194</u>
Less accumulated depreciation for:				
Infrastructure	(746)	(19)	—	(765)
Land improvements	(2,064)	(149)	—	(2,213)
Buildings/improvements	(6,799)	(317)	—	(7,116)
Equipment	(7,274)	(390)	164	(7,500)
Total accumulated depreciation	<u>(16,883)</u>	<u>(875)</u>	<u>164</u>	<u>(17,594)</u>
Total capital assets being depreciated, net	<u>7,894</u>	<u>5,724</u>	<u>(18)</u>	<u>13,600</u>
Intangible assets	<u>2,062</u>	<u>—</u>	<u>(541)</u>	<u>1,521</u>
Business-type activities capital assets, net	<u>\$ 21,283</u>	<u>\$ 8,290</u>	<u>\$ (7,521)</u>	<u>\$ 22,052</u>

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

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

	Depreciation ⁽²⁾
General government	\$ 8,222
Public safety	8,043
Transportation, including depreciation of the highway system maintained by the State	197,267
Health and human services	2,952
Education	179
Natural resources, including depreciation of the state's dams	11,020
Depreciation on capital assets held by the internal service funds	14,672
Total depreciation expense – Governmental Activities	<u>\$ 242,355</u>

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

	Depreciation ⁽²⁾
Liquor Stores	\$ 110
State Lottery	56
Prison Funds	403
West Yellowstone Airport	257
Other Enterprise Funds	49
Total depreciation expense – Business-type Activities	<u>\$ 875</u>

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

Public Employees' Retirement Board

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

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

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

Teachers' Retirement System

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

The TRB consists of six members, all of whom 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 constitute a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2020, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	548	329	57	33	27	221	364
Nonemployer contributing entity	—	1	—	—	1	1	1	1
Total Participants	7	549	329	57	34	28	222	365

There are 688 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

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

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

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

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2020, follows:

Type of Plan for Reporting Purposes Plan Designation	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
	JRS	HPORS ⁽¹⁾	GWPORS	PERS-DBRP ⁽²⁾	SRS	MPORS ⁽¹⁾	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	58	233	1,033	29,039	1,502	829	735	2,401	19,751	3,100	5,601
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	17	135	4,070	146	95	39	766	1,828	639	4,293
Non-vested	1	31	495	20,548	696	181	72	—	14,941	790	—
Inactive members and beneficiaries currently receiving benefits:											
Service retirements ⁽³⁾	67	335	371	23,195	711	811	648	1,519	16,605	106	—
Disability retirements	—	4	2	138	28	27	12	1	192	9	—
Survivor benefits ⁽⁴⁾	5	11	11	523	24	32	18	4	480	1	—
Total membership	133	631	2,047	77,513	3,107	1,975	1,524	4,691	53,797	4,645	9,894

(1) Includes DROP in the Active count.

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

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

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

A summary of pension liability, pension assets, net pension liability/(asset), pension expense, deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity for primary government and component units reported as of June 30, 2020, based on a June 30, 2019, actuarial valuation, follows with amounts presented in thousands:

Aggregate Pension Amounts - All Plans (State as employer)

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	\$ 65,319	\$ 104,886	\$ (39,567)	\$ (114)	\$ 5,690	\$ 1,450
HPORS	237,728	152,778	84,950	12,145	11,713	—
GWPORS	247,013	206,348	40,665	9,501	13,748	4,003
PERS-DBRP	3,128,757	2,310,595	818,162	87,976	141,953	155,410
SRS	22,464	18,397	4,067	63	2,144	2,513
FURS	11,593	9,284	2,309	530	1,084	195
TRS	148,249	101,756	46,493	15,181	32,800	919
Totals	\$ 3,861,123	\$ 2,904,044	\$ 957,079	\$ 125,282	\$ 209,132	\$ 164,490

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967 and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water

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

Summary of Benefits

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

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

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

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

Eligibility for benefit

Age 60, 5 years of membership service;

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

Vesting

5 years of membership service.

Monthly benefit formula

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum benefit adjustment (non-GABA)

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

Contributions to the Plan

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

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

Employer contributions to the system – As the employer, the State 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, 2018, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2019. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.17%

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

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the JRS’s target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	<u>100.00%</u>	

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of

7.65%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
JRS net pension (asset)	\$ (33,242)	\$ (39,567)	\$ (45,028)

Net Pension Asset

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

(dollars presented in thousands)

	Net Pension Liability (Asset) as of 6/30/18	Net Pension Liability (Asset) as of 6/30/19	Percent of NPA
Employer's proportionate share	\$ (42,459)	\$ (39,567)	100%

At June 30, 2020, the employer reported a net pension asset of \$39.6 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of the JRS participating employers.

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

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

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

Other Items Related to and Changes in Net Pension Asset

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2018	\$ 60,192	\$ 102,651	\$ (42,459)
Service costs	1,772	—	1,772
Interest	4,458	—	4,458
Difference between expected and actual experience	2,743	—	2,743
Contributions – member	—	517	(517)
Net investment income	—	5,687	(5,687)
Benefit payments	(3,846)	(3,846)	—
Administrative expense	—	(123)	123
Net changes	5,127	2,235	2,892
Balances at 6/30/2019	<u>\$ 65,319</u>	<u>\$ 104,886</u>	<u>\$ (39,567)</u>

Pension Expense

At June 30, 2020, the employer recognized pension expense of \$(114.0) thousand for the JRS.

Deferred Outflows and Inflows

As of the fiscal year ended June 30, 2020, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 2,273	\$ 1,450
Changes of assumptions	966	—
Differences between expected and actual experience	463	—
Contributions paid to JRS subsequent to the measurement date – FY 2020 contributions	1,988	—
Totals	\$ 5,690	\$ 1,450

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2021	\$	1,577
2022		(591)
2023		859
2024		407

Highway Patrol Officers' Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established on 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 member's DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period.

At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2020, the balance held by MPERA for HPORS DROP participants was approximately \$3.8 million.

Summary of Benefits

Member's highest average compensation (HAC)

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

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

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

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

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

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

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

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

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

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

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

Vesting

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

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

Monthly benefit formula

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Minimum Monthly Benefit (non-GABA)

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

Contributions to the Plan

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

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

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

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.27%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
 - If electing GABA or hired on or after July 1, 1997 – 3.00%
 - Hired on or after July 1, 2013 – 1.50%
 - Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the HPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the HPORS’s target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	100.00%	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
HPORS net pension liability	\$ 117,532	\$ 84,950	\$ 58,614

Net Pension Liability

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

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of NPL
Employer's proportionate share	\$ 78,382	\$ 84,950	100%

At June 30, 2020, the employer reported a liability of \$85.0 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of the HPORS participating employers.

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

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

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

Other Items Related to and Changes in Net Pension Liability

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2018	\$ 227,581	\$ 149,199	\$ 78,382
Service costs	3,453	—	3,453
Interest	16,926	—	16,926
Difference expected and actual experience	2,413	—	2,413
Contributions – employer	—	5,845	(5,845)
Contributions – non-employer (State)	—	233	(233)
Contributions – member	—	2,002	(2,002)
Net investment income	—	8,269	(8,269)
Refund of contributions	(582)	(582)	—
Benefit payments	(12,063)	(12,063)	—
Administrative expense	—	(127)	127
Other changes	—	2	(2)
Net changes	10,147	3,579	6,568
Balances at 6/30/2019	<u>\$ 237,728</u>	<u>\$ 152,778</u>	<u>\$ 84,950</u>

Pension Expense

At June 30, 2020, the employer recognized pension expense of \$12.1 million for the HPORS.

Deferred Outflows and Inflows

At June 30, 2020, the employer recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$6.1 million.

As of the fiscal year ended June 30, 2020, remaining deferred outflows of resources and deferred inflows of resources related to the HPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,798	\$ —
Changes of assumptions	1,973	—
Net difference between projected and actual earnings on pension plan investments	733	—
Contributions paid to HPORS subsequent to the measurement date – FY 2020 contributions	6,209	—
Totals	\$ 11,713	\$ —

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2019, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2021	\$	4,087
2022		(38)
2023		862
2024		593

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, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of payroll 0.23%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the GWPORS's target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	100.00%	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Primary government employer GWPORS net pension liability	\$ 73,739	\$ 38,635	\$ 9,965
Discretely presented component units employer GWPORS net pension liability	3,875	2,030	524
Total employer GWPORS net pension liability	\$ 77,614	\$ 40,665	\$ 10,489

Net Pension Liability

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

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
Primary government employer proportionate share	\$ 38,851	\$ 38,635	95.007027 %
Discretely presented component units employer proportionate share	2,096	2,030	4.992973 %
Total employer GWPORS proportionate share	\$ 40,947	\$ 40,665	100 %

At June 30, 2020, the employer reported a total liability of \$40.7 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of GWPORS participating employers.

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

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

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

Other Items Related to and Changes in Net Pension Liability

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

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2018	\$ 222,467	\$ 183,616	\$ 38,851
Service costs	7,604	—	7,604
Interest	16,738	—	16,738
Difference between expected and actual experience	(4,492)	—	(4,492)
Contributions – employer	—	4,452	(4,452)
Contributions – member	—	5,288	(5,288)
Net investment income	—	10,569	(10,569)
Refunds of contributions	(951)	(951)	—
Benefit payments	(6,983)	(6,983)	—
Administrative expense	—	(192)	192
Other changes ⁽¹⁾	296	245	51
Net changes	12,212	12,428	(216)
Balances at 6/30/2019	<u>\$ 234,679</u>	<u>\$ 196,044</u>	<u>\$ 38,635</u>

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

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

	<i>(in thousands)</i>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2018	\$ 12,003	\$ 9,907	\$ 2,096
Service costs	400	—	400
Interest	880	—	880
Difference between expected and actual experience	(236)	—	(236)
Contributions - employer	—	234	(234)
Contributions - member	—	278	(278)
Net investment income	—	556	(556)
Refunds of contributions	(50)	(50)	—
Benefit payments	(367)	(367)	—
Administrative expense	—	(10)	10
Other changes ⁽¹⁾	(296)	(244)	(52)
Net changes	331	397	(66)
Balances at 6/30/2019	<u>\$ 12,334</u>	<u>\$ 10,304</u>	<u>\$ 2,030</u>

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

Pension Expense

At June 30, 2020, the employer recognized a total pension expense of \$9.5 million for its proportionate share of the GWPORS pension expense: \$9.1 million related to the primary government and \$441.3 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2020, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$4.4 million.

As of the fiscal year ended June 30, 2020, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,203	\$ 3,593
Net difference between projected and actual earnings on pension plan investments	820	—
Changes in assumptions	2,233	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	221	136
Contributions paid to GWPORS subsequent to the measurement date – FY 2020 contributions	4,599	—
Totals	<u>\$ 13,076</u>	<u>\$ 3,729</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2019, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

		<i>(in thousands)</i>
<u>Year ended June 30:</u>	<u>Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense</u>	
2021	\$	3,095
2022		1,487
2023		345
2024		(179)

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$225.2 thousand.

As of the fiscal year ended June 30, 2020, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

			<i>(in thousands)</i>	
	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
Difference between expected and actual experience	\$	273	\$	189
Net difference between projected and actual earnings on pension plan investments		43		—
Changes in assumptions		118		—
Changes in proportion and differences between employer contributions and proportionate share of contributions		—		85
Contributions paid to GWPORS subsequent to the measurement date – FY 2020 contributions		238		—
Totals	<u>\$</u>	<u>672</u>	<u>\$</u>	<u>274</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2019, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

		<i>(in thousands)</i>
<u>Year ended June 30:</u>	<u>Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense</u>	
2021	\$	128
2022		43
2023		6
2024		(17)

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

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters

2 & 3, MCA. This plan covers employees of the State and local governments, and certain employees of the Montana University System and school districts.

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

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

Summary of Benefits

Member's highest average compensation (HAC)

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

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

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

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011 –

Age 60, 5 years of membership service;

Age 65, regardless of membership service; or

Any age, 30 years of membership service.

Hired on or after July 1, 2011 –

Age 65, 5 years of membership service;

Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 –

Age 50, 5 years of membership service; or

Any age, 25 years of membership service.

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

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

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

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

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

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

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

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

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011 –

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

Members hired on or after July 1, 2011 –

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

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% 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.

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 8.77% of member compensation. Local government entities are required to contribution 8.67% of member compensation. School district employers contributed 8.40% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions, including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and

member contributions rates. As of January 1, 2020, the additional contributions will not be terminated.

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

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

Non-Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.

The State contributes 0.37% of member compensation on behalf of school district entities.

The State contributes a Statutory Appropriation from the General Fund. Funding provided for the year ended June 30, 2020, totaled \$33.6 million.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes a Statutory Appropriation from the General Fund. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the PERS-DBRP’s target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	<u>100.00%</u>	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an employer in PERS-DBRP – net pension liability	\$ 1,175,466	\$ 818,162	\$ 517,893
State as a nonemployer contributing entity to PERS-DBRP – net pension liability	733,123	510,277	323,003

Net Pension Liability

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

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
State's proportionate share as an employer entity	\$ 825,387	\$ 818,162	39.140686 %
State's proportionate share as a nonemployer contributing entity	520,058	510,277	24.411533 %
State of Montana totals	<u>\$ 1,345,445</u>	<u>\$ 1,328,439</u>	<u>63.552219 %</u>

At June 30, 2020, the State reported a liability of \$1.3 billion for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, 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, 2020, the State as an employer recognized a pension expense of \$88.0 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of \$1.0 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with local government and school district participants in the plan. The State as a nonemployer contributing entity recognized grant expense of \$33.6 million for special funding support provided by the General Fund as a statutory appropriation for all participating employers in the plan. The State as a nonemployer contributing entity recognized pension expense of \$142.7 million that is actuarially allocated to the State as a nonemployer. The total pension expense recognized by the State as a nonemployer was \$177.3 million. Total pension-related expenses recognized by the State, both as employer and nonemployer contributing entity at June 30, 2020, were \$265.3 million.

Deferred Outflows and Inflows

At June 30, 2020, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$56.2 million.

As of the fiscal year ended June 30, 2020, 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	\$ 38,795	\$ 38,498
Net difference between projected and actual earnings on pension plan investments	9,920	—
Change of assumptions	34,734	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	116,912
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2020 contributions	58,504	—
Totals	\$ 141,953	\$ 155,410

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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
2021	\$ (11,352)
2022	(73,202)
2023	3,690
2024	8,903

At June 30, 2020, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$34.6 million.

As of the fiscal year ended June 30, 2020, 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	\$ 24,196	\$ 24,011
Net difference between projected and actual earnings on pension plan investments	6,187	—
Change of assumptions	21,663	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	191,364	—
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2020 contributions	35,008	—
Totals	\$ 278,418	\$ 24,011

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2019 measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2021	\$	125,389
2022		86,156
2023		2,301
2024		5,553

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

Summary of Benefits

Member's highest average compensation (HAC)

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

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

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

Eligibility for benefit

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

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

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

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

- on the second retirement benefit starting in January after receiving that benefit for at least 12 months
- c. A member who returns to covered service is not eligible for a disability benefit.

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Contributions to the Plan

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

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.23%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
 - 3.00% for members hired prior to July 1, 2007
 - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. SRS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2120. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the SRS’s target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	<u>100.00%</u>	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer's SRS net pension liability	\$ 7,216	\$ 4,067	\$ 1,486

Net Pension Liability

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

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
Employer proportionate share	\$ 3,663	\$ 4,067	4.876949 %

At June 30, 2020, the State, as an employer, reported a liability of \$4.1 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of SRS participating employers.

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

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

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

Pension Expense

At June 30, 2020, the employer recognized a pension expense/(income) of \$63.0 thousand for its proportionate share of the SRS pension expense/(income).

Deferred Outflows and Inflows

At June 30, 2020, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$513.5 thousand.

As of the fiscal year ended June 30, 2020, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 262	\$ 5
Net difference between projected and actual earnings on pension plan investments	79	—
Changes of assumptions	1,273	2,196
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	312
Contributions paid to SRS subsequent to the measurement date – FY 2020 contributions	530	—
Totals	<u>\$ 2,144</u>	<u>\$ 2,513</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2019, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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	
2021	\$	(460)
2022		(645)
2023		109
2024		97

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 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, 2020, the balance held by MPERA for MPORS DROP participants was approximately \$10.7 million.

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

Summary of Benefits

Member’s final average compensation (FAC)

Hired prior to July 1, 1977 – average monthly compensation of final year of service;

Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.

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

Eligibility for benefit

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

Second Retirement: Age 50, reemployed in a MPORS position

Vesting

Death and disability rights are vested immediately.

5 years of membership service.

Monthly benefit formula

2.5% of FAC per year of service credit.

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Contributions to the Plan

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

Member contributions – Contribution rates are dependent upon the date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2020:

- 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, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin expense as a % of Payroll 0.23%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.60%
- Postretirement Benefit Increases
 - GABA
 - Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit
 - Minimum benefit adjustment (non-GABA)
 - If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor’s benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2133. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

asset class included in the MPORS's target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	100.00%	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a nonemployer entity net pension liability	\$ 196,248	\$ 133,487	\$ 83,247

Net Pension Liability

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

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

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
State as a nonemployer contributing entity – proportionate share	\$ 114,956	\$ 133,487	67.063878 %

At June 30, 2020, the State, as a nonemployer contributing entity, reported a liability of \$133.5 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

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

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

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer’s reporting date, there were no changes in proportion that 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 \$21.0 million for special funding support provided by the General Fund for its proportionate share of the MPORS’s pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2020, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$15.9 million.

As of the fiscal year ended June 30, 2020, 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:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 11,847	\$ 848
Net difference between projected and actual earnings on pension plan investments	2,481	—
Change of assumptions	2,685	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	209	—
Contributions paid to MPORS subsequent to the measurement date – FY 2020 Contributions	16,677	—
Totals	\$ 33,899	\$ 848

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer’s contributions made subsequent to the June 30, 2019, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2021	\$	7,579
2022		2,955
2023		4,590
2024		1,250

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

Summary of Benefits

Member's compensation

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

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

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

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

Eligibility for benefit

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

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

Vesting

Death and disability rights are vested immediately

5 years of membership service.

Monthly benefit formula

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

2.5% of HMC per year of service; or

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum Benefit Adjustment (non-GABA)

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

Contributions to the Plan

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

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

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

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

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

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.25%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases
 - GABA
 - Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member’s benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member’s benefit.
 - Minimum Benefit Adjustment (non-GABA)
 - Hired before July 1, 1997, and member did not elect GABA – the monthly retirement, disability, or survivor’s benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB’s funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2133. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the FURS’s target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	<u>100.00%</u>	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an employer in FURS – net pension liability	\$ 4,033	\$ 2,309	\$ 919
State as a nonemployer contributing entity to FURS – net pension liability	138,890	79,524	31,656

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.

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
State's proportionate share as an employer entity	\$ 2,650	\$ 2,309	2.013129 %
State's proportionate share as a nonemployer contributing entity	78,285	79,524	69.323577 %
State of Montana totals	<u>\$ 80,935</u>	<u>\$ 81,833</u>	<u>71.336706 %</u>

At June 30, 2020, the State reported a liability of \$81.8 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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The proportion of the net pension liability was based on all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2018, through June 30, 2019, 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 effect 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, 2020, the State as an employer recognized pension expense of \$530.1 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of \$17.0 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, 2020, was \$17.5 million.

Deferred Outflows and Inflows

At June 30, 2020, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$493.5 thousand.

As of the fiscal year ended June 30, 2020, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 208	\$ 24
Net difference between projected and actual earnings on pension plan investments	77	—
Change of assumptions	170	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	30	171
Contributions paid to FURS subsequent to the measurement date – FY 2020 contributions	599	—
Totals	\$ 1,084	\$ 195

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, 2019, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2021	\$	191
2022		7
2023		90
2024		50
2025		(48)

At June 30, 2020, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2019 contributions of \$16.2 million.

As of the fiscal year ended June 30, 2020, 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:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,149	\$ 825
Net difference between projected and actual earnings on pension plan investments	2,650	—
Change in assumptions	5,863	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,186	—
Contributions paid to FURS subsequent to the measurement date – FY 2020 contributions	17,147	—
Totals	\$ 33,995	\$ 825

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer’s contributions made subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2021	\$	5,294
2022		2,773
2023		4,693
2024		3,160
2025		103

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

Summary of Benefits

Eligibility for benefit

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

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

Vesting

10 years of credited service.

Monthly benefit formula (effective January 1, 2016)

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

\$7.50 per year of credited service after 20 years

Contributions to the Plan

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

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

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

For VFCA, administrative expenses are assumed to equal \$70.6 thousand. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2111. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the VFCA. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2019, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	<u>100.00%</u>	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a nonemployer entity net pension liability	\$ 11,433	\$ 6,907	\$ 3,069

Net Pension Liability

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

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

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
State as a nonemployer proportionate share	\$ 7,667	\$ 6,907	100 %

At June 30, 2020, the State reported a liability of \$6.9 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, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2018, through June 30, 2019, 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 \$1.5 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, 2020, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$2.4 million.

As of the fiscal year ended June 30, 2020, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ —	\$ 426
Net difference between projected and actual earnings on pension plan investments	363	—
Contributions paid to VFCA subsequent to the measurement date – FY 2020 contributions	2,475	—
Totals	\$ 2,838	\$ 426

Amounts reported as deferred outflows of resources related to pensions resulting from the State’s contributions made subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

	<i>(in thousands)</i>	
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2021	\$	(123)
2022		(210)
2023		99
2024		171

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 one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also 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 $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

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 11.45% of compensation provided to an active, non-reemployed member. All school districts and other employers are required to contribute 9.07% of an active, non-reemployed, member's compensation to the System.

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

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

Actuarial Assumptions

The total pension liability as of June 30, 2019, is based on the results of an actuarial valuation date of July 1, 2019. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial

assumptions used in the July 1, 2019, valuation were based on the results of the last actuarial experience study, dated May 2018. Among those assumptions were the following:

- Total Wage Increases (includes 3.25% general wage increase assumption) 3.25% to 7.76% for non-university members
4.25% for university members
- Merit Increases 0 to 4.51% for non-university members
1.00% for university members
- Investment Return 7.50%
- Price Inflation 2.50%
- Admin Expense as a % of Payroll 0.36%
- Postretirement Benefit Increases (starting three years after retirement)
 - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.
 - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90.0% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85.0%. Since an increase in the amount of the GABA is not automatic and must be approved by the TRS, the assumed increase was lowered from 1.5% to the current rate of 0.5% per annum.
- Mortality among contributing members, service retired members, and beneficiaries:
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvements, which are expected to occur in the future.
- Mortality among disabled members
 - For Males: RP-2000 Disabled Mortality Table for Males, set back three years, with mortality improvements projected by Scale BB to 2022.
 - For Females: RP-2000 Disabled Mortality Table for Females, set forward two years, with mortality improvements projected by Scale BB to 2022.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute \$25.0 million annually to the TRS payable July 1 of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, is outlined in a report dated May 3, 2018. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation). Estimates of variability and correlations for each asset class were developed by the TRS's investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The long-term rate of return assumption is intended to be a long-term assumption (30 to 50 years). It is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The average long term capital market assumptions published in the Survey of Capital Market Assumptions 2019 Edition by Horizon Actuarial Service, LLC, yield a median real return of 4.91%. Based on this information, the TRS's adopted assumption of 5.00% for the real return is reasonable. Combined with the 2.50% inflation assumption, the resulting nominal return is 7.50%. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2019, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	35.00%	6.05%
Broad International Equity	18.00%	7.01%
Private Equity	10.00%	10.53%
Natural Resources	3.00%	4.00%
Core Real Estate	7.00%	5.65%
TIPS	3.00%	1.40%
Intermediate Duration Bonds	19.00%	2.17%
High Yield Bonds	3.00%	4.09%
Cash	2.00%	0.78%
Total	100.00%	

Sensitivity Analysis

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

	<i>(in thousands)</i>		
	1.0% Decrease (6.50%)	Current Discount Rate	1.0% Increase (8.50%)
State as an employer in TRS – net pension liability	\$ 63,590	\$ 46,493	\$ 32,168
State as a nonemployer contributing entity to TRS – net pension liability	978,810	715,637	495,140

Net Pension Liability

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

	<i>(dollars presented in thousands)</i>		
	Net Pension Liability as of 6/30/18	Net Pension Liability as of 6/30/19	Percent of Collective NPL
State's as an employer entity	\$ 47,407	\$ 46,493	2.411113 %
State's as a nonemployer entity	700,417	715,637	37.112880 %
State of Montana totals	\$ 747,824	\$ 762,130	39.523993 %

At June 30, 2020, the State reported a liability of \$762.1 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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. 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, 2018, through June 30, 2019, relative to all contributions received from the TRS’s participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The GABA for Tier Two members is a variable rate between 0.5% and 1.5% as determined by the TRS. Since an increase in the amount of the GABA is not automatic and must be approved by the TRS, the assumed increase was lowered from 1.5% to the current rate of 0.5% per annum.

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

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

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2020, the State as an employer recognized a pension expense of \$15.2 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of \$69.3 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 2020 was \$83.4 million.

Deferred Outflows and Inflows

At June 30, 2020, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$16.5 million.

As of the fiscal year ended June 30, 2020, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	<i>(in thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 308	\$ —
Net difference between projected and actual earnings on pension plan investments	451	—
Change of assumptions	2,321	104
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,034	815
Contributions paid to TRS subsequent to the measurement date – FY 2020 contributions	16,686	—
Totals	\$ 32,800	\$ 919

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions made subsequent to the June 30, 2019, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and 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	
2021	\$	8,418
2022		4,854
2023		1,550
2024		373

At June 30, 2020, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2019 contributions of \$44.3 million.

As of the fiscal year ended June 30, 2020, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,737	\$ —
Net difference between projected and actual earnings on pension plan investments	6,937	—
Changes of assumptions	35,734	1,604
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,011	28,569
Contributions paid to TRS subsequent to the measurement date – FY 2020 Contributions	44,841	—
Totals	<u>\$ 97,260</u>	<u>\$ 30,173</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2019, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

(in thousands)

Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2021	\$	16,683
2022		(173)
2023		(8)
2024		5,744

D. Legal Actuarial Status of Plans

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

A traditional funding actuarial valuation of each of the defined benefit plans is performed annually. The purpose of the traditional funding actuarial valuation is to measure funding progress and to determine the actuarial determined contribution, contribution sufficiency or deficiency, and other actuarial information necessary for monitoring funding position. The most recent actuarial valuation was performed for fiscal year ended June 30, 2020. 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, 2020, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), and the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability, and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2020, is \$8.3 million and, contribution forfeitures were \$448.6 thousand.

Local government entities contribute 8.67% of member compensation. School district employers contributed 8.40% 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 8.77% of member compensation.

The total contribution rate of 8.77%, referenced in the preceding paragraph, is allocated as follows: 8.43% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

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

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 60 non-state entity employers participate in the 457-Plan.

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

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association (TIAA). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21, MCA. Combined contributions to the faculty and

professional staff plan cannot exceed 13% of the participant's compensation per Section 19-21-203, MCA. Combined contributions to the classified staff plan are 16.67% per Section 19-3-316, MCA and Section 19-3-315, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and investment allocations by the participant. Individuals are immediately vested for both employee and employer contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA. Total contributions made to the plan by the employer were \$17.2 million, and the total employee contributions were \$19.9 million for the fiscal year ended June 30, 2020.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at either fair value or cost, depending on the underlying investment type. 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. Mortgages are present value adjusted. Investment valuation not classified within the fair value measurement levels are reported at Net Asset Value. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

Per Section 19-2-706, MCA, the Montana Legislature enacted a provision of the Employee Protection Act (EPA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. In fiscal year 2020, 261 employees participated in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by MPERA on the unpaid balance. Total contributions received (including interest) during fiscal year 2020 totaled \$17.9 thousand. The outstanding balance at June 30, 2020, totaled \$9.2 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action in the Eighth Judicial District of Montana against the State of Montana on October 6, 2015, alleging the inappropriate advising, reporting, and withholding of state and federal income taxes on certain line-of-duty disability benefits before conversion to a normal retirement benefit. The State was served with the Complaint on November 25, 2015, and is represented by Jean Faure and Jason Holden of the Faure Holden law firm in Great Falls, Montana. On June 11, 2019, the Court issued an Order granting Plaintiff's Motion to Certify Class. The Court has defined the prospective class of plaintiffs in this matter and the parties were instructed by the Court to meet and confer to agree on the class form of notice and notice plan concerning the matter. Counsel representing the class are Lawrence A. Anderson from Great Falls, Montana and Tom and Sean Morrison from Helena, Montana.

Murnion v. MPERA and PERB. A retired member of the Public Employees' Retirement System appealed a Final Order of the PERB upholding the Hearing Examiner's Proposed Findings of Fact and Conclusions of Law determining that the retired member was not entitled to full-time PERS service credit for his part-time years of employment. On March 15, 2019, the retired member filed a Petition for Appeal of Agency Action and Complaint in the First Judicial District of Montana to appeal the PERB's Final Order under the provisions of the Montana Administrative Procedure Act (MAPA). On June 26, 2019, MPERA filed a motion to vacate any forthcoming Scheduling Order, set a briefing schedule to control the judicial review of this matter, and dismiss the retired member's Count II and III for failure to state a claim within the Court's jurisdiction, or, in the alternative, confine

any review of each claim to the administrative record. On July 12, 2019, a Scheduling Order was issued by the Court calling for additional periods for discovery and setting a date for a two-day non-jury bench trial beginning on July 8, 2020. On July 15, 2019, Petitioner filed a response to MPERA's motion, and MPERA filed a reply on July 19, 2019. MPERA filed a notice of submittal on July 22, 2019. On August 21, 2020, an amended Scheduling Order was issued by the Court extending deadlines for periods of discovery as well as all pre-trial dates. This matter was settled between the parties on October 8, 2020.

PERB v. Lewis and Clark County. On May 1, 2020, the PERB filed a Complaint for Declaratory Relief in the First Judicial District of Montana against Lewis and Clark County. This complaint asked the Court to rule that the Montana Constitution, Article VIII, Section 15, vests the PERB with the authority to actuarially determine the amount of the unfunded pension liabilities attributable to a component unit of Lewis and Clark County that has terminated its participation in a PERB administered defined benefit plan, and compel the payment of and collect this unfunded pension liability upon this component unit's termination. On May 13, 2020, Lewis and Clark County filed a motion to dismiss the Complaint. This motion has been fully briefed by both parties and the PERB awaits a ruling from the Court. On June 1, 2020, the PERB filed its First Amended Complaint amending its original pleading to add a claim for breach of contract against Lewis and Clark County. On June 18, 2020, Lewis and Clark County filed a motion to dismiss PERB's First Amended Complaint. This motion has been fully briefed and the PERB awaits a ruling from the Court.

Montana Association of Counties (MACo), Lewis and Clark County, and Cascade County v. PERB and MPERA. On May 1, 2020, the MACo filed a Complaint for Declaratory Judgement, Injunctive Relief, and a Writ of Prohibition against the PERB and MPERA in the First Judicial District Court of Lewis and Clark County. This Complaint asked the Court to rule that the Montana Constitution, Article VIII, Section 15, does not vest the PERB with the authority to determine and collect unfunded pension liabilities owed to the PERS-DBRP trust as a result of partial withdrawals of employees or reductions in force, and that the 1947 Contract between the PERB and Lewis and Clark County and Cascade County, as well as other similar agreements between the PERB and all other Montana counties, does not vest the PERB with the authority to determine and collect unfunded pension liabilities owed to the PERS-DBRP trust as a result of partial withdrawals of employees or reductions in force, and that MACo is entitled to a preliminary and permanent injunction enjoining PERB from assessing withdrawal penalties against Montana counties, and that MACo is entitled to a Writ of Prohibition arresting the PERB from assessing withdrawal penalties against Montana counties. On May 15, 2020, MACo amended its original pleading by filing its First Amended Complaint. This amendment added the additional parties of Lewis and Clark County and Cascade County to this action as plaintiffs as well as the additional claims for breach of express and implied contract. On June 25, 2020, the PERB filed a Motion to Dismiss, or in the Alternative, Partial Summary Judgement with regard to the Plaintiffs' Count II, IV, V, and VI. This motion has been fully briefed by all parties and PERB awaits a ruling from the Court.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information Non-trust Plans

The State of Montana (State) and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and MUS offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan. Further detail on State Retirement Plans is provided in Note 6. MUS provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from their plan, or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. They must elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for both plans.

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

B. Plan Descriptions

Both healthcare OPEB plans for the State and MUS are reported as single-employer plans. In addition to the primary government, the participating employers under the State OPEB plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS OPEB plan are Office of Commissioner of Higher Education (OCHE), Montana State University - Billings (MSU-Billings), Montana State University - Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University - Northern (MSU-Northern), Montana Technological University, Helena College UM, University of Montana - Missoula (UM-Missoula), and University of Montana - Western (UM-Western). Participating employers under MUS, but excluded from the total OPEB liability due to not qualifying as component units, are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), and Miles Community College (Miles CC). Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The State and MUS pay for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-812, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-1310, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

As of December 31, 2019, the State OPEB plan's administratively established retiree medical premiums vary between \$448.00 and \$1,777.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and \$70.00 per month and vision hardware premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare.

As of June 30, 2020, the MUS OPEB plan's administratively established retiree medical premiums vary between \$368.00 and \$2,746.00 per month. Retiree dental premiums vary between \$52.00 and \$156.00 per month, while vision premiums vary from \$10.70 to \$31.18, depending on the types and number of dependents enrolled and which medical Third Party Administrator (TPA) was selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. The premium changes were based on actual claims experience and actuarial projections based on the experience and trends.

C. Basis of Accounting

Total OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements, and the component unit financial statements. Total OPEB liability is not reported on the governmental fund financial statements, as it is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Both OPEB plans state, that an employee enrolled in the OPEB plan, who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with their respective benefit office, within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost, and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2020.

The number of State Plan participants as of March 31, 2020, follows:

Enrollment	State Plan Participants						Total
	State ⁽¹⁾	Facility Finance Authority ⁽²⁾	Montana Board of Housing ⁽²⁾	Public Employee Retirement Board ⁽²⁾	Montana State Fund ⁽²⁾	Teachers Retirement System ⁽²⁾	
Active employees	12,056	1	12	48	279	21	12,417
Retired employees, spouses, and surviving spouses	2,514	2	3	1	20	6	2,546
Total	14,570	3	15	49	299	27	14,963

The number of MUS Plan participants as of March 31, 2020, follows:

Enrollment	MUS Plan Participants									Total
	MSU-GFC ⁽²⁾	UM-HC ⁽²⁾	MSU-Billings ⁽²⁾	MSU-Bozeman ⁽²⁾	MSU-Northern ⁽²⁾	OCHE ⁽¹⁾	UM-Missoula ⁽²⁾	UM-MT Tech ⁽²⁾	UM-Western ⁽²⁾	
Active employees	110	82	451	3,136	171	63	1,874	388	191	6,466
Retired employees, spouses, and surviving spouses	7	14	117	493	34	17	500	102	56	1,340
Total	117	96	568	3,629	205	80	2,374	490	247	7,806

⁽¹⁾ Primary Government

⁽²⁾ Discrete Component Units of Primary Government

D. Schedule of Changes in Total OPEB liability

The following table presents the other items related to and changes in the total OPEB liability:

Annual OPEB Cost & Changes in Total OPEB liability
(in thousands)

	State Plan			MUS Plan		
	Primary Government Total OPEB Liability	Discrete Component Unit Total OPEB Liability	Total State Plan	Primary Government Total OPEB Liability	Discrete Component Unit Total OPEB Liability	Total MUS Plan
Balances at 6/30/2019	\$ 54,593	\$ 1,104	\$ 55,697	\$ 425	\$ 38,923	\$ 39,348
Changes for the year:						
Service cost	1,899	47	1,946	11	1,725	1,736
Interest	1,554	32	1,586	12	1,118	1,130
Difference between expected and actual experience	(9,504)	95	(9,409)	(162)	(14,853)	(15,015)
Changes of assumptions or other inputs	(1,828)	(49)	(1,877)	(18)	(1,773)	(1,791)
Benefit payments	(585)	(16)	(601)	15	1,426	1,441
Net changes	(8,464)	109	(8,355)	(142)	(12,357)	(12,499)
Balances at 6/30/2020 ⁽¹⁾	\$ 46,129	\$ 1,213	\$ 47,342	\$ 283	\$ 26,566	\$ 26,849

⁽¹⁾ State and discretely presented component units proportion of the collective total OPEB liability as of the measurement date for fiscal years 2019 and 2020 for the State Plan was 100% both years and for the MUS Plan is 95.59% and 94.92%, respectively.

E. Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

The schedule of changes in the State's and MUS's TOL and related ratios, presented as required supplementary information following the notes to the financial statements is designed to present multi-year trend information about whether the actuarial value of plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the State's and MUS's TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The State's OPEB Plan TOL on December 31, 2019, rolled forward to March 31, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

**Other Postemployment Benefits
State Single Employer Plan**

	Retiree/Surviving Spouse	Spouse
Contributions (weighted average):		
Before Medicare eligibility	\$ 14,772	\$ 5,470
After Medicare eligibility	5,376	4,659
Actuarial valuation date	December 31, 2019	
Experience study period	January 1, 2017 through December 31, 2019	
Actuarial measurement date ⁽¹⁾	March 31, 2020	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	2.75%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	40.00%	
Future eligible spouses	70.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial assumptions include a participation rate reduction from 55% to 40% based on recent experience study, a revision to rates per the Retirement System pension valuations as of July 1, 2019, and the interest/discount rate was based on the average of multiple March 31, 2020 municipal bond rate sources.

Changes in benefit terms since last measurement date: None

Additional information as of the latest actuarial valuation for MUS OPEB plan follows:

**Other Postemployment Benefits
MUS Single Employer Plan**

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	\$ 11,212	\$ 9,199
After Medicare eligibility	4,301	5,295
Actuarial valuation date	December 31, 2019	
Actuarial measurement date ⁽¹⁾	March 31, 2020	
Experience study period	January 1, 2017 through December 31, 2019	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	2.75%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	40.00%	
Future eligible spouses	70.00%	
Marital status at retirement	70.00%	

⁽¹⁾ Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Healthy: For TRS and MUS-RP, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS For TRS and MUS-RP, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial assumptions include a participation rate reduction from 55% to 40% based on recent experience study, a revision to rates per the Retirement System pension valuations as of July 1, 2019, and the interest/discount rate was based on the average of multiple March 31, 2020 municipal bond rate sources.

Changes in benefit terms since last measurement date: Changes in benefit terms include increased annual deductible and out-of-pocket maximums.

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (1.75 percent) or 1-percentage-point higher (3.75 percent) than the current discount rate:

State OPEB plan (in thousands)			
	1.0% Decrease (1.75%)	Current Discount Rate (2.75%)	1.0% Increase (3.75%)
Primary Government	\$ 59,852	\$ 46,129	\$ 36,138
Discrete Component Units	1,616	1,213	916
Total OPEB liability	\$ 61,468	\$ 47,342	\$ 37,054
MUS OPEB plan (in thousands)			
	1.0% Decrease (1.75%)	Current Discount Rate (2.75%)	1.0% Increase (3.75%)
Primary Government	\$ 382	\$ 283	\$ 211
Discrete Component Units	35,949	26,566	19,794
Total OPEB liability	\$ 36,331	\$ 26,849	\$ 20,005

Sensitivity of the TOL to changes in the healthcare cost trend rates

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (5.0 percent) or 1-percentage-point higher (7.0 percent) than the current healthcare cost trend rates:

State Plan (in thousands)			
	1.0% Decrease (5.0%)	Current Healthcare Cost Trend Rate (6.0%)	1.0% Increase (7.0%)
Primary Government	\$ 36,175	\$ 46,129	\$ 60,223
Discrete Component Unit	915	1,213	1,630
Total OPEB liability	\$ 37,090	\$ 47,342	\$ 61,853
MUS Plan (in thousands)			
	1.0% Decrease (5.0%)	Current Healthcare Cost Trend Rate (6.0%)	1.0% Increase (7.0%)
Primary Government	\$ 211	\$ 283	\$ 384
Discrete Component Unit	19,731	26,566	36,276
Total OPEB liability	\$ 19,942	\$ 26,849	\$ 36,660

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the State OPEB plan's OPEB expense is \$2.5 million and the MUS OPEB plan's OPEB expense is \$1.5 million.

At June 30, 2020, the State OPEB plan deferred outflows and inflows of resources are from the following sources:

	State Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 12,210
Changes of assumptions or other inputs	16,160	15,732
Total	<u>\$ 16,160</u>	<u>\$ 27,942</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ 132	\$ 137
Changes of assumptions or other inputs	431	420
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability ^(f)	4	—
Total	<u>\$ 567</u>	<u>\$ 557</u>

In prior years, the amounts deferred for transactions subsequent to the measurement date of the total OPEB liability were employer contributions. In the year ending June 30, 2020, such contributions were significantly reduced or nonexistent because fewer medical claims were experienced during the period subsequent to the measurement date. This was due to postponement of procedures, by hospitals and clinics, in response to the COVID-19 pandemic.

At June 30, 2020, MUS OPEB plan deferred outflows and inflows of resources are from the following sources:

	MUS Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Primary Government</u>		
Difference between expected and actual experience	\$ —	\$ 159
Changes of assumptions or other inputs	106	113
Total	<u>\$ 106</u>	<u>\$ 272</u>
<u>Discrete Component Units</u>		
Difference between expected and actual experience	\$ —	\$ 14,663
Changes of assumptions or other inputs	10,352	11,070
Total	<u>\$ 10,352</u>	<u>\$ 25,733</u>

In prior years, the amounts deferred for transactions subsequent to the measurement date of the total OPEB liability were employer contributions. In the year ending June 30, 2020, such contributions were significantly reduced or nonexistent because fewer medical claims were experienced during the period subsequent to the measurement date. This was due to postponement of procedures, by hospitals and clinics, in response to the COVID-19 pandemic.

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense

State Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units		State Plan Total
2021	\$	(1,057)	\$ (1)	(1,058)
2022		(1,057)	(1)	(1,058)
2023		(1,057)	(1)	(1,058)
2024		(1,057)	(1)	(1,058)
2025		(1,057)	(1)	(1,058)
Thereafter		(6,497)	11	(6,486)

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense

MUS Plan (in thousands)				
Year ended June 30	Primary Government	Discrete Component Units		MUS Plan Total
2021	\$	(14)	\$ (1,321)	(1,335)
2022		(14)	(1,321)	(1,335)
2023		(14)	(1,321)	(1,335)
2024		(14)	(1,321)	(1,335)
2025		(14)	(1,321)	(1,335)
Thereafter		(96)	(8,776)	(8,872)

F. General Information Trust Plan

General Information

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description

The PERS-DCRP Disability is a multiple-employer cost-sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members, and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports, which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

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

G. Termination Benefits

During the year ended June 30, 2020, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for one employee provided for up to six months, one-time lump-sum incentive payments for 15 employees, and paid administrative leave for 15 employees.

During the year ended June 30, 2020, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for 12 employees.

During the year ended June 30, 2020, the cost of termination benefits for the fiscal year was \$107.1 thousand and \$366.4 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 532 policies during the 2020 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 reserve fund's actuarial soundness and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5.0% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2020 growing season, with a 75.0% share of premiums and losses allotted to the Reinsurer and a 25.0% share of each allotted to the State Hail Insurance. The fund recorded a liability of \$11.1 thousand, which is 25.0% of the estimated claims (\$42.6 thousand) plus adjustment expenses through June 30, 2020. The amount deducted from the estimated claims as of June 30, 2020, for reinsurance was \$31.9 thousand (75.0% of estimated claims). The premiums ceded to the Reinsurer through June 30, 2020, were \$844.6 thousand, which was 75.0% of total premiums of \$1.1 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Board of Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, and their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and Navitus is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$10.3 million as of June 30, 2020, 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 MUS employees. 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 2020, the program ceded \$361.2 thousand in premiums to reinsurers.

The MUS Workers' Compensation Program Committee establishes premium rates for all participating campuses 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 \$4.8 million for estimated claims at June 30, 2020. 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 a current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by limiting workers' compensation exposure for employers who hire SIF-certified individuals. The program is funded through an annual assessment for Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The Employment Relations Division sets the assessment and surcharge rates annually. The amount assessed is calculated by adding the amount of paid losses reimbursed by SIF from April 1 of the previous calendar year through March 31 of the current calendar year, plus administration expenses, less other income earned. Employers share in the reimbursement in two ways: (1) If self-insured, the reimbursement is based on their share of overall paid losses in the previous calendar year. (2) If insured through a private carrier or Montana State Fund, the reimbursement is based on both overall paid losses in the previous calendar year, and the amount of the employer's premium paid for their business.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. For an insured employer, since the insurer's liability is limited to 104 weeks on the claim, this can favorably impact the employer's modification factor, which in turn could keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2020, this liability amount was estimated to be \$2.4 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	
	2020	2019	2020	2019	2020	2019
Unpaid claims and claim adjustment expenses at beginning of year	\$ 17	\$ 35	\$ 10,000	\$ 10,200	\$ 6,789	\$ 5,831
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	793	422	92,564	88,473	1,992	2,523
Increase (decrease) in provision for insured events of prior years	(5)	96	—	—	(2,485)	93
Total incurred claims and claim adjustment expenses	788	518	92,564	88,473	(493)	2,616
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(782)	(405)	(92,264)	(88,673)	(539)	(644)
Claims and claim adjustment expenses attributable to insured events of prior years	(12)	(131)	—	—	(920)	(1,014)
Total payments	(794)	(536)	(92,264)	(88,673)	(1,459)	(1,658)
Total unpaid claims and claim adjustment expenses at end of year	\$ 11	\$ 17	\$ 10,300	\$ 10,000	\$ 4,837	\$ 6,789

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 property losses below \$2.0 million of value, with State agencies paying the first \$1.0 thousand. Commercial property insurance protects approximately \$5.8 billion of State-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$2.0 million for earthquake and \$2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study prepared by Willis Towers Watson Company, and issued for the accident period July 1, 2010, through June 30, 2020, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2020, the estimated claims liability was \$53.8 million. Of the \$53.8 million estimated claims liability, \$36.4 million is related to a catastrophic property loss for which the insurance proceeds were received prior to the incurred expenses.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. Navitus is the administrator for the pharmacy program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2020, 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

\$19.0 million as provided by Actuaries Northwest, a consulting actuarial firm. In fiscal year 2021, \$18.8 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers’ compensation claims that were incurred before July 1, 1990. Old Fund was originally a risk financing insurance entity, but upon depletion of all of its assets, is now financed by the General Fund. The participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Willis Towers Watson, as of June 30, 2020, 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, 2020, \$48.3 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred but not reported claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	<u>Administration Insurance Plans</u>		<u>Employers Group Benefits Plan</u>		<u>State of Montana Old Fund</u>	
	2020	2019	2020	2019	2020	2019
Amount of claims liabilities at the beginning of each fiscal year	\$ 16,157	\$ 15,180	\$ 18,896	\$ 17,723	\$ 44,266	\$ 31,109
Incurred claims:						
Provision for insured events of the current year	7,091	4,803	170,812	175,435	—	—
Increase (decrease) in provision for insured events of prior years	1,120	12,348	(4,377)	(1,672)	12,616	22,193
Total incurred claims	8,211	17,151	166,435	173,763	12,616	22,193
Payments:						
Claims attributable to insured events of the current year	(3,063)	(2,167)	(151,950)	(156,695)	—	—
Claims attributable to insured events of prior years	(3,874)	(14,007)	(14,399)	(15,895)	(8,602)	(9,036)
Total payments	(6,937)	(16,174)	(166,349)	(172,590)	(8,602)	(9,036)
Total claims liability at end of each fiscal year	\$ 17,431	\$ 16,157	\$ 18,982	\$ 18,896	\$ 48,280	\$ 44,266

⁽¹⁾ \$36.4 million of additional claims for the Administration Insurance Plans not included in the table above, are related to a catastrophic property loss for which the insurance proceeds were received prior to the incurred expenses.

NOTE 9. COMMITMENTS**A. Highway Construction**

At June 30, 2020, the Department of Transportation had contractual commitments of approximately \$281.5 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, 2020, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$60.9 million for capital projects construction. The primary government will fund \$40.4 million of these projects, with the remaining \$20.5 million funded from the Montana University System.

At June 30, 2020, Fish, Wildlife, and Parks had contractual commitments of approximately \$1.9 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans, residential mortgages, and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2020, BOI had committed, but not yet purchased, \$21.7 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$8.1 million for loans as of June 30, 2020. As of June 30, 2020, another \$825.9 thousand represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2020, 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, 2020, totaled \$29.6 million.

D. Department of Corrections Bond Commitments

At June 30, 2020, the outstanding tax-exempt bonds distributed by the Facility Finance Authority were issued in the amount of \$10.3 million, of which \$1.8 million in principal payments are scheduled to be paid by June 30, 2021. These bonds have been issued to facilities operating treatment and pre-release centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds. These costs are then recovered through the center's monthly billing for inmate room and board.

E. Department of Labor and Industry Commitments

At June 30, 2020, the Department of Labor and Industry, had \$1.9 million contractual commitments for Montana State AmeriCorps Programs and a \$1.8 million commitment for information technology contracts. The funding for these programs is federal grants, state special revenue funds, and proprietary funds.

F. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

<u>Enterprise Funds</u>	<u>Amount</u>
BOI Municipal Finance Programs	\$ 12
Liquor Warehouse	186
State Lottery Fund	19
Prison Industries	3
Other Enterprise Funds	1
Subtotal - Enterprise funds	<u>\$ 221</u>
<u>Internal Service Funds</u>	
SABHRS Finance and Budget Bureau	\$ 218
Investment Division	49
Labor Central Services	1,193
Subtotal - Internal Service funds	<u>\$ 1,460</u>

G. Encumbrances

As of June 30, 2020, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	<u>Federal Special Revenue Fund</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
Encumbrances	\$ 39,219	\$ 16,769	\$ 939	\$ 50,452	\$ 107,379

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 if the 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, 2020, were as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2021	\$ 5,918	\$ 12
2022	4,419	11
2023	2,905	4
2024	2,003	—
2025	1,571	—
2026 - 2030	3,877	—
2031 - 2035	1,660	—
Total minimum payments	22,353	27
Less: interest	(1,736)	(1)
Present value of minimum payments	\$ 20,617	\$ 26

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	\$ 1,596
Equipment	38,568
Less: Accum Depreciation	(13,137)
Net Book Value	\$ 27,027

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2020 totaled \$26.3 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2021	\$ 23,465	\$ 663
2022	21,675	611
2023	19,999	562
2024	17,047	563
2025	14,235	537
2026 - 2030	48,192	1,441
2031 - 2035	26,588	758
Thereafter	13,604	735
Total future rental payments	\$ 184,805	\$ 5,870

NOTE 11. STATE SHORT-TERM DEBT AND LONG-TERM LIABILITIES

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2020, the State issued two bond anticipation notes. The proceeds of the State Revolving Fund Programs Wastewater 2020D and Drinking Water 2019D issuances were used to fund wastewater and drinking water system improvements and rehabilitation. The State made some payments to Drinking Water 2019A, as well as paid off Wastewater 2019B, during fiscal year 2020. An additional bond anticipation note has been authorized, but not issued as of fiscal year-end. The following schedule summarizes the activity for the year ended June 30, 2020 (in thousands):

Bond Anticipation Notes	Beginning Balance	Additions	Reductions	Ending Balance
Water/Wastewater - 2019B	1,190	1,910	3,100	—
Drinking Water - 2019A	1,400	1,500	2,300	600
Drinking Water – 2019D ⁽¹⁾	—	1,300	—	1,300
Water/Wastewater – 2020D ⁽¹⁾	—	1,100	—	1,100

⁽¹⁾ These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate-Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190.0 million, as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and did not resell the bonds 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, 2020, were as follows (in thousands):

Series	Amount		Balance	
	Issued		June 30, 2020	
2003	\$ 15,000	\$	14,310	
2004	18,500		17,975	
2007	15,000		14,620	
2010	12,000		11,880	
2013	12,000		11,960	
2017	20,000		19,925	
		\$	<u>90,670</u>	

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2020 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$ 105,065	\$ —	\$ 14,395	\$ 90,670

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, 2020, were as follows (in thousands):

	Series	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2020
				Fiscal Year 2021	In Year of Maturity ⁽²⁾	
Governmental Activities						
General obligation bonds						
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	180	200 (2023)	570
CERCLA Program ⁽⁵⁾	2005D	2,000	3.25-4.3	115	140 (2026)	765
Energy Conservation Program ⁽⁴⁾	2006B	3,750	4.0-6.0	320	330 (2022)	650
Long-Range Bldg Program	2008D	3,100	3.375-4.35	160	220 (2028)	1,495
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	710	710 (2021)	710
Trust Land (Taxable)	2010F	21,000	1.55-4.9	1,000	1,450 (2031)	13,265
Long-Range Bldg Program	2010G	550	1.5-2.7	60	60 (2021)	60
Long-Range Bldg Program Refunding	2011D	5,755	3.0-3.25	670	720 (2023)	2,085
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	685	115 (2025)	3,010
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,085	820 (2028)	17,555
Water Pollution Control Revolving Fund ⁽³⁾	2015C	24,365	3.0-5.0	905	1,860 (2036)	21,185
Long-Range Bldg Program	2020C	28,900	2.0-5.0	2,605	3,465 (2030)	28,900
Total general obligation bonds		<u>\$147,730</u>		<u>\$ 9,495</u>		<u>\$ 90,250</u>
Special revenue bonds						
Renewable Resource Program (Taxable) ⁽⁷⁾	2010C	6,720	0.9-4.2	410	170 (2031)	3,540
Renewable Resource Program ⁽⁷⁾	2013A	2,255	2.0-3.625	145	155 (2024)	595
Renewable Resource Program (Taxable) ⁽⁷⁾	2013B	3,390	1.0-4.75	210	290 (2029)	2,215
U.S. Highway 93 GARVEE Refunding ⁽⁸⁾	2016	22,540	0.74-1.86	3,390	3,740 (2023)	10,685
State Hospital Project ⁽⁶⁾	2018	4,575	4.0-5.05	1,130	1,165 (2022)	2,295
Total special revenue bonds		<u>\$ 39,480</u>		<u>\$ 5,285</u>		<u>\$ 19,330</u>

Governmental Activities	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2020
			Fiscal Year 2021	In Year of Maturity ⁽²⁾	
Notes Payable					
Middle Creek Dam Project ⁽⁹⁾	3,272	8.125	96	226 (2034)	1,854
Tongue River Dam Project ⁽¹⁰⁾	11,300	—	290	290 (2038)	5,215
ITSD IBM Professional Services	758	0.19	167	72 (2023)	409
Total notes payable	<u>\$ 15,330</u>		<u>\$ 553</u>		<u>\$ 7,478</u>
Subtotal governmental activities, before unamortized balances					117,058
Unamortized premium					10,348
Total governmental activities	<u><u>\$202,540</u></u>		<u><u>\$ 15,333</u></u>		<u><u>\$ 127,406</u></u>

⁽¹⁾ The interest range is over the life of the obligation.

⁽²⁾ Year of maturity refers to fiscal year.

⁽³⁾ This bond provides matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

⁽⁴⁾ Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

⁽⁵⁾ The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

⁽⁶⁾ Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.

⁽⁷⁾ Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

⁽⁸⁾ The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

⁽⁹⁾ U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.

⁽¹⁰⁾ Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2020, were as follows (in thousands):

Year Ended June 30:	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 9,495	\$ 3,656	\$ 5,285	\$ 913	\$ 553	\$ 8
2022	8,845	3,571	5,510	678	560	44
2023	8,905	3,104	4,565	432	465	41
2024	8,320	2,737	860	209	398	41
2025	7,965	2,350	745	141	403	41
2026 - 2030	35,350	6,765	2,195	271	2,095	204
2031 - 2035	9,510	1,547	170	5	2,135	163
2036 - 2040	1,860	47	—	—	869	—
Total	<u>\$ 90,250</u>	<u>\$ 23,777</u>	<u>\$ 19,330</u>	<u>\$ 2,649</u>	<u>\$ 7,478</u>	<u>\$ 542</u>

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2020, were as follows (in thousands):

	Beginning Balance ⁽⁴⁾	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$ 73,090	\$ 28,900	\$ 11,740	\$ 90,250	\$ 9,495	\$ 80,755
Special revenue bonds	38,425	—	19,095	19,330	5,285	14,045
Notes payable	8,150	—	672	7,478	553	6,925
	119,665	28,900	31,507	117,058	15,333	101,725
Unamortized discount	(7)	7	—	—	—	—
Unamortized premium	7,461	2,887	—	10,348	—	10,348
Total bonds/notes payable ⁽³⁾	127,119	31,794	31,507	127,406	15,333	112,073
Other liabilities						
Lease/installment purchase payable	12,545	16,653	8,581	20,617	5,634	14,983
Operating lease rent holiday	8	—	8	—	—	—
Compensated absences payable ⁽¹⁾	101,685	59,366	51,758	109,293	51,621	57,672
Estimated insurance claims ⁽¹⁾⁽²⁾	79,318	187,262	145,482	121,098	46,576	74,522
Pollution remediation	177,850	—	4,358	173,492	14,250	159,242
Net pension liability	2,220,765	49,435	27,116	2,243,084	—	2,243,084
Total OPEB liability	54,012	—	8,419	45,593	—	45,593
Total other liabilities	2,646,183	312,716	245,722	2,713,177	118,081	2,595,096
Total governmental activities long-term liabilities	\$ 2,773,302	\$ 344,510	\$ 277,229	\$ 2,840,583	\$ 133,414	\$ 2,707,169
Business-type activities						
Lease/installment purchase payable	\$ 18	\$ 53	\$ 45	\$ 26	\$ 11	\$ 15
Compensated absences payable	2,022	1,055	860	2,217	860	1,357
Arbitrage rebate tax payable	44	21	43	22	—	22
Estimated insurance claims	19,069	92,423	93,969	17,523	12,942	4,581
Net pension liability	11,943	662	1,095	11,510	—	11,510
Total OPEB liability	1,004	—	187	817	—	817
Total business-type activities long-term liabilities	\$ 34,100	\$ 94,214	\$ 96,199	\$ 32,115	\$ 13,813	\$ 18,302

⁽¹⁾ The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

⁽²⁾ \$36.4 million Administration Insurance Plans included in the table above, are related to a catastrophic property loss for which the insurance proceeds were received prior to the incurred expenses.

⁽³⁾ Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

⁽⁴⁾ Total OPEB liability and Pension benefits payable beginning balances were restated due to prior period adjustments.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make several prepayments: \$1.2 million on Series 2010B general obligation bond, \$450.0 thousand on Series 2013D general obligation bond, \$1.2 million on Series 2013E general obligation bond, \$805.0 thousand on Series 2003A special revenue bond, \$1.1 million on Series 2010B state special revenue bond, and \$865.0 thousand on Series 2013A special revenue bond. The prepayments on all three general obligation bonds, as well as those made to special revenue bonds Series 2003A and Series 2010B, resulted in payoffs.

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, 2020, QZAB debt outstanding aggregated \$5.0 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act as conduit (no-commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2020, QSCB debt outstanding aggregated \$3.9 million.

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, 2020, was \$173.5 million. Of this liability, \$4.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies, and natural resource-based recreational opportunities up to the settlement amount; \$162.5 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and Polychlorinated Biphenyls (PCB) contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State’s total acceptance of the liability or responsibility on these matters.

I. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$88.3 million as of June 30, 2020. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI’s participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA’s statutorily allowed capital reserve account is explicitly limited by statute, which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI receives a credit enhancement fee at FFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. BOI and FFA have entered into an agreement detailing repayment to BOI. The credit enhancement fee received during the fiscal year was \$54.0 thousand. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2020 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 88,941	\$ 4,000	\$ 4,595	\$ 88,346

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 transfers between funds are recorded and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Municipal Finance Programs to other funds, under the Board of Investments' INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2020, consisted of the following (in thousands):

	Due to Other Funds								Total
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Enterprise Funds ⁽²⁾	Nonmajor Governmental Funds	State Special Revenue	
Due from Other Funds									
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8	\$ —	\$ 8
Federal Special Revenue	—	—	2,871	—	—	—	—	11	2,882
General Fund	—	1,499	—	—	—	15,954	—	9,018	26,471
Internal Service Funds	40	26	—	—	—	—	—	43	109
Municipal Finance Programs	—	—	—	1,924	—	—	1,414	—	3,338
Nonmajor Governmental Funds	—	308	29	—	—	—	—	1,110	1,447
State Special Revenue ⁽¹⁾	550	18	170	—	1,750	125	524	—	3,137
Total	\$ 590	\$ 1,851	\$ 3,070	\$ 1,924	\$ 1,750	\$ 16,079	\$ 1,946	\$ 10,182	\$ 37,392

⁽¹⁾ Total due from other funds to the state special revenue fund on the fund financial statement is reported as \$13.7 million. The difference of \$10.6 million between the amount reported above of \$3.1 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.

⁽²⁾ Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as \$16.3 million. The difference of \$245.1 thousand between the amount reported above of \$16.1 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide statement, and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary, and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2020, consisted of the following (in thousands):

	Interfund Loans Payable								Total
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	State Special Revenue	Land Grant	Unemployment Insurance	
Interfund Loans Receivable									
General Fund	\$ 1,332	\$ 88,769	\$ 258	\$ 257	\$ 80	\$ 5,283	\$ —	\$ —	\$ 95,979
Nonmajor Enterprise Funds	—	61	—	—	—	—	—	—	61
Nonmajor Governmental Funds	—	—	—	—	—	5	—	—	5
State Special Revenue	—	100,225	19	200	—	—	10	1,500	101,954
Total	\$ 1,332	\$ 189,055	\$ 277	\$ 457	\$ 80	\$ 5,288	\$ 10	\$ 1,500	\$197,999

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Municipal Finance Programs to other funds, under the Board of Investments' INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2020, consisted of the following (in thousands):

	Advances from Other Funds				Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	
Advances to Other Funds					
Coal Severance Tax	\$ —	\$ —	\$ 2,507	\$ —	\$ 2,507
General Fund	355	—	—	—	355
Municipal Finance Programs	—	5,407	1,601	—	7,008
Nonmajor Governmental Funds	—	—	—	6,065	6,065
State Special Revenue	25,131	—	3,217	—	28,348
Total	\$ 25,486	\$ 5,407	\$ 7,325	\$ 6,065	\$ 44,283

Additional detail for certain advance balances at June 30, 2020, follows (in thousands):

Advances from the Municipal Finance Programs under the INTERCAP Loan Program	
Departmental Function	Balance
Natural Resources and Conservation	\$ 1,601
Fish, Wildlife, and Parks	756
Transportation	4,651
Total	\$ 7,008

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, 2020, consisted of the following (in thousands):

	Transfers Out								Total
	Coal Severance Tax	Federal Special Revenue	General Fund ⁽¹⁾	Internal Service Funds ⁽²⁾	Land Grant	Nonmajor Enterprise Funds ⁽³⁾	Nonmajor Governmental Funds	State Special Revenue	
Transfers In									
Coal Severance Tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 2
Federal Special Revenue	—	—	20	—	—	—	—	1,465	1,485
General Fund ⁽¹⁾	21,600	114	—	—	5	50,522	—	14,532	86,773
Internal Service Funds	—	—	1,400	—	—	—	—	34,737	36,137
Land Grant	—	—	5	—	—	—	—	1	6
Nonmajor Enterprise Funds	—	—	—	—	—	—	—	458	458
Nonmajor Governmental Funds	589	31,838	19,685	—	2,187	—	1,376	12,987	68,662
State Special Revenue	11,598	16,681	55,839	391	59,393	8,752	23,559	—	176,213
Total	\$ 33,787	\$ 48,633	\$ 76,949	\$ 391	\$ 61,585	\$ 59,274	\$ 24,937	\$ 64,180	\$ 369,736

⁽¹⁾ \$57.1 million was transferred from the General Fund to the Budget Stabilization Reserve Fund; however, those funds are combined for reporting purposes. Therefore the transfer is not accounted for in the above table as both the transfer-in and the respective transfer-out have been eliminated as required for proper financial reporting.

⁽²⁾ Total transfers-out for internal service funds on the fund financial statements is reported as \$944.0 thousand. The difference of \$553.3 thousand between the amount reported above of \$390.7 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

⁽³⁾ Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as \$59.4 million. The difference of \$120.9 thousand between the amount reported above of \$59.3 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, 2020, as follows (in thousands):

Fund Type/Fund	Deficit ⁽¹⁾
Governmental Funds	
Federal Special Revenue ⁽²⁾	\$ (6,800)
Federal/Private Construction Grants	(710)
Internal Service Funds	
Information Tech Services	\$ (16,334)
Building and Grounds	(1,171)
Admin Central Services	(1,817)
Labor Central Services	(5,962)
Commerce Central Services	(1,377)
OPI Central Services	(2,227)
DEQ Indirect Cost Pool	(3,623)
Payroll Processing	(1,638)
Warrant Processing	(8)
Investment Division	(2,298)
Aircraft Operation	(678)
Justice Legal Services	(709)
Personnel Training	(159)
Other Internal Services	(345)
SABHRS Finance & Budget Bureau	(252)
Enterprise Fund	
State Lottery	\$ (1,898)
Subsequent Injury	(1,313)
Local Government Audits	(163)

⁽¹⁾ The allocation of net pension liability and total OPEB liability is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7, respectively.

⁽²⁾ Delayed fire season federally reimbursable costs, which are currently reported as unavailable revenues within deferred inflow of resources, is a significant factor creating this deficit.

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, 2020.

State Special Revenue By Source (in thousands)							
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	\$ 124,482	\$ 46,545	\$ 22,478	\$ 3,280	\$ 156	\$ 88,698	\$ 285,639
Taxes	212,989	5,091	260,331	—	—	16,733	495,144
Charges for services	26,865	18,209	9,307	33,009	2,346	16,905	106,641
Investment earnings	700	11,852	507	491	1,513	24,100	39,163
Securities lending income	—	27	—	—	3	45	75
Sale of documents/ merchandise/property	1,386	3,417	89	84	6	7,554	12,536
Rentals/leases/royalties	298	16	672	50	7	303	1,346
Contributions/premiums	28,290	—	—	5,204	—	315	33,809
Grants/contracts/donations	1,495	767	276	10,545	1,791	4,629	19,503
Federal	6,184	—	1	430	27	—	6,642
Federal indirect cost recoveries	—	—	52,086	43	—	5,380	57,509
Other revenues	2,112	429	291	140	193	784	3,949
Transfers in	35,320	8,602	1,536	8,034	1,264	121,457	176,213
Total State Special Revenue	<u>\$ 440,121</u>	<u>\$ 94,955</u>	<u>\$ 347,574</u>	<u>\$ 61,310</u>	<u>\$ 7,306</u>	<u>\$ 286,903</u>	<u>\$ 1,238,169</u>

Federal Special Revenue By Source (in thousands)							
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	\$ 818	\$ 6	\$ —	\$ 6,531	\$ 1	\$ 2	\$ 7,358
Investment earnings	456	17	—	—	57	138	668
Securities lending income	37	—	—	—	—	—	37
Grants/contracts/donations	—	—	—	13	59	—	72
Federal	204,771	18,983	565,747	2,071,021	193,655	126,323	3,180,500
Federal indirect cost recoveries	—	—	—	91,703	58	1,526	93,287
Other revenues	6	9	—	1,269	2	3	1,289
Transfers in	—	1,356	—	109	20	—	1,485
Total Federal Special Revenue	<u>\$ 206,088</u>	<u>\$ 20,371</u>	<u>\$ 565,747</u>	<u>\$ 2,170,646</u>	<u>\$ 193,852</u>	<u>\$ 127,992</u>	<u>\$ 3,284,696</u>

Governmental Fund Balance By Function, June 30, 2020
(in thousands)

	Special Revenue			Permanent		Nonmajor	Total
	General	State	Federal	Coal Severance Tax	Land Grant		
Fund balances:							
Nonspendable							
Inventory	\$ 3,704	\$ 20,118	\$ —	\$ —	\$ —	\$ —	\$ 23,822
Permanent fund principal	—	500	—	655,267	845,746	384,871	1,886,384
Long-term notes/receivables	355	—	—	—	—	—	355
Prepaid expense	844	692	252	—	—	—	1,788
Total nonspendable	4,903	21,310	252	655,267	845,746	384,871	1,912,349
Restricted							
General government	—	27,413	—	—	—	24,353	51,766
Public safety	—	198,844	—	—	—	1	198,845
Transportation	—	127,891	—	—	—	—	127,891
Health and human services	—	9,020	—	—	—	680	9,700
Education	—	14,502	—	—	—	7	14,509
Natural resources	—	768,734	—	—	—	10,696	779,430
Total restricted	—	1,146,404	—	—	—	35,737	1,182,141
Committed							
General government	117,773	140,565	—	566,510	—	28,148	852,996
Public safety	—	61,203	—	—	—	—	61,203
Transportation	—	16,837	—	—	—	—	16,837
Health and human services	—	40,453	—	—	—	—	40,453
Education	—	19,946	—	—	—	—	19,946
Natural resources	—	389,397	—	—	—	26,809	416,206
Total committed	117,773	668,401	—	566,510	—	54,957	1,407,641
Assigned							
General government	—	—	—	—	—	836	836
Public safety	—	—	—	—	—	208	208
General Fund spend down	72,700	—	—	—	—	—	72,700
Encumbrance	16,769	—	—	—	—	—	16,769
Total assigned	89,469	—	—	—	—	1,044	90,513
Unassigned							
	380,667	—	(7,051)	—	—	(709)	372,907
Total fund balance	\$ 592,812	\$ 1,836,115	\$ (6,799)	\$ 1,221,777	\$ 845,746	\$ 475,900	\$ 4,965,551

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that annually approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry's Workforce Services Division rents space in Libby, MT, from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013 and ending June 30, 2021. The annual lease amount is currently set at \$21.3 thousand.

The Department of Labor and Industry Workforce Services Division rents space in Cut Bank, MT from Glacier Community Health Center, Inc., in which one of the active board members is a local job service manager. The term of the lease is July 1, 2019 and ending June 30, 2022. The annual lease amount is currently set at \$35.0 thousand.

The relative of a member of Montana Department of Transportation's (MDT) management team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration (DOA) and state agencies are required to use the DOA issued term contracts for such supplies. MDT purchased supplies from this business in the amount of \$95.9 thousand for the fiscal year ended June 30, 2020.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. MDT purchased services in the amount of \$16.9 thousand for the fiscal year ended June 30, 2020.

Per Section 85-1-617 and 85-1-624, MCA, Renewable Resource Grant and Loan Program, the Department of Natural Resources and Conservation (DNRC) is eligible to issue General Obligation (GO) bonds for the purpose of making private sale loans. DNRC has applied and received "recycled loan funds" from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for fiscal year 2020 was \$3.1 million. The loans have interest rates of 2.5% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

Per Administrative Rules of Montana 17.58.101, the Montana Petroleum Tank Release Compensation Board (Board) is an independent board that is attached to Department of Environmental Quality (DEQ) for administrative purposes only. Board members are required to follow Montana's code of ethics, which includes recusing oneself in matters related to a conflict of interest. DEQ is required to go through a competitive bidding process to ensure this State law is followed. Four Board members were identified as having related party transactions with DEQ. These relationships include members who are: 1) an employee of a company that had a release and is receiving funds; 2) an agent for an insurer that covered a station tank release and is receiving funds; 3) an officer in a bank that receives funds; and 4) a contractor for DEQ, that is responsible for clean-up oversight, and is also a shareholder of a separate company that receives funds. A DEQ employee's spouse is an elected City Commissioner for the City of Helena which was awarded \$25.5 thousand in VW Settlement funds for three electric charging stations by DEQ. Total payments to all related parties were direct payments to the contractors in the amount of \$282.2 thousand and \$34.0 thousand, and indirect payments to the bank and the insurance company in the amount of \$45.1 thousand and \$12.1 thousand, respectively, for the fiscal year ended June 30, 2020.

All lotteries that offer multi-state games transact with the Multi-State Lottery Association (MUSL), which requires the lottery directors from each of the states to be on the MUSL board of directors. The Director of the Montana Lottery is on the MUSL board, and serves as the Secretary of its board of directors. As such, the Director of the Montana Lottery is in a management position for both MUSL and the Montana Lottery, which have significant transactions between each other. The Montana Lottery has prize reserves with MUSL in the amounts of \$1.1 million for the fiscal year ended June 30, 2020. The prize reserve monies are assets of the Montana Lottery and would be

returned if the Montana Lottery were to quit any of the multi-state games. Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough prize amount or number of winners for any particular draw, MUSL would then reimburse any state for the excess prize payments. The Montana Lottery paid MUSL \$5.4 million for its share of prizes and received reimbursements for prizes in the amount of \$3.0 million for the fiscal year ended June 30, 2020.

There are campus-affiliated foundations within the Montana University System (MUS) as identified in the Montana Board of Regents of Higher Education Policy 901.9 – Campus-Affiliated Foundations; Montana University System Foundation. The private foundations affiliated with campuses of the MUS provide support to their respective campuses, consistent with the mission and priorities of such campus. As such, transactions occur between the Commissioner of Higher Education and said foundations as reimbursements for hosting MUS constituents and other related events and gatherings. These transactions do not affect the financial statements in any way; however, total such transactions were \$7.3 thousand for the fiscal year ended June 30, 2020.

In addition, the MUS Group Insurance Program offers insurance coverage and receives insurance premiums from other related parties such as the campus-affiliated foundation and the community colleges. This premium revenue for campus-affiliated foundations and the community colleges approximately amounts to \$6.5 million for the fiscal year ended June 30, 2020.

Montana Higher Education Student Assistance Corporation (MHESAC) has no employees and its business operations are managed by the Student Assistance Foundation (SAF). A Board of Regents board member is also a MHESAC Board of Directors member, an Office of the Commissioner of High Education OCHE staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. first Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1.0 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a settlement amount calculated annually on cigarette sales by Participating Manufacturers in perpetuity. The base amount was augmented by \$90.0 million in 1999 for a strategic contribution portion for those states instrumental in obtaining the settlement, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017. Multiple other tobacco product manufacturers joined the MSA after the initial signing period. Collectively, the signing manufacturers are known as "Participating Manufacturers."

The settlement provides that the tobacco product manufacturers may potentially offset, against their payment in any year, certain amounts of money if it is found that the Participating Manufacturers have lost more than 2% of their national market share (from 1997) to non-settling manufacturers (known as NPMs) and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "Qualifying Statute" and diligently enforced the statute during the year in question. Montana enacted such a Qualifying Statute in 1999, Section 16-11-401 to 404, MCA, and complementary legislation in 2003, Section 16-11-501 to 512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the Participating Manufacturers had lost sufficient market share in 2003 to trigger an NPM adjustment analysis and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its Qualifying Statute during 2003. The Participating Manufacturers moved to compel arbitration of the question. The First Judicial District Court ordered arbitration but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems, preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and, ultimately, a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies, which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003 (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the “no contest” for 2003 has no precedential effect in any subsequent year for Montana or any other state’s case. Accordingly, Montana was not subject to the 2003 NPM Adjustment. Still the consent decree specifically articulated that Defendants’ consent to its terms “is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year.”

Despite Montana’s successful defense of its 2003 and 2004 enforcement actions no precedential protections exist, and the State remains vulnerable to further expected litigation regarding its diligent enforcement in 2005-2017. The Participating Manufacturers have already received a determination that MSA terms were a “substantial factor” reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to enforce their statutes diligently.

The Participating Manufacturers conceded that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect during 2005-2016 and thereafter to date. Factual arguments exist to show that Montana diligently enforced its Qualifying Statute during 2005-2017. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2005-2017, which would be recouped through an offset of payments due to Montana in future years. The Participating Manufacturers will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and Participating Manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration; this arbitration continues.

Montana filed a Declaratory Judgment Motion in 2017 for the 2004 NPM Adjustment to have its MSA Court (First Judicial District) declare that Montana had a qualifying statute in place and diligently enforced its Qualifying Statute for the 2004 calendar year. The Participating Manufacturers conceded that Montana has a Qualifying Statute. As part of this action, Montana successfully obtained a ruling from its MSA Court on the burden of proof whereby the Participating Manufacturers must prove that Montana did not diligently enforce its Qualifying Statute to succeed under the NPM Adjustment. Montana is the only state party to the MSA with this ruling on the burden of proof. On the eve of trial, the Participating Manufacturers settled with Montana for all of the 2004 NPM Adjustment funds previously withheld plus interest and earnings. The settlement does not provide a precedent for future NPM Adjustment proceedings, except for the ruling on the burden of proof.

A stipulated dismissal with prejudice was filed on November 17, 2020 following a settlement of \$65.3 million to be paid to the State for withheld payments from the disputed payment account. The State also secured ongoing relief for the next eleven years preventing the participating manufacturers from claimed the State did not diligently enforce the Master Settlement Agreement.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork, and Madison rivers. The case originated in 2003, when a group of parents of school-age children sued Petitioner PPL Montana, LLC (PPL), in Federal Court, alleging that the company must pay rent for the use of state-owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for the 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 the use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the State almost \$41.0 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court. In March of 2010, the Montana Supreme Court issued a decision upholding the district court’s finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the \$41.0 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome of this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with \$1.2 million for PPL's costs relating to the appellate proceedings. All, but approximately \$31.0 thousand, relate to premiums that PPL paid for a supersedeas bond in support of staying the \$41.0 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for \$31.3 thousand. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court rules 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, now known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), is scheduled for a bench trial beginning September 27, 2021. All Defendants have answered the State's amended complaint, including the recently added Defendant United States. The State's expert witnesses have been disclosed and Defendants' expert witnesses are required to be disclosed in February 2021. Discovery will close May 21, 2021. The State's claims against the utilities remain unchanged and the State still holds the opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz) was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, and the State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, the Plaintiffs filed with the District Court a motion for class certification. The District Court Judge denied the Plaintiffs' motion for class certification on December 16, 2009. The 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. The 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, which was October 23, 2008.

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 to 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 developed the notice that has been sent to class members.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10.0% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

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; any other issues as necessary to facilitate the swift and equitable resolution of the case.

As of June 30, 2017, the State paid Plaintiffs \$1.4 million in based payments plus interest.

On June 21, 2017, the Special Master issued a report and recommended order regarding the partial payment of the Plaintiffs' counsels' attorney fees. This recommendation was based on a stipulation the State and the Plaintiffs' counsel had reached, agreeing that the State would pay counsel \$400.8 thousand for claims made by individuals that could be documented. The State has paid this amount to class counsel.

The Special Master issued a second report and recommended order expanding the class on August 8, 2018. The principal findings of this recommendation were to expand the class definition to include those individuals who did not submit claims to the State for processing; to expand the class to end June 30, 2016; and to redefine the class as (a) employees, employee dependents, retirees, and retiree dependents who participate or participated in the State of Montana's health benefit plan(s), administered or operated by the State and/or the third party administrators whose claims for covered benefits took place no earlier than eight years prior to the filing of the complaint in this action, which was October 23, 2008; (b) who were injured through the legal fault of persons who have legal obligations to compensate them for all damages sustained; and (c) who have not been made whole for their damages (or for whom the State and TPAs conducted no made whole analysis) because the State and the third party administrators programmatically failed to pay benefits for their covered medical costs. On October 29, 2018, the District Court Judge issued an Order Adopting the Special Master's Report Expanding the Class.

As of June 30, 2018, the State paid Plaintiffs \$1.7 million in based payments plus interest.

On April 23, 2019, the District Court Judge approved the parties' motion for a process to identify and distribute residual funds for known class members on the master list for Blue Cross Blue Shield of Montana claims. On May 2, 2019, the State issued payment of \$122.0 thousand to the Hunt Law Firm for the residual funds and interest thereon.

On May 1, 2019, the parties filed the Notice to Special Master of Agreement on Notice Procedure. Pursuant to that notice, the State distributed notices to all former and current State employees enrolled in the State health plan between January 1, 2010 through June 30, 2016. Notice was distributed through email and first-class mail. The initial distribution of notices was May 23, 2019. The deadline for a claimant to return a claim to the State is November 30, 2019.

As of June 30, 2019, the State paid Plaintiffs \$2.0 million, including the payment for residual funds and interest.

As of June 30, 2020, the State paid Plaintiffs \$2.9 million for claim payments, interest, and attorney fees for Plaintiffs' counsel.

Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. The District Court dismissed the case for failure to state a claim, which order was appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The Ninth Circuit Court of Appeals overturned the district court's ruling and remanded the case back to the district court in front of a new judge. As a result, the Department of Corrections (Department) has participated in on-going discovery, with the aid of outside expert witnesses and the defense of the case through outside legal counsel. The parties had previously exchanged settlement proposals without success. Because of legislation enacted during the 2019 legislative session, the department implemented significant changes in the use of restrictive housing, especially as related to seriously mentally ill inmates. The Plaintiff has made several 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 continues to be unable to specify an anticipated amount of financial obligation imposed either by settlement or by judgment.

Kila Shepherd v. Montana Department of Corrections (Department) (Cause # BDV-2020-302/DA 20-0376) is a Step III Grievance proceeding, in accordance with 2.21.8017, Administrative Rules of Montana (ARM), and the Department has hired outside legal counsel to represent it regarding Ms. Shepherd's termination from her position at the Department. Ms. Shepherd sought in excess of \$1.0 million for punitive damages, lost wages, loss of benefits, emotional distress, and attorney's fees. A hearing on the Step III grievance before an administrative law judge (ALJ) was held in January 2019. The ALJ issued a decision in February 2020, finding in favor of the Department and

recommending denial of the grievance. The Department concurred with the decision and issued its final administrative decision denying Ms Shepherd's grievance over the termination. Ms. Shepherd then filed a lawsuit in Lewis & Clark County district court, alleging wrongful discharge. The Department filed a motion to dismiss on the grounds that the suit had been filed after the statute of limitations had run. The district court granted the motion after full briefing. Ms. Shepherd has appealed that decision to the Montana Supreme Court and the matter is now fully briefed.

Cascade County v. State of Montana, Montana and Department of Corrections (Department) (Cause # CDV-2019-1181) is a case filed by Cascade County, suing for breach of contract, unjust enrichment and breach of implied covenant of good faith and fair dealing, seeking over \$766.0 thousand in unpaid jail reimbursement costs plus interest at 10.0% per annum. This case involves interpretation of contract and statutory language. This matter has been referred to the Department of Justice Agency Legal Services for representation of the Department. The likelihood of success is reasonably probable.

Vincent, Benner, and Hoch v. DPHHS (CDV-19-0314, Eighth Judicial District Court, Cascade County) was filed on May 17, 2019, by Montana Optometric Association members seeking class certification of all licensed Montana optometrists who are participating providers in Montana Medicaid. The named plaintiffs claim the department's Medicaid rate structure discriminates against them because they are paid less than physicians (doctors of medicine or doctors osteopathy) for performing the same services. They cite Section 37-10-104, MCA, as the basis of the discrimination claim. They seek declaratory relief and permanent injunctive relief in their claims of discrimination, violations of MAPA, and breach of contract and implied covenant of good faith. They request damages, interests, costs, and attorney fees, which would amount to more than \$1 million.

Moody's Market, Inc. et al. v. Montana State Fund, Montana Board of Investments, and State of Montana (Cause # DV-18-12) is a case filed by a group of Montana State Fund (MSF) policyholders, in Lake County District Court. MSF Policyholders filed this in an effort to prevent the Board of Investments (BOI) from charging a 3.0% management fee on any single investor whose average portfolio balance held by BOI is greater than \$1.0 billion. This fee was implemented per Senate Bill (SB) 4, passed during the 2017 Legislative Special Session. The District Court issued a decision dismissing MSF as a party and subsequently dismissed the case against the State of Montana and Board of investments. The plaintiffs appealed the District Court Decision to the Montana Supreme Court.

The Montana Supreme Court dismissed the appeal on justiciability grounds because SB4 had terminated by its own terms, thereby sustaining the District Court's decision dismissing the underlying case. While plaintiffs have indicated they may attempt to continue litigating the case, no new complaint or other pleading has been filed.

LL Liquor v. State of Montana (District of Montana, D.C. No. 6:15-cv-00071-SEH) 912 F.3d 533 is a case in which LL Liquor sued the Department of Revenue (Department) for breach of contract for changes to the Montana agency liquor stores' commission rates. The Ninth Circuit Court held that the Department breached the agency liquor store franchise agreement. On remand for damages, the Federal District Court confirmed a settlement of \$5.0 million. The Ninth Circuit Court recently held that the Department must pay 10.0% interest on the settlement amount, in accordance with section 18-1-404, MCA. That additional amount, currently at \$586.3 thousand, continues to accrue. The resulting amount of \$5.6 million is a set financial loss. The Department is asking the Legislature for a supplemental under House Bill No. 3 for the amount. However, the Department has since asked the Federal District Court to reconsider and that petition has not been ruled on.

The Public Employee Retirement Board (PERB) has four items of outstanding litigation in relation to the Sheriffs' Retirement System (SRS) and the Montana Public Employee's Retirement Administration (MPERA). Refer to Note 6, section I, for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has two items of litigation, in addition to the case listed above, in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O, for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Federal Grants - The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial

statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the State. The State is currently involved in administrative and legal proceedings, with certain federal agencies, contesting various disallowances and sanctions related to federal assistance programs ranging from \$1.8 million to \$5.0 million at June 30, 2020. The State's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

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. 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 2020, the State distributed \$1.2 million of food commodities under CFDA #10.567 to other states.

The State distributed \$12.2 million in commodities in fiscal year 2020. The value at June 30, 2020, of commodities stored at the State’s warehouse, is \$4.7 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, 2020, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Municipal Finance Programs and the Facility Finance Authority (a component unit of the State of Montana), totaling \$179.0 million. The BOI’s exposure to bond issues of the Municipal Finance Programs was \$90.7 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority were \$88.3 million. The BOI has not been held responsible for 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, 2020, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General Fund</u>
Corporate Tax	\$ 6,693

The 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, 2020. The corporations have appealed the Department of Revenue's decision to deny or adjust the refund. As of June 30, 2020, these include \$11.2 million of General Fund corporate tax refunds. It is estimated that most of these corporation tax refunds would consist primarily of tax and could be significantly reduced or eliminated due to audits and appeals currently in process.

Certain companies have protested property taxes that have been included as revenue on the State’s financial statements as of June 30, 2020. As of June 30, 2020, these include \$16.3 thousand of protested property taxes recorded in the General Fund and \$18.4 thousand recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2020, the Board of Investments (BOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of \$8.1 million.

Since June 30, 2020, BOI has committed \$228.5 million within the Real Estate Pension Asset Class of Consolidated Asset Pension Pool (CAPP).

Since June 30, 2020, BOI has committed and funded another \$1.5 million to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program and committed, but not yet funded, an additional \$1.8 million. On top of these commitments, lenders have also reserved \$6.5 million in new loans. Of the reservations in effect as of June 30, 2020, \$7.0 million have expired. Additional reservations in the amount of \$2.4 million were made for the Veteran's Home Loan Mortgage Program residential mortgage purchases.

In August 2020, BOI approved an additional loan guarantee from the Coal Severance Tax Permanent Fund to Facility Finance Authority totaling \$20.0 million.

Other Subsequent Events

In August 2020, Department of Natural Resources & Conservation (DNRC) received \$10.1 million from Department of Fish, Wildlife & Parks in payment for the permanent recreation easement at Big Arm State Park.

On August 26, 2020, the Board of Examiners authorized a \$1.5 million Non-Point Source Renewable Resource 2020F bond, which was issued on October 15, 2020.

On September 11, 2020, DNRC issued Series 2020E bonds, in the amount of \$2.8 million, for the St. Mary's Project.

On September 29, 2020, the Department of Administration issued a total of \$50.9 million in three new general obligation bond series. Bond Series 2020G, authorized by 2019 HB652, was issued at par value of \$32.5 million. Bond Series 2020H, for the Long-Range Building Montana Historical Society project, was issued at par value of \$5.9 million. Bond Series 2020I was issued at \$12.5 million for the refunding of outstanding Potomac Trust Lands general obligation bond Series 2010F.

On October 20, 2020, DNRC issued Series 2020J bonds for the Water Pollution Control State Revolving Fund, in the amount of \$24.9 million. The bond proceeds will be used to refund the outstanding balance of Series 2015C bonds of \$19.3 million and the remaining will be used for new loans within the program.

On November 16, 2020, the Department of Justice reached a settlement of \$49.0 million to be recovered from tobacco companies as a result of wrongly withheld taxes from a 1998 settlement.

On November 16, 2020, The Board of Examiners authorized the following:

- \$1.0 million Series 2020K general obligation bonds, which were issued on December 3, 2020,
- \$14.0 million Coal Severance Tax Series 2020L bonds, whose proceeds will be used to refund the outstanding balance on existing Coal Severance Tax bonds, which were issued on December 23, 2020,
- \$1.7 million Coal Severance Tax Series 2020M bonds, which were issued on December 23, 2020, and
- \$8.0 million general obligation bond anticipated note, \$4.0 million for the Water Pollution Control and \$4.0 million for the Drinking Water State Revolving Fund Programs, neither of which have been issued.

On December 23, 2020, DNRC issued taxable Series 2020N general obligation bond anticipation note for the Drinking Water State Revolving Fund Program, in the amount of \$3.2 million.

Though nearly \$100.0 million was spent during fiscal year 2020, the total amount of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding granted to Montana by the federal government, \$1.25 billion, is expected to be expended during fiscal year 2021 for COVID-19 related grants and expenditures incurred. The allocation of these funds is estimated to be distributed, most notably, as follows:

- 22% through the Business Stabilization, Adaptability, and Innovation programs,

- 22% through local government and state agency reimbursements,
- 20% through additional Unemployment Insurance benefits,
- 7% through public and private school programs,
- 6% through working capital loans and loan deferments,
- 5% through child care programs, and
- 4% through social services grants to nonprofits.

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, 2020 (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	\$ 706,291	\$ 8,564	\$ 1,690,107	\$ 661,740	\$ 610,922	\$ 3,677,624
Due from primary government	—	—	—	277	1,048	1,325
Due from component units	—	—	—	—	176	176
Capital assets (net) (Note 18C)	17	1	38,190	561,777	390,663	990,648
Total assets	706,308	8,565	1,728,297	1,223,794	1,002,809	4,669,773
Deferred Outflows of Resources	555	58	3,317	43,611	30,020	77,561
Liabilities:						
Accounts payable and other liabilities	11,873	22	108,644	77,448	72,638	270,625
Due to primary government	—	—	—	2,025	60	2,085
Due to component units	—	—	—	176	—	176
Advances from primary government ^{(2) (3)}	—	—	—	16,993	2,991	19,984
Long-term liabilities (Note 18I)	534,714	271	1,041,217	349,542	293,856	2,219,600
Total liabilities	546,587	293	1,149,861	446,184	369,545	2,512,470
Deferred Inflows of Resources	362	45	3,661	22,512	29,642	56,222
Net Position:						
Net investment in capital assets	3	1	38,190	365,329	279,070	682,593
Restricted	159,911	—	—	343,094	335,639	838,644
Unrestricted	—	8,284	539,902	90,286	18,933	657,405
Total net position	\$ 159,914	\$ 8,285	\$ 578,092	\$ 798,709	\$ 633,642	\$ 2,178,642

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2019.

⁽²⁾ Loans from the Coal Severance Tax Permanent Fund make up \$4.5 million and \$3.0 million of these balances for Montana State University and University of Montana, respectively.

⁽³⁾ Loans from the Board of Investment's INTERCAP and the Department of Environmental Quality's energy conversation loan programs make up \$9.9 million and \$2.6 million, respectively, of the balance for Montana State University.

Condensed Statement of Activities

	Component Units					
	Montana Board of Housing	Facility Finance Authority	Montana State Fund ⁽¹⁾	Montana State University	University of Montana	Total Component Units
Expenses	\$ 24,455	\$ 705	\$ 201,034	\$ 630,487	\$ 452,417	\$ 1,309,098
Program Revenues:						
Charges for services	1,742	741	156,871	287,201	169,686	616,241
Operating grants and contributions	25,151	155	—	213,150	126,758	365,214
Capital grants and contributions	—	—	—	5,972	1,875	7,847
Total program revenues	26,893	896	156,871	506,323	298,319	989,302
Net (expense) program revenues	2,438	191	(44,163)	(124,164)	(154,098)	(319,796)
General Revenues:						
Unrestricted investment earnings	—	—	136,145	3,397	3,559	143,101
Transfer from primary government ⁽²⁾	—	—	—	140,660	104,003	244,663
Gain (loss) on sale of capital assets	—	—	(88)	244	—	156
Miscellaneous	—	—	1,036	—	—	1,036
Contributions to term and permanent endowments	—	—	—	14	37,043	37,057
Total general revenues and contributions	—	—	137,093	144,315	144,605	426,013
Change in net position	2,438	191	92,930	20,151	(9,493)	106,217
Total net position – July 1 – as previously reported	157,476	8,043	483,186	779,022	643,135	2,070,862
Adjustments to beginning net position	—	51	1,976	(464)	—	1,563
Total net position – July 1 – as restated	157,476	8,094	485,162	778,558	643,135	2,072,425
Total net position – June 30	\$ 159,914	\$ 8,285	\$ 578,092	\$ 798,709	\$ 633,642	\$ 2,178,642

⁽¹⁾ Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2019.

⁽²⁾ Transfers to both Montana State University and the University of Montana are appropriated by the State legislature to assist with higher education related costs.

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. For more detail on investments held outside of the Montana Board of Investments, refer to the entity's respective separately issued financial statements.

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	\$ 8,202	\$ 8,306	\$ 1,140	\$ 17,648
Construction work in progress	72,292	10,420	12,130	94,842
Capitalized collections	9,910	28,098	—	38,008
Livestock for educational purposes	4,198	—	—	4,198
Total capital assets not being depreciated	94,602	46,824	13,270	154,696
Capital assets being depreciated:				
Infrastructure	44,994	9,904	—	54,898
Land improvements	31,700	16,408	—	48,108
Buildings/Improvements	749,697	660,181	27,941	1,437,819
Equipment	167,970	104,266	7,507	279,743
Livestock	—	255	—	255
Library books	67,680	62,583	—	130,263
Leasehold improvements	8,784	—	—	8,784
Total capital assets being depreciated	1,070,825	853,597	35,448	1,959,870
Total accumulated depreciation	(621,188)	(513,996)	(10,645)	(1,145,829)
Total capital assets being depreciated, net	449,637	339,601	24,803	814,041
Intangible assets	1,205	1,783	135	3,123
MSU Component Unit capital assets, net	16,333	—	—	16,333
UM Component Unit capital assets, net	—	2,455	—	2,455
Discretely Presented Component Units capital assets, net	\$ 561,777	\$ 390,663	\$ 38,208	\$ 990,648

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, 2019, approximately 23,300 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, 2019, 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 complex factors such as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques. These techniques are used 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, 2019, \$956.6 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to ensure 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, 2019, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop-loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage for occurrences up to \$100.0 million; however, MSF retains the first \$5.0 million of coverage. The excess of loss protection applies to an individual occurrence with a maximum of \$5.0 million on any one life.

The term of the current aggregate stop-loss contract is January 1, 2017 through January 1, 2020. The contract provides coverage based on MSF's premium levels not to exceed 15.0% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop-loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$9.6 million during the year ended December 31, 2019.

Estimated claim reserves were reduced by \$387.0 thousand as of December 31, 2019, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. There were no estimated recoverables due to the aggregate stop-loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events, including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2019	Year Ended December 31, 2018
Unpaid claims and claim adjustments expenses at beginning of year	\$ 941,638	\$ 919,690
Incurring claims and claim adjustment expenses:		
Provision for insured event of the current year	129,455	137,066
Increase (decrease) in provision for insured events of prior years	(9,466)	(15,141)
Total incurred claims and claim adjustment expenses	119,989	121,925
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(24,965)	(22,903)
Claims and claim adjustment expenses attributable to insured events of prior years	(80,068)	(77,074)
Total payments	(105,033)	(99,977)
Total unpaid claims and claim adjustment expenses at end of year	\$ 956,594	\$ 941,638

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2020, were as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2021	\$ 185
2022	127
2023	84
2024	43
2025	22
Thereafter	4
Total minimum payments	465
Less: interest	(39)
Present value of minimum payments	\$ 426

G. Operating Leases

Future rental payments under operating leases at June 30, 2020, are as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2021	\$ 5,238
2022	4,297
2023	3,978
2024	3,165
2025	3,922
Thereafter	15,806
Total future rental payments	<u>\$ 36,406</u>

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2020, were as follows (in thousands):

Ended June 30:	Montana Board of Housing		Montana State University		Montana State University Direct Placement		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	18,735	17,380	10,530	7,330	421	454	2,415	5,562
2022	19,385	16,923	10,598	6,955	433	442	3,010	5,467
2023	19,850	16,440	6,275	6,621	446	429	3,130	5,348
2024	20,315	15,904	6,580	6,340	459	416	3,255	5,224
2025	20,495	15,334	31,360	6,039	2,505	402	3,380	5,096
2026 - 2030	113,935	66,277	30,635	25,025	2,896	1,794	19,285	23,101
2031 - 2035	112,590	46,826	25,700	17,684	3,347	1,392	24,090	18,287
2036 - 2040	91,223	28,245	26,975	10,603	3,869	927	28,440	13,958
2041 - 2045	71,495	12,814	10,940	4,487	1,274	390	33,310	9,066
2046 - 2050	33,215	2,891	—	454	—	6	39,140	3,237
2051 - 2055	220	4	—	—	—	—	—	—
Total	<u>\$ 521,458</u>	<u>\$ 239,038</u>	<u>\$ 159,593</u>	<u>\$ 91,538</u>	<u>\$ 15,650</u>	<u>\$ 6,652</u>	<u>\$ 159,455</u>	<u>\$ 94,346</u>

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2020, was as follows (in thousands):

	Beginning Balance ⁽²⁾	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	493,225	112,309	74,252	531,282	18,735	512,547
Montana State University (MSU)	178,345	576	11,566	167,355	10,530	156,825
MSU Direct Placement	16,058	—	409	15,649	421	15,228
University of Montana (UM)	87,636	169,463	88,864	168,235	2,415	165,820
Total bonds/notes payable ⁽¹⁾	775,264	282,348	175,091	882,521	32,101	850,420
Other liabilities						
Lease/installment purchase payable	496	35	105	426	162	264
Compensated absences payable	65,191	31,431	26,982	69,640	33,102	36,538
Arbitrage rebate tax payable	1,124	390	393	1,121	559	562
Estimated insurance claims	941,638	139,078	124,122	956,594	106,402	850,192
Due to federal government	32,536	112	5,391	27,257	—	27,257
Derivative instrument liability	4,227	1,272	—	5,499	—	5,499
Reinsurance funds withheld	48,386	8,368	—	56,754	—	56,754
Unearned compensation	391	—	—	391	—	391
Net pension liability	193,190	17,977	24,772	186,395	—	186,395
Total OPEB liability	39,694	9,604	21,838	27,460	—	27,460
Total other liabilities	1,326,873	208,267	203,603	1,331,537	140,225	1,191,312
	2,102,137	490,615	378,694	2,214,058	172,326	2,041,732
Long-term liabilities of Montana University System component units ⁽³⁾					1,270	4,272
Total discretely presented component units' long-term liabilities					\$ 173,596	\$ 2,046,004

⁽¹⁾ When applicable, this amount includes unamortized discounts and unamortized premiums.

⁽²⁾ Beginning balances are taken from component unit financial statements, which may have been adjusted from the prior year's ending balances.

⁽³⁾ Inter-entity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Refunded Debt

On June 16, 2020, Montana Board of Housing (MBOH) issued Single Family Mortgage Bond Series A-1 in the amount of \$39.1 million to refund 2009 Series E bond and Series A-2 in the amount of \$3.3 million to refund 2011 Series A bond.

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing the 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. The debt service cash flows for the refunding portion are less than that for the advance refunded debt by \$8.8 million. The economic gain from the advanced refunding was \$7.4 million. As of June 30, 2020, \$139.5 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, 2020, revenue bonds and notes outstanding aggregated \$1.1 billion.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)

MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2020, bonds outstanding aggregated \$81.3 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled \$88.3 million as of June 30, 2020. 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, 2020 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
\$ 88,941	\$ 4,000	\$ 4,595	\$ 88,346

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2020. 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

As of June 30, 2020, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by

the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at \$0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option’s value included intrinsic value and time value. The option’s intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. On September 4, 2018, the original Series J bonds were refunded in full with proceeds from the Series F 2018 bonds, which were issued in a “SIFMA Index Rate” mode. While in the SIFMA Index Rate, and through the Index Interest Rate Period, which spans from September 4, 2018 through and including September 1, 2023, the interest rate is reset weekly at a rate of the SIFMA rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to MSU with the current spread as of June 30, 2020, was 0.45%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2020 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, 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, 2020 (in thousands):

Cash flow hedges:	Notional	Activity During 2020		Fair Values at June 30, 2020	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	18,225	Interest expense	18	Loan receivable	194
		Investment income	—	Derivative liability	5,499
		Deferred outflow	1,272		
Investment derivative –					
Basis swap	18,225	Investment loss	273	Investment (excluding interest accrued)	(18)

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2020, 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 F 2018 Bonds	\$ 18,255	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, 2020, counterparty ratings were A3 by Moody's and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5.0 million, and the counterparty is rated A+ or A by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit the 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, 2020, 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 to encourage, promote, and support educational programs, research, scholarly pursuits, and athletics at, or in connection with UM. For the year ended June 30, 2020, \$300.8 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff, and some related office expenses. MonTEC was established as a nonprofit 501(c)3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low-cost lease space and business consulting to local “start-up” companies. The corporation’s board of directors is comprised of four members. Two members of the board of directors are UM employees, and two are non-UM employees. UM does not provide office space or other services to MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided \$1.9 million during 2020, and Friends of KEMC Public Radio provided \$1.2 million during 2020 in support of MSU’s television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund involves a constitutional challenge to one of the revisions to the Workers’ Compensation Act passed in 2011. At issue is the constitutionality of the changes to section 39-71-703 (2), MCA, which state that a Class I impairment is not payable unless that occurred on or after that date. The Workers’ Compensation Court issued its decision on August 22, 2019, upholding the statute and granting the State Fund’s motion for summary judgment. The petitioner’s attorney filed a notice of appeal on September 12, 2019, and the matter is currently before the Montana Supreme Court. Should the statute be held unconstitutional and apply to other claims retroactively, the potential liability is estimated to be at least \$2.2 million per year, based on the National Council on Compensation Insurance initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of \$2.2 million per year.

Steven Hanson v. Montana State Fund 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

On July 1, 2020, two Montana Board of Housing (MBOH) Multifamily Housing Revenue private placement conduit bonds were issued. The Butte Affordable Owner 1 Project, Series 2020 was issued in the amount of \$13.2 million. The Butte Affordable Owner 11 Project, Series 2020 was issued in the amount of \$29.3 million.

On August 3, 2020, a Master Loan Program Bond of \$13.5 million was made from the Facilities Finance Authority (FFA) to Powell County Medical Center for the purpose of refunding its existing Series 2010A Bond.

On August 20, 2020, MBOH approved a Habit for Humanity set-aside for fiscal year 2021 of \$3.0 million with an expiration date of June 30, 2021.

On September 11, 2020, Montana State Fund’s board declared a dividend of \$20.0 million to be distributed to approximately 22,500 employers.

In September 2020, Montana State University received authorization from the Board of Regents to expend up to \$60.0 million to design and construct a comprehensive Student Wellness Center. The project will be financed with insurance proceeds of \$36.0 million, revenue bonds proceeds of \$22.0 million, and existing student fee balances of \$2.0 million.

On October 15, 2020, the 2020 Series C Single Family Mortgage Bonds, were closed by MBOH in the amount of \$30.0 million.

On October 29, 2020, a Master Loan Program Bond of \$20.0 million and a Stand Alone Program Bond of \$32.7 million was made from the FFA to Shodair Children's Hospital for the purpose of constructing a new children's hospital.

Q. Commitments

Montana State Fund (MSF or New Fund) is in a multi-year project to replace its legacy policy management system. The first phase to select vendors, coordinate change management processes, and develop and implement core policy management and billing transaction systems is expected to be completed by December 2020 and require total expenditures estimated at \$33.4 million. The total project cost through December 31, 2019, was \$23.0 million. The last phase to develop remaining enhancement features will be planned and arranged with consulting services towards the end of 2020. Costs during the application development phase will be capitalized and recorded as construction work in process until the system is deployed.

As of June 30, 2020, Montana State University (MSU) had issued purchase orders committing the expenditure of approximately \$17.2 million for equipment, supplies, and services which had not yet been received.

In September 2018, the US Department of Education (Department) informed the University of Montana (UM) that it was imposing a fine of \$966.6 thousand for its failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) in Section 485 (f) of the Higher Education Act of 1965, 20 USC Section 1092 (f). In October 2018, UM submitted a letter to appeal the proposed fine action and requested a hearing with the Department's Office of Hearings and Appeals. In January 2019, UM and the Department agreed to resolve the matter, and the fine amount was reduced to \$395.0 thousand to be paid in installments over five years. UM subsequently paid off the remaining balance due to the Department in July 2019.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**Constitutionality of Retirement Plan Funding**

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2020, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), and the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP) were not in compliance and did 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, 2020.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	\$ 132,987	\$ 132,987	\$ 132,654	\$ (333)
Taxes:				
Natural resource	77,397	77,397	69,726	(7,671)
Individual income	1,410,943	1,410,943	1,421,934	10,991
Corporate income	165,893	165,893	186,680	20,787
Property	304,113	304,113	308,093	3,980
Fuel	—	—	—	—
Other	235,043	235,043	237,274	2,231
Charges for services/fines/forfeits/settlements	35,224	35,224	33,453	(1,771)
Investment earnings	—	—	20,243	20,243
Sale of documents/merchandise/property	273	273	273	—
Rentals/leases/royalties	7	7	8	1
Contributions/premiums	—	—	—	—
Grants/contracts/donations	21	21	11,315	11,294
Federal	21,475	21,475	18,889	(2,586)
Federal indirect cost recoveries	58	58	178	120
Other revenues	4,304	4,304	2,414	(1,890)
Total revenues	<u>2,387,738</u>	<u>2,387,738</u>	<u>2,443,134</u>	<u>55,396</u>
EXPENDITURES				
Current:				
General government	357,750	357,750	372,209	(14,459)
Public safety	329,888	329,888	321,661	8,227
Transportation	180	180	—	180
Health and human services	548,817	548,817	480,752	68,065
Education	879,431	879,431	1,082,324	(202,893)
Natural resources	40,683	40,683	36,263	4,420
Debt service (Note RSI-1):				
Principal retirement	—	—	208	(208)
Interest/fiscal charges	—	—	256	(256)
Capital outlay (Note RSI-1)	—	—	11,681	(11,681)
Total expenditures	<u>2,156,749</u>	<u>2,156,749</u>	<u>2,305,354</u>	<u>(148,605)</u>
Excess of revenue over (under) expenditures	<u>230,989</u>	<u>230,989</u>	<u>137,780</u>	<u>(93,209)</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	—	—	48	48
General capital asset sale proceeds	94	94	75	(19)
Bond premium	—	—	—	—
Bond proceeds	—	—	—	—
Energy conservation loans	—	—	—	—
Transfers in (Note 12)	81,924	81,924	86,773	4,849
Transfers out (Note 12)	(263,727)	(263,727)	(76,948)	186,779
Total other financing sources (uses)	<u>(181,709)</u>	<u>(181,709)</u>	<u>9,948</u>	<u>191,657</u>
Net change in fund balances (Budgetary basis)	<u>49,280</u>	<u>49,280</u>	<u>147,728</u>	<u>98,448</u>
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	—	—	—	—
2. Securities lending costs	—	—	—	—
3. Inception of lease/installment contract	—	—	433	433
4. Adjustments for nonbudgeted activity	—	—	—	—
(GAAP basis)	<u>49,280</u>	<u>49,280</u>	<u>148,161</u>	<u>98,881</u>
Fund balance - July 1	—	—	443,409	443,409
Prior period adjustments	—	—	1,445	1,445
Increase (decrease) in inventories	—	—	(203)	(203)
Fund balances - June 30	<u>\$ 49,280</u>	<u>\$ 49,280</u>	<u>\$ 592,812</u>	<u>\$ 543,532</u>

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

The original and final budget figures reflect adjustments to the original budget for various reasons, including legislative and executive changes.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
\$ 287,274	\$ 287,274	\$ 285,630	\$ (1,644)	\$ —	\$ —	\$ —	\$ —
86,867	86,867	64,110	(22,757)	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
19,829	19,829	19,912	83	—	—	—	—
262,318	262,318	260,322	(1,996)	—	—	—	—
165,620	165,620	151,174	(14,446)	2	2	1	(1)
103,656	103,656	102,677	(979)	7,366	7,366	7,357	(9)
—	—	17,032	17,032	—	—	668	668
12,002	12,002	12,425	423	2	2	—	(2)
1,640	1,640	1,189	(451)	—	—	—	—
34,086	34,086	34,659	573	—	—	—	—
8,763	8,763	7,570	(1,193)	251	251	72	(179)
7,301	7,301	6,622	(679)	4,338,570	4,338,570	3,180,500	(1,158,070)
9,397	9,397	57,466	48,069	93,625	93,625	93,287	(338)
3,841	3,841	3,403	(438)	1,794	1,794	1,289	(505)
1,002,594	1,002,594	1,024,191	21,597	4,441,610	4,441,610	3,283,174	(1,158,436)
302,517	302,517	192,416	110,101	550,622	550,622	172,137	378,485
94,199	94,199	81,630	12,569	48,249	48,249	25,892	22,357
338,505	338,505	248,617	89,888	548,322	548,322	106,199	442,123
243,890	243,890	223,455	20,435	2,495,174	2,495,174	2,181,889	313,285
57,570	57,570	75,757	(18,187)	270,161	270,161	193,684	76,477
334,025	334,025	179,930	154,095	163,662	163,662	90,770	72,892
—	—	3,600	(3,600)	—	—	103	(103)
—	—	645	(645)	—	—	11	(11)
—	—	90,035	(90,035)	—	—	460,057	(460,057)
1,370,706	1,370,706	1,096,085	274,621	4,076,190	4,076,190	3,230,742	845,448
(368,112)	(368,112)	(71,894)	296,218	365,420	365,420	52,432	(312,988)
—	—	34,366	34,366	—	—	—	—
540	540	893	353	7	7	—	(7)
—	—	4,361	4,361	—	—	—	—
(34,361)	(34,361)	28,900	63,261	—	—	—	—
—	—	632	632	—	—	—	—
243,809	243,809	156,094	(87,715)	167,246	167,246	1,485	(165,761)
(140,279)	(140,279)	(43,862)	96,417	(1,368,157)	(1,368,157)	(48,632)	1,319,525
69,709	69,709	181,384	111,675	(1,200,904)	(1,200,904)	(47,147)	1,153,757
(298,403)	(298,403)	109,490	407,893	(835,484)	(835,484)	5,285	840,769
—	—	76	76	—	—	37	37
—	—	(46)	(46)	—	—	(7)	(7)
—	—	15,289	15,289	—	—	256	256
—	—	(3,699)	(3,699)	—	—	—	—
(298,403)	(298,403)	121,110	419,513	(835,484)	(835,484)	5,571	841,055
—	—	1,713,834	1,713,834	—	—	(12,615)	(12,615)
—	—	1,378	1,378	—	—	244	244
—	—	(207)	(207)	—	—	—	—
\$ (298,403)	\$ (298,403)	\$ 1,836,115	\$ 2,134,518	\$ (835,484)	\$ (835,484)	\$ (6,800)	\$ 828,684

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 2020, reverted governmental fund appropriations were as follows: \$64.9 million in the General Fund, \$136.5 million in the State Special Revenue Fund, and \$239.9 million in the Federal Special Revenue Fund. Agencies are allowed to carry forward 30.0% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous non-budgeted 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)

	2020	2019	2018	2017	2016	2015
Total Pension Liability (TPL)						
Service costs	\$ 1,772	\$ 1,664	\$ 1,628	\$ 1,578	\$ 1,653	\$ 1,594
Interest	4,458	4,503	4,044	3,986	3,934	3,824
Differences between expected and actual experience	2,743	(2,901)	862	(1,341)	(1,032)	—
Changes of assumptions	—	—	3,865	—	—	—
Refunds of contributions	—	(149)	—	—	—	—
Benefit payments	(3,846)	(3,723)	(3,554)	(3,416)	(3,041)	(3,023)
Net change in total pension liability	5,127	(606)	6,845	807	1,514	2,395
Total pension liability – beginning	60,192	60,798	53,953	53,146	51,632	49,237
Total pension liability – ending	\$ 65,319	\$ 60,192	\$ 60,798	\$ 53,953	\$ 53,146	\$ 51,632
Plan Fiduciary Net Position						
Contributions – employer	\$ —	\$ 1,085	\$ 1,800	\$ 1,806	\$ 1,684	\$ 1,651
Contributions – member	517	575	488	729	534	481
Net investment income	5,687	8,467	10,368	1,779	3,843	12,421
Refunds of contributions	—	(149)	—	—	—	—
Benefit payments	(3,846)	(3,723)	(3,554)	(3,416)	(3,041)	(3,023)
Administrative expense	(123)	(264)	(254)	(197)	(136)	(100)
Other	—	7	—	(3)	—	—
Net change in plan fiduciary net position	2,235	5,998	8,848	698	2,884	11,430
Plan fiduciary net position - beginning	102,651	96,653	87,805	87,107	84,223	72,793
Plan fiduciary net position - ending	\$ 104,886	\$ 102,651	\$ 96,653	\$ 87,805	\$ 87,107	\$ 84,223
Net Pension (Asset) – Beginning	\$ (42,459)	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)	\$ (23,556)
Net Pension (Asset) – Ending	\$ (39,567)	\$ (42,459)	\$ (35,855)	\$ (33,852)	\$ (33,961)	\$ (32,591)
Plan fiduciary net position as a percentage of TPL	160.58%	170.54%	158.97%	162.74%	163.90%	163.12%
Covered payroll	\$ 7,382	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525	\$ 6,355
Net pension (asset) as a percentage of covered payroll	(535.99)%	(582.35)%	(514.12)%	(489.19)%	(521.00)%	(513.00)%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 1,988	\$ —	\$ 1,085	\$ 1,800	\$ 1,786	\$ 1,684
Contributions made in relation to the contractually required contributions	1,988	—	1,085	1,800	1,786	1,684
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 8,001	\$ 7,382	\$ 7,291	\$ 6,974	\$ 6,920	\$ 6,525
Contributions as a percentage of covered payroll	24.85%	0.00%	14.88%	25.81%	26.00%	26.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2020

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, 2019, determined as of June 30, 2019.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: 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)**

	2020	2019	2018	2017	2016	2015
Total Pension Liability (TPL)						
Service costs	\$ 3,453	\$ 3,643	\$ 3,665	\$ 3,799	\$ 3,598	\$ 3,464
Interest	16,926	16,294	15,121	14,545	14,113	13,518
Changes in benefits	—	—	—	—	1,856	—
Difference between expected and actual experience	2,413	590	2,774	18	267	—
Changes of assumptions	—	—	7,892	—	—	—
Benefit payments	(12,063)	(11,546)	(11,037)	(10,482)	(10,001)	(9,443)
Refunds of contributions	(582)	(322)	(245)	(94)	—	—
Net change in total pension liability	10,147	8,659	18,170	7,786	9,833	7,539
Total pension liability – beginning	227,581	218,922	200,752	192,966	183,133	175,594
Total pension liability – ending	<u>\$ 237,728</u>	<u>\$ 227,581</u>	<u>\$ 218,922</u>	<u>\$ 200,752</u>	<u>\$ 192,966</u>	<u>\$ 183,133</u>
Plan Fiduciary Net Position						
Contributions – employer	\$ 5,845	\$ 5,858	\$ 5,782	\$ 5,916	\$ 5,840	\$ 5,736
Contributions – non-employer	233	250	263	243	—	—
Contributions – member	2,002	2,387	1,950	1,917	1,624	1,458
Net investment income	8,269	12,283	15,099	2,605	5,738	18,677
Benefit payments	(12,063)	(11,546)	(11,037)	(10,482)	(10,001)	(9,443)
Administrative expense	(127)	(256)	(248)	(197)	(144)	(109)
Refunds of contributions	(582)	(322)	(245)	(94)	—	—
Other	2	8	—	(2)	—	—
Net change in plan fiduciary net position	3,579	8,662	11,564	(94)	3,057	16,319
Plan fiduciary net position – beginning	149,199	140,537	128,973	129,067	126,010	109,691
Plan fiduciary net position – ending	<u>\$ 152,778</u>	<u>\$ 149,199</u>	<u>\$ 140,537</u>	<u>\$ 128,973</u>	<u>\$ 129,067</u>	<u>\$ 126,010</u>
Net Pension Liability – Beginning	<u>\$ 78,382</u>	<u>\$ 78,385</u>	<u>\$ 71,779</u>	<u>\$ 63,899</u>	<u>\$ 57,123</u>	<u>\$ 65,903</u>
Net Pension Liability – Ending	<u>\$ 84,950</u>	<u>\$ 78,382</u>	<u>\$ 78,385</u>	<u>\$ 71,779</u>	<u>\$ 63,899</u>	<u>\$ 57,123</u>
Plan fiduciary net position as a percentage of TPL	64.27%	65.56%	64.20%	64.24%	67.00%	69.00%
Covered payroll	\$ 15,178	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549	\$ 14,149
Net pension liability as a percentage of covered payroll	559.69%	513.95%	530.38%	469.88%	439.00%	404.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 6,209	\$ 6,051	\$ 5,843	\$ 5,706	\$ 6,161	\$ 5,782
Contributions in relation to the contractually required contributions	6,209	6,051	5,843	5,706	6,161	5,782
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 15,608	\$ 15,178	\$ 15,251	\$ 14,779	\$ 15,276	\$ 14,549
Contributions as a percentage of covered payroll	39.78%	39.87%	38.31%	38.61%	40.00%	40.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2020

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, 2019, determined as of June 30, 2019.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.27%

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)**

	2020	2019	2018	2017	2016	2015
Total Pension Liability (TPL)						
Service costs	\$ 8,004	\$ 8,098	\$ 8,623	\$ 8,403	\$ 8,008	\$ 7,850
Interest	17,618	16,018	14,269	12,911	12,398	11,258
Difference between expected and actual experience	(4,728)	4,781	3,743	2,705	731	—
Changes of assumptions	—	—	5,878	—	—	—
Benefit payments	(7,350)	(6,523)	(5,810)	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,001)	(1,105)	(1,036)	(1,066)	—	—
Net change in total pension liability	12,543	21,269	25,667	17,885	15,785	13,879
Total pension liability – beginning	234,470	213,201	187,534	169,649	153,864	139,985
Total pension liability – ending	<u>\$ 247,013</u>	<u>\$ 234,470</u>	<u>\$ 213,201</u>	<u>\$ 187,534</u>	<u>\$ 169,649</u>	<u>\$ 153,864</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 4,686	\$ 4,613	\$ 4,464	\$ 4,278	\$ 4,088	\$ 3,762
Contributions - member	5,566	5,512	5,278	5,036	4,924	4,462
Net investment income	11,125	15,573	18,590	3,167	6,435	20,069
Benefit payments	(7,350)	(6,523)	(5,810)	(5,068)	(5,352)	(5,229)
Administrative expense	(202)	(369)	(329)	(269)	(200)	(162)
Refunds of contributions	(1,001)	(1,105)	(1,036)	(1,066)	—	—
Other	1	(19)	(1)	(31)	—	—
Net change in plan fiduciary net position	12,825	17,682	21,156	6,047	9,895	22,902
Plan fiduciary net position – beginning	193,523	175,841	154,685	148,638	138,743	115,841
Plan fiduciary net position – ending	<u>\$ 206,348</u>	<u>\$ 193,523</u>	<u>\$ 175,841</u>	<u>\$ 154,685</u>	<u>\$ 148,638</u>	<u>\$ 138,743</u>
Net Pension Liability – Beginning	<u>\$ 40,947</u>	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>	<u>\$ 24,144</u>
Net Pension Liability – Ending	<u>\$ 40,665</u>	<u>\$ 40,947</u>	<u>\$ 37,360</u>	<u>\$ 32,849</u>	<u>\$ 21,011</u>	<u>\$ 15,121</u>
Plan fiduciary net position as a percentage of TPL	83.54%	82.54%	82.48%	82.48%	87.00%	90.00%
Covered payroll	\$ 51,677	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885	\$ 41,637
Net pension liability as a percentage of covered payroll	78.69%	80.57%	75.66%	69.73%	47.00%	36.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 4,837	\$ 4,644	\$ 4,574	\$ 4,447	\$ 4,240	\$ 4,040
Contributions in relation to the contractually required contributions	4,837	4,644	4,574	4,447	4,240	4,040
Contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 53,825	\$ 51,677	\$ 50,823	\$ 49,381	\$ 47,108	\$ 44,885
Contributions as a percentage of covered payroll	8.99%	8.99%	9.00%	9.01%	9.00%	9.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2020**

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, 2019, determined as of June 30, 2019.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.23%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as 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)

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	39.140686%	39.546272%	53.049189%	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	\$ 818,162	\$ 825,387	\$ 1,033,200	\$ 906,880	\$ 749,414	\$ 663,174
Employer's covered payroll	\$ 638,674	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286	\$ 597,083
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	128.10%	128.93%	159.28%	145.86%	120.82%	111.07%
Plan fiduciary net position as a percentage of the total pension liability	73.85%	73.47%	74.00%	75.00%	78.00%	80.00%

Schedule of Employer Contributions ¹

For the Fiscal Year Ended June 30

(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 58,504	\$ 56,183	\$ 54,844	\$ 56,256	\$ 59,073	\$ 58,575
Contributions in relation to the contractually required contributions	58,504	56,183	54,844	56,256	59,073	58,575
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 654,193	\$ 638,674	\$ 640,177	\$ 648,671	\$ 621,755	\$ 620,286
Contributions as a percentage of covered payroll	8.94%	8.80%	8.57%	8.67%	9.50%	9.44%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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, 2019, determined as of June 30, 2019.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, includes inflation
Salary increases	0% to 4.80%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.26%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as a Nonemployer Entity**

**Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹**

For the Year Ended June 30

(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	24.411533%	24.917247%	1.007464%	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	\$ 510,277	\$ 520,058	\$ 19,622	\$ 16,287	\$ 13,365	\$ 11,978
Plan fiduciary net position as a percentage of the total pension liability	73.85%	73.47%	74.00%	75.00%	78.00%	80.00%

Schedule of Nonemployer Contributions ¹

For the Fiscal Year Ended June 30

(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 35,008	\$ 34,642	\$ 34,706	\$ 28,763	\$ 30,800	\$ 32,397
Contributions in relation to the contractually required contributions	35,008	34,642	34,706	28,763	30,800	32,397
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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, 2019, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

The State contributes a Statutory Appropriation from General Fund per Section 19-3-320, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	4.876949%	4.872800%	4.856692%	5.454386%	5.637055%	5.535000%
Employer's proportionate share of the net pension liability	\$ 4,067	\$ 3,663	\$ 3,696	\$ 9,582	\$ 5,434	\$ 2,304
Employer's covered payroll	\$ 3,915	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836	\$ 3,580
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	103.88%	96.88%	101.71%	248.88%	141.66%	64.36%
Plan fiduciary net position as a percentage of the total pension liability	81.89%	82.68%	81.00%	63.00%	75.00%	87.00%

**Schedule of Employer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 530	\$ 513	\$ 496	\$ 368	\$ 389	\$ 388
Contributions in relation to the contractually required contributions	530	513	496	368	389	388
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 4,041	\$ 3,915	\$ 3,781	\$ 3,634	\$ 3,850	\$ 3,836
Contributions as a percentage of covered payroll	13.12%	13.10%	13.12%	10.13%	10.10%	10.11%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year ended June 30, 2020**

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, 2019, determined as of June 30, 2019. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage Inflation	3.50%, includes inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, set back 1 year for males
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.23%

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30

(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.063878%	67.124706%	67.085433%	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	\$ 133,487	\$ 114,956	\$ 119,354	\$ 119,708	\$ 110,756	\$ 105,106
Plan fiduciary net position as a percentage of the total pension liability	68.84%	70.95%	68.00%	66.00%	67.00%	67.00%

Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30

(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 16,677	\$ 15,941	\$ 15,283	\$ 13,215	\$ 13,752	\$ 13,433
Contributions in relation to the contractually required contributions	16,677	15,941	15,283	13,215	13,752	13,433
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
For the Year Ended June 30, 2020

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, 2019, are as follows:

The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.013129%	2.300917%	2.233929%	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	\$ 2,309	\$ 2,650	\$ 2,525	\$ 2,583	\$ 2,454	\$ 1,806
Employer's covered payroll	\$ 1,051	\$ 1,103	\$ 1,022	\$ 974	\$ 986	\$ 735
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	219.70%	240.25%	247.06%	265.20%	249.00%	245.00%
Plan fiduciary net position as a percentage of the total pension liability	80.08%	79.03%	78.00%	75.00%	77.00%	77.00%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 599	\$ 494	\$ 518	\$ 472	\$ 475	\$ 142
Contributions in relation to the contractually required contributions	599	494	518	472	475	142
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 1,276	\$ 1,051	\$ 1,103	\$ 1,022	\$ 974	\$ 986
Contributions as a percentage of covered payroll	46.94%	47.00%	46.96%	46.18%	49.00%	14.40%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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, 2019, determined as of June 30, 2019. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Inflation	2.75%
Salary increases	0% to 6.30%
Investment rate of return	7.65%, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin as a % of payroll	0.25%

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)

	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	69.323577%	67.972164%	67.876338%	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	\$ 79,524	\$ 78,285	\$ 76,724	\$ 77,448	\$ 68,892	\$ 66,384
Plan fiduciary net position as a percentage of the total pension liability	80.08%	79.03%	78.00%	75.00%	77.00%	77.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30**

(dollars in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 17,147	\$ 16,209	\$ 15,272	\$ 14,042	\$ 13,635	\$ 13,573
Contributions in relation to the contractually required contributions	17,147	16,209	15,272	14,042	13,635	13,573
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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, 2019, 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)**

	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	\$ 6,907	\$ 7,667	\$ 10,087	\$ 10,599	\$ 10,504	\$ 5,089
Plan fiduciary net position as a percentage of the total pension liability	85.23%	83.48%	78.00%	76.00%	76.00%	87.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 2,475	\$ 2,361	\$ 2,207	\$ 2,054	\$ 2,024	\$ 1,913
Contributions in relation to the contractually required contributions	2,475	2,361	2,207	2,054	2,024	1,913
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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, 2019, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

**Required Supplementary Information
State of Montana as an Employer Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability¹
For the Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.411113%	2.554088%	2.860298%	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	\$ 46,493	\$ 47,407	\$ 48,227	\$ 57,016	\$ 56,230	\$ 72,168
Employer's covered payroll	\$ 23,250	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252	\$ 32,937
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	199.97%	195.29%	178.99%	197.18%	179.00%	219.00%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	69.09%	70.00%	67.00%	69.00%	70.00%

**Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 16,686	\$ 16,538	\$ 17,298	\$ 17,396	\$ 16,946	\$ 16,234
Contributions in relation to the contractually required contributions	16,686	16,538	17,298	17,396	16,946	16,234
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 22,384	\$ 23,250	\$ 24,275	\$ 26,944	\$ 28,915	\$ 31,252
Contributions as a percentage of covered payroll	74.54%	71.13%	71.26%	64.56%	58.00%	52.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

Changes of assumptions: The Guaranteed Annual Benefit Adjustment (GABA) for Tier Two members is a variable rate between 0.50% and 1.50% as determined by TRS. Since an increase in the amount of the GABA is not automatic and must be approved by TRS, the assumed increase was lowered from 1.50% to the current rate of 0.50% per annum.

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, 2019, determined as of June 30, 2019. 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	31 years
Asset valuation method	4-year smoothed market
Wage inflation	3.25%, including inflation
Inflation	2.50%
Salary increase	3.25% to 7.76%, including inflation for non-University Members and 4.25% for University Members
Investment rate of return	7.50%, net of pension plan investment expense, and including inflation

**Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity**

**Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability ¹
For the Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	37.112880%	37.735743%	38.133267%	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	\$ 715,637	\$ 700,417	\$ 642,958	\$ 707,527	\$ 647,092	\$ 596,724
Plan fiduciary net position as a percentage of the total pension liability	68.64%	69.09%	70.00%	67.00%	69.00%	70.00%

**Schedule of Nonemployer Contributions ¹
For the Fiscal Year Ended June 30
(dollars in thousands)**

	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 44,841	\$ 44,333	\$ 43,718	\$ 43,028	\$ 42,400	\$ 42,806
Contributions in relation to the contractually required contributions	44,841	44,333	43,718	43,028	42,400	42,806
Contribution deficiency/(excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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, 2019, 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: The Guaranteed Annual Benefit Adjustment (GABA) for Tier Two members is a variable rate between 0.50% and 1.50% as determined by TRS. Since an increase in the amount of the GABA is not automatic and must be approved by TRS, the assumed increase was lowered from 1.50% to the current rate of 0.50% per annum.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for the State of Montana OPEB plan.

Total OPEB Liability and Related Ratios			
Last 10 Fiscal Years ⁽¹⁾			
(in thousands)			
Total OPEB Liability	2020	2019	2018
Service cost	\$ 1,946	\$ 2,062	\$ 1,889
Interest	1,586	1,990	2,014
Changes of benefit terms	—	—	—
Difference between expected and actual experience	(9,409)	—	(4,723)
Changes of assumptions or other inputs	(1,877)	2,895	(295)
Benefit payments	(601)	(1,709)	1,705
Net change in Total OPEB Liability	(8,355)	5,238	590
Total OPEB Liability - Beginning	55,697	50,459	49,869
Total OPEB Liability - Ending	<u>\$ 47,342</u>	<u>\$ 55,697</u>	<u>\$ 50,459</u>
State and discretely presented component units' proportion of the collective Total OPEB Liability	100 %	100 %	100 %
Covered employee payroll	\$ 690,563	\$ 702,688	\$ 675,661
Total OPEB Liability as a percentage of covered employee payroll	6.86 %	7.93 %	7.47%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for MUS plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years ⁽¹⁾
(in thousands)

Total OPEB Liability	2020	2019	2018
Service cost	\$ 1,736	\$ 1,952	\$ 1,954
Interest	1,130	1,495	1,410
Changes of benefit terms	—	—	—
Difference between expected and actual experience	(15,015)	—	(1,323)
Changes of assumptions or other inputs	(1,791)	1,351	(182)
Benefit payments	1,441	(888)	(679)
Net change in Total OPEB Liability	(12,499)	3,910	1,180
Total OPEB Liability - Beginning	39,348	35,438	34,258
Total OPEB Liability - Ending	<u>\$ 26,849</u>	<u>\$ 39,348</u>	<u>\$ 35,438</u>
State and discretely presented component units' proportion of the collective Total OPEB Liability	94.92 %	95.59 %	95.62 %
Covered employee payroll ⁽²⁾	\$ 418,193	\$ 451,613	\$ 434,243
Total OPEB Liability as a percentage of covered employee payroll	6.42 %	9.11 %	8.53%

⁽¹⁾ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

⁽²⁾ Amount reported is for the whole MUS plan for 2018 and 2019. Community Colleges were included due to lack of ability to separate covered employee payroll for those years.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, Changes in benefit terms include increased annual deductible and out-of-pocket maximums.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
1. Premiums and investment Revenue	\$ 98,599	\$ 98,885	\$ 99,369	\$ 100,693	\$ 84,297	\$ 80,764	\$ 79,257	\$ 76,505	\$ 75,911	\$ 73,078
2. Unallocated expenses including overhead	\$ 4,691	\$ 5,150	\$ 5,111	\$ 5,196	\$ 5,129	\$ 5,198	\$ 4,787	\$ 3,938	\$ 4,063	\$ 4,663
3. Estimated losses and expenses end of accident year	\$ 96,326	\$ 93,392	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331	\$ 64,919
4. Net paid (cumulative) as of:										
End of policy year	\$ 83,896	\$ 82,211	\$ 80,393	\$ 75,601	\$ 76,400	\$ 79,388	\$ 63,317	\$ 61,964	\$ 56,981	\$ 57,018
One year later		91,306	89,050	84,575	85,796	88,943	69,073	67,988	62,937	63,495
Two years later			89,140	84,729	85,894	89,261	69,074	68,024	62,968	63,538
Three years later				84,738	86,002	89,264	69,076	68,024	62,974	63,539
Four years later					86,038	89,271	69,076	68,024	62,974	63,539
Five years later						89,283	69,076	68,024	62,974	63,539
Six years later							69,076	68,024	62,974	63,539
Seven years later								68,024	62,974	63,539
Eight years later									62,974	63,539
Nine years later										63,539
5. Re-estimated ceded losses and expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 96,326	\$ 93,392	\$ 90,427	\$ 85,802	\$ 87,233	\$ 87,353	\$ 71,877	\$ 69,325	\$ 64,331	\$ 64,919
One year later		93,028	89,036	84,567	86,148	88,824	71,700	68,349	63,446	63,941
Two years later			89,140	84,729	85,894	89,261	69,074	68,024	62,968	63,538
Three years later				84,738	86,002	89,264	69,076	68,024	62,974	63,539
Four years later					86,038	89,271	69,076	68,024	62,974	63,539
Five years later						89,283	69,076	68,024	62,974	63,539
Six years later							69,076	68,024	62,974	63,539
Seven years later								68,024	62,974	63,539
Eight years later									62,974	63,539
Nine years later										63,539
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ —	\$ (365)	\$ (1,287)	\$ (1,064)	\$ (1,194)	\$ 1,930	\$ (2,800)	\$ (1,302)	\$ (1,357)	\$ (1,380)

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2020

	Amount to Subrecipients	Expenditures
AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001 USAID Foreign Assistance for Programs Overseas	\$133,908	\$226,312
AMIDEAST 10001.15.006		
	TOTAL	\$226,312
AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL		
		\$226,312
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003 State Commissions		\$251,602
94.006 AmeriCorps		\$3,208,833
94.008 Commission Investment Fund	\$2,994,741	\$223,226
94.009 Training and Technical Assistance		\$58,410
94.013 Volunteers in Service to America		\$681,946
94.027 AmeriCorps VISTA Recruitment Support		\$10,035
	TOTAL	\$4,434,052
CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL		
		\$4,434,052
DEPARTMENT OF AGRICULTURE		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$1,134,395
10.093 Voluntary Public Access and Habitat Incentive Program		\$658,885
10.156 Federal-State Marketing Improvement Program		\$55
10.162 Inspection Grading and Standardization		\$35,075
10.163 Market Protection and Promotion		\$146,497
10.170 Specialty Crop Block Grant Program - Farm Bill		\$1,446,610
10.310 Agriculture and Food Research Initiative (AFRI)	\$212,426	\$38,333
University of Idaho BDK489-SB-001		\$121
10.433 Rural Housing Preservation Grants		\$89
10.435 State Mediation Grants		\$10,693
10.475 Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		\$1,138,337
10.500 Cooperative Extension Service	\$18,601	\$469,759
Kansas State University S19162		\$3,112
Kansas State University S19102		\$9,404
Kansas State University A00-0983-S075		\$53
Kansas State University A00-0983-S069		\$7,092
University of Missouri C00059381-8		\$22,332
Washington State University 134191 G004011		\$22,605
		\$4,434,052
CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL		

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, 2020

	Amount to Subrecipients	Expenditures
10.536 CACFP Training Grants	\$25,705	\$27,639
10.541 Child Nutrition-Technology Innovation Grant		\$1,000,179
10.557 WIC Special Supplemental Nutrition Program for Women, Infants, and Children	\$4,440,882	\$12,809,931
10.558 Child and Adult Care Food Program	\$707,893	\$6,868,739
10.558 COVID-19 - Child and Adult Care Food Program		\$3,205,405
10.560 State Administrative Expenses for Child Nutrition		\$954,728
10.567 Food Distribution Program on Indian Reservations	\$1,917,369	\$6,201,764
10.572 WIC Farmers' Market Nutrition Program (FMNP)		\$52,926
10.574 Team Nutrition Grants		\$359,834
10.575 Farm to School Grant Program	\$20,114	\$74,602
10.576 Senior Farmers Market Nutrition Program	\$76,784	\$86,919
10.578 WIC Grants To States (WGS)		(\$4,217)
10.579 Child Nutrition Discretionary Grants Limited Availability	\$86,103	\$163,630
10.582 Fresh Fruit and Vegetable Program	\$1,591,868	\$1,686,015
10.601 Market Access Program		
		\$39,692
10.652 U.S. Livestock Genetics Export, Inc. MT DOA 2019		\$388,094
10.652 Forestry Research		
10.664 Cooperative Forestry Assistance	\$2,777,421	\$5,536,716
		\$21,317
Gallatin County 2018-579		\$20,672
Gallatin County 2018-578		\$28,509
10.674 Wood Utilization Assistance		\$6,042,953
10.676 Forest Legacy Program		\$9,832
10.680 Forest Health Protection		\$32,228
10.683 National Fish and Wildlife Foundation		\$28,986
10.691 Good Neighbor Authority		\$10,637
10.698 State & Private Forestry Cooperative Fire Assistance		\$92,422
10.699 Partnership Agreements		(\$295)
10.855 Distance Learning and Telemedicine Loans and Grants		\$139,765
10.902 Soil and Water Conservation	\$40,251	\$27,758
10.912 Environmental Quality Incentives Program		\$26,847
10.924 Conservation Stewardship Program		\$1,806,597
10.931 Agricultural Conservation Easement Program		\$92,257
10.UXX Miscellaneous Non-Major Grants		\$52,976,528
	TOTAL	\$52,976,528

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, 2020

	Amount to Subrecipients	Expenditures
Child Nutrition Cluster		
10.553 School Breakfast Program	\$7,312,667	\$7,380,345
10.553 COVID-19 - School Breakfast Program	\$784,782	\$805,929
10.555 National School Lunch Program	\$22,857,156	\$22,998,977
10.555 COVID-19 - National School Lunch Program	\$1,919,845	\$1,959,640
10.556 Special Milk Program for Children	\$9,679	\$9,679
10.556 COVID-19 - Special Milk Program for Children	\$206	\$206
10.559 Summer Food Service Program for Children	\$2,344,224	\$2,407,447
10.559 COVID-19 - Summer Food Service Program for Children	\$10,534,275	\$10,563,625
	TOTAL	\$46,125,848
Food Distribution Cluster		
10.565 Commodity Supplemental Food Program		\$2,138,731
10.569 Emergency Food Assistance Program (Food Commodities)	\$307,940	\$3,673,593
10.569 COVID-19 - Emergency Food Assistance Program (Food Commodities)	\$257,679	\$314,196
	TOTAL	\$6,126,520
Forest Service Schools and Roads Cluster		
10.665 Schools and Roads - Grants to States	\$13,800,949	\$13,800,949
	TOTAL	\$13,800,949
SNAP Cluster		
10.551 Supplemental Nutrition Assistance Program		\$139,226,324
10.551 COVID-19 - Supplemental Nutrition Assistance Program		\$22,609,431
10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$267,791	\$10,903,575
	TOTAL	\$172,739,330
DEPARTMENT OF COMMERCE		DEPARTMENT OF AGRICULTURE TOTAL
11.303 Economic Development Technical Assistance		\$155,576
11.550 Public Telecommunications Facilities Planning and Construction Corporation for Public Broadcasting 1492		\$320,975
11.611 Manufacturing Extension Partnership Hawaii Technology Development	\$45,698	\$758,040
11.620 New Jersey Manufacturing Extension Program		\$55,737
11.620 Science, Technology, Business and/or Education Outreach		\$4,396
	TOTAL	\$1,312,678

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, 2020

Economic Development Cluster	Amount to Subrecipients	Expenditures
11.307 Economic Adjustment Assistance		\$312,521
11.307 Economic Adjustment Assistance		\$3,006,744
TOTAL		\$3,319,265
DEPARTMENT OF COMMERCE TOTAL		\$4,631,943
DEPARTMENT OF DEFENSE		
12.002 Procurement Technical Assistance For Business Firms		
Big Sky Economic Development Corporation SP4800-18-2-1822		\$4,902
Big Sky Economic Development Corporation SP4800-19-2-1922		\$73,537
12.112 Payments to States in Lieu of Real Estate Taxes		\$1,265
12.357 ROTC Language and Culture Training Grants		
Institute of International Education PGO1801-UMT-16-PGO-051-PO2		\$20,462
Institute of International Education PGO1801-UMT-16-PGO-051-PO4		\$102,749
12.400 Military Construction, National Guard		
12.401 National Guard Military Operations and Maintenance (O&M) Projects		\$11,543,057
12.404 National Guard Challenge Program		\$22,567,444
12.579 Language Training Center		\$4,539,800
Institute of International Education PGO1801-UMT-16-LTC-052-PO3		\$2,625,554
Institute of International Education OPAS		\$246,928
12.620 Troops to Teachers Grant Program		\$841,175
12.UXX Miscellaneous Non-Major Grants	\$54,999	\$968,603
Eastern Band of Cherokee Indians 1900163		\$78,510
Pacific States Marine Fisheries Commission 19-102P		\$170,654
Pacific States Marine Fisheries Commission 19-85P		\$1,187,025
Pacific States Marine Fisheries Commission 20-105P		\$458,487
Pacific States Marine Fisheries Commission 20-144P		\$61,193
TOTAL		\$45,491,345
DEPARTMENT OF DEFENSE TOTAL		\$45,491,345
DEPARTMENT OF EDUCATION		
84.002 Adult Education - Basic Grants to States	\$1,002,927	\$1,391,580
84.010 Title 1 Grants to Local Educational Agencies	\$46,241,061	\$47,398,313
84.011 Migrant Education State Grant Program	\$1,197,549	\$1,344,474
84.013 Title I State Agency Program for Neglected and Delinquent Children and Youth	\$146,963	\$382,728

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, 2020

	Amount to Subrecipients	Expenditures
84.031		\$947,409
84.048	\$3,328,344	\$5,539,619
84.126		\$7,730,279
84.177		\$197,072
84.181		\$1,470,722
84.184	\$77,338	\$557,016
84.187		\$175,074
84.196	\$217,613	\$289,974
84.287	\$4,680,745	\$5,022,374
84.299		
		\$14,580
		\$38,409
		\$73,098
		\$156,962
		\$19,605
		\$428,912
84.323	\$48,170	\$216,031
84.325		
84.326		\$101,430
		\$16,021
		\$41,562
		\$3,260,436
	\$1,914,044	\$5,875
		\$586,805
		\$1,218,681
		\$44,870
		\$9,145,268
		\$376
		\$3,457,395
	\$7,102,591	\$7,610,562
		\$984,911
	\$186,234	\$635,666

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, 2020

	Amount to Subrecipients	Expenditures
84.418 Promoting Readiness of Minors in Supplemental Security Income State of Utah Contract REF# 146214 University of Utah 10033712		\$15,426 \$15,865
84.419 Preschool Development Grants	\$2,912,193	\$4,032,135
84.424 Student Support and Academic Enrichment Program	\$4,710,205	\$4,927,997
84.998 American Printing House for the Blind		\$10,067
84.UXX Miscellaneous Non-Major Grants		\$113,496
	TOTAL	\$109,619,075
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act		
84.425D COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	\$1,421,661	\$1,421,661
84.425E COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student Aid Portion		\$6,230,176
84.425F COVID-19 - HEERF Institutional Portion		\$4,539,253
	TOTAL	\$12,191,090
Special Education Cluster (IDEA)		
84.027 Special Education Grants to States	\$35,118,500	\$38,808,168
84.173 Special Education Preschool Grants	\$1,431,748	\$1,120,008
	TOTAL	\$39,928,176
Student Financial Assistance Cluster		
84.007 Federal Supplemental Educational Opportunity Grants		\$1,563,321
84.007 COVID-19 - Federal Supplemental Educational Opportunity Grants		\$75,560
84.033 Federal Work-Study Program		\$1,914,835
84.038 Federal Perkins Loan Program - Federal Capital Contributions		\$28,249,249
84.063 Federal Pell Grant Program		\$40,941,532
84.268 Federal Direct Student Loans		\$155,770,460
84.379 Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		\$5,838
	TOTAL	\$228,520,795
TRIO Cluster		
84.042 TRIO Student Support Services		\$2,193,824
84.044 TRIO Talent Search	\$4,894	\$1,254,180
84.047 TRIO Upward Bound		\$1,727,975
	TOTAL	\$5,175,979
	DEPARTMENT OF EDUCATION TOTAL	\$395,435,115

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, 2020

DEPARTMENT OF ENERGY		Amount to Subrecipients	Expenditures
81.041	State Energy Program		\$5,844
81.042	Weatherization Assistance for Low-Income Persons		\$2,465,255
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance		\$119,645
81.121	Nuclear Energy Research, Development and Demonstration Los Alamos National Security 577352		\$15,000 \$1,937
81.138	State Heating Oil and Propane Program		\$6,969
81.UXX	Miscellaneous Non-Major Grants		\$265,547
	Pacific States Marine Fisheries Commission 19-36G		\$60,551
	Pacific States Marine Fisheries Commission 20-18G		\$58,624
	TOTAL		\$2,999,372
DEPARTMENT OF HEALTH AND HUMAN SERVICES		DEPARTMENT OF ENERGY TOTAL	\$2,999,372
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$6,369	\$25,580
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$85,725	\$85,725
93.042	COVID-19 - Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$10,800	\$10,820
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	\$116,046	\$116,046
93.048	COVID-19 - Special Programs for the Aging, Title IV, and Title II, Discretionary Projects		\$304,000
93.051	Alzheimer's Disease Demonstration Grants to States		\$246,665
93.052	National Family Caregiver Support, Title III, Part E	\$847,351	\$892,695
93.052	COVID-19 - National Family Caregiver Support, Title III, Part E	\$141,588	\$141,846
93.068	Chronic Diseases: Research, Control, and Prevention National Association of Chronic Disease Directors (NACDD) 3192019		\$5,553
93.069	Public Health Emergency Preparedness	\$2,729,069	\$4,874,149
93.070	Environmental Public Health and Emergency Response	\$38,322	\$438,807
93.071	Medicare Enrollment Assistance Program	\$131,311	\$137,529
93.072	Lifespan Respite Care Program	\$225,098	\$257,842

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, 2020

	Amount to Subrecipients	Expenditures
93.079		\$108,015
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance		
93.090		\$2,233,707
Guardianship Assistance		
93.092	\$182,795	\$274,460
Affordable Care Act (ACA) Personal Responsibility Education Program		
93.103		\$264,293
Food and Drug Administration Research		
93.104	\$86,200	\$1,694,894
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		
93.110	\$1,077,224	\$1,923,146
Maternal and Child Health Federal Consolidated Programs		
Utah State University P0440124-E		
93.116		\$9,000
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		
93.127		\$188,164
Emergency Medical Services for Children		
93.130	\$85,001	\$337,236
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		
93.136	\$13,035	\$225,905
Injury Prevention and Control Research and State and Community Based Programs		
93.150	\$234,067	\$1,099,031
Projects for Assistance in Transition from Homelessness (PATH)		
93.165	\$150,113	\$233,392
Grants to States for Loan Repayment Program		
93.184	\$95,675	\$150,113
Disabilities Prevention		
University of Alabama NU27DD001157		
93.217	\$1,103,657	\$4,355
Family Planning Services		
93.235	\$50,000	\$1,771,656
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program		
93.236	\$284,340	\$210,069
Grants to States to Support Oral Health Workforce Activities		
93.240		\$438,557
State Capacity Building		
93.241	\$555,284	\$215,406
State Rural Hospital Flexibility Program		
93.243	\$2,876,165	\$678,628
Substance Abuse and Mental Health Services Projects of Regional and National Significance		
93.251		\$5,750,394
Universal Newborn Hearing Screening		
93.262	\$14,581	\$231,887
Occupational Safety and Health Program		
93.268	\$358,424	\$297,057
Immunization Cooperative Agreements		
93.268		\$12,129,997
COVID-19 - Immunization Cooperative Agreements		
93.270		\$523
Viral Hepatitis Prevention and Control		
93.297	\$105,641	\$68,595
Teenage Pregnancy Prevention Program		
93.300		\$475,355
National Center for Health Workforce Analysis		
University of California, San Francisco 11723SC		
93.301	\$2,590,854	\$13,388
COVID-19 - Small Rural Hospital Improvement Grant Program		
93.305		\$2,849,939
PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)		
		\$835,205

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, 2020

	Amount to Subrecipients	Expenditures
93.307	Minority Health and Health Disparities Research	\$9,375,000
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	\$1,953,347
93.323	COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	\$4,909,222
93.324	State Health Insurance Assistance Program	\$542,906
93.336	Behavioral Risk Factor Surveillance System	\$404,563
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	\$1,440,494
93.354	COVID-19 - Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	\$2,604,568
93.359	Nurse Education, Practice Quality and Retention Grants	\$19,731
93.369	ACL Independent Living State Grants	\$409,269
93.423	1332 State Innovation Waivers	\$32,025
93.424	NON-ACA/PPHF—Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations	
	National Association of Chronic Disease Disorders 251-1501-1 #Z702019	\$2,455
93.426	Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke-Financed in part by 2018 Prevention and Public Health Funds	\$123,783
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research Meeting Challenge 90D)0094-04-01	\$164,370
	Shepherd Center SHEP-19-0013	\$1,139
93.434	Every Student Succeeds Act/Preschool Development Grants	\$45,462
93.435	Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke-	\$3,352,833
	Food Safety and Security Monitoring Project	\$1,646,458
93.448	Ruminant Feed Ban Support Project	\$119,078
93.464	ACL Assistive Technology	\$23,046
93.471	Title IV-E Kinship Navigator Program	\$174,070
93.498	COVID-19 - Provider Relief Fund	\$151,147
93.500	Pregnancy Assistance Fund Program	\$934,894
93.504	Family to Family Health Information Centers	\$881,808
93.516	Public Health Training Centers Program	\$52,280
	University of Colorado - Denver FY19.641.005	
93.556	Promoting Safe and Stable Families	\$9,111
93.558	Temporary Assistance for Needy Families	\$836,838
93.563	Child Support Enforcement	\$27,402,009
		\$12,674,345

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, 2020

	Amount to Subrecipients	Expenditures
93.566	Refugee and Entrant Assistance State/Replacement Designee Administered Programs	\$373,384
93.568	Low-Income Home Energy Assistance	\$1,064,942
93.568	COVID-19 - Low-Income Home Energy Assistance	\$3,571,621
93.569	Community Services Block Grant	\$3,489,336
93.569	COVID-19 - Community Services Block Grant	\$35,386
93.586	State Court Improvement Program	\$200,844
93.590	Community-Based Child Abuse Prevention Grants	\$122,905
93.597	Grants to States for Access and Visitation Programs	\$95,549
93.599	Chafee Education and Training Vouchers Program (ETV)	\$325,954
93.603	Adoption and Legal Guardianship Incentive Payments	\$436,358
93.630	Developmental Disabilities Basic Support and Advocacy Grants	\$436,358
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	\$613,245
93.636	ACA - Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	\$93,694
93.636	COVID-19 - ACA - Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	\$45,145
93.643	Children's Justice Grants to States	\$49,256
93.645	Stephanie Tubbs Jones Child Welfare Services Program	\$61,858
93.658	Foster Care Title IV-E	\$705,322
	University of Colorado - Denver SC37941-03-00 / P0167077	\$21,226,848
93.659	Adoption Assistance	\$71,392
93.667	Social Services Block Grant	\$12,788,485
93.669	Child Abuse and Neglect State Grants	\$5,907,520
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	\$109,589
93.674	Chafee Foster Care Independence Program	\$831,411
93.732	Mental and Behavioral Health Education and Training Grants	\$1,099,394
93.747	Elder Abuse Prevention Interventions Program	\$904,648
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	\$185,194
		\$65,141
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	\$280,844
93.767	Children's Health Insurance Program	\$1,062,415
93.788	Opioid STR	\$85,516,971
93.791	Money Follows the Person Rebalancing Demonstration	\$3,698,425
93.800	Organized Approaches to Increase Colorectal Cancer Screening	\$252,019
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	\$435,241
93.822	Health Careers Opportunity Program	\$62,347
		\$414,380

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, 2020

	Amount to Subrecipients	Expenditures
93.870	\$4,013,394	\$4,844,349
93.884	\$35,227	\$315,497
93.889		\$1,071,702
93.889		\$619
93.898	\$713,973	\$2,082,988
93.912		\$292,130
	\$1,377,063	\$31,686
93.940	\$492,992	\$2,022,743
93.946		\$973,894
93.958	\$1,961,396	\$137,320
93.959	\$3,173,917	\$2,204,716
93.969	\$149,877	\$5,511,446
93.970		\$640,198
93.977		\$370,854
93.994	\$1,368,886	\$314,196
93.UXX	\$90,202	\$2,536,761
	TOTAL	\$305,912,651
Aging Cluster		
93.044	\$1,712,416	\$2,042,090
93.044	\$299,917	\$300,463
93.045	\$3,072,658	\$3,562,637
93.045	\$1,772,515	\$1,786,293
93.053	\$1,015,419	\$1,226,877
	TOTAL	\$8,918,360
CCDF Cluster		
93.575	\$5,654,620	\$17,881,999
93.575	\$5,241,261	\$6,682,283
93.596		\$6,767,605
	TOTAL	\$31,331,887
Head Start Cluster		
93.600		\$109,058
	TOTAL	\$109,058

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, 2020

Medicaid Cluster	Amount to Subrecipients	Expenditures
93.775 State Medicaid Fraud Control Units		\$413,182
93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare		\$2,824,480
93.778 Medical Assistance Program	\$153,004	\$1,620,170,690
	TOTAL	\$1,623,408,352
Student Financial Assistance Cluster		
93.264 Nurse Faculty Loan Program (NFLP)		\$8,630
93.342 Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students		\$320,347
93.364 Nursing Student Loans		\$2,925,738
	TOTAL	\$3,254,715
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		
		\$1,972,935,023
DEPARTMENT OF HOMELAND SECURITY		
97.008 Non-Profit Security Program	\$6,990	\$6,990
97.012 Boating Safety Financial Assistance		\$626,651
97.023 Community Assistance Program State Support Services Element (CAP-SSSE)		\$224,474
97.029 Flood Mitigation Assistance	\$26,995	\$207,918
97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$3,435,717	\$2,807,441
97.036 COVID-19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$1,350,831	\$10,216,501
97.039 Hazard Mitigation Grant	\$1,837,017	\$2,638,005
97.041 National Dam Safety Program		\$249,871
97.042 Emergency Management Performance Grants	\$1,779,498	\$3,127,495
97.043 State Fire Training Systems Grants		\$3,784
97.045 Cooperating Technical Partners		\$9,371,929
97.046 Fire Management Assistance Grant	\$29,930	\$4,929,930
97.047 Pre-Disaster Mitigation	\$32,054	\$3,815
97.067 Homeland Security Grant Program	\$4,352,175	\$4,030,666
97.082 Kalispell Police Department 18-SPWSPW-06-008		\$10,379
Earthquake Consortium		\$21,416
	TOTAL	\$38,477,265
DEPARTMENT OF HOMELAND SECURITY TOTAL		\$38,477,265
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.228 Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$6,788,064	\$7,058,250
14.231 Emergency Solutions Grant Program		\$699,664

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, 2020

	Amount to Subrecipients	Expenditures
14.231		\$100,715
14.239	\$3,386,483	\$3,613,320
14.241		\$950,322
14.241		\$31,894
14.275	\$3,019,083	\$3,215,925
14.326		\$149,632
	TOTAL	\$15,819,722
Housing Voucher Cluster		
14.871		\$22,894,986
		TOTAL
		\$22,894,986
Section 8 Project-Based Cluster		
14.195		\$24,317,303
14.856		\$1,813,074
		TOTAL
		\$26,130,377
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL		
		\$64,845,085
DEPARTMENT OF JUSTICE		
16.017	\$378,035	\$396,914
16.034	\$47,876	\$52,143
16.528		\$107,007
16.540	\$398,104	\$432,901
16.543		\$255,093
16.554		\$835,029
16.560		\$116,677
16.575	\$7,324,899	\$3,665
16.576		\$8,756,550
16.582		\$628
16.585		\$416,685
16.588	\$907,024	\$694,266
		\$4,990
		\$732,773
		\$392,279
		\$987,575

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, 2020

	Amount to Subrecipients	Expenditures
16.589		
	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	
	County of Missoula 2015-WR-AX-0013	\$14,607
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	\$65,346
16.593	Residential Substance Abuse Treatment for State Prisoners	\$35,904
16.606	State Criminal Alien Assistance Program	\$43,786
16.609	Project Safe Neighborhoods	\$50,978
16.710	Public Safety Partnership and Community Policing Grants	\$99,911
16.726	Juvenile Mentoring Program	\$429,889
	National 4-H Council 4-H UNDER OJIDP 2017JUFX0016	\$28
	National 4-H Council 4H NMP-9: 2018-JU-FX-0005	\$51,928
16.734	Special Data Collections and Statistical Studies	\$296,000
16.738	Edward Byrne Memorial Justice Assistance Grant Program	\$978,242
16.741	DNA Backlog Reduction Program	\$345,721
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	\$300,400
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	\$11,186
16.750	Support for Adam Walsh Act Implementation Grant Program	\$120,034
16.751	Edward Byrne Memorial Competitive Grant Program	\$101,573
16.818	Children Exposed to Violence	\$206,795
16.827	Justice Reinvestment Initiative	
	Council of State Governments 19-SA-161-2690	\$163,881
16.831	Children of Incarcerated Parents	\$35,718
16.833	National Sexual Assault Kit Initiative	\$461,198
16.838	Comprehensive Opioid Abuse Site-Based Program	\$41,395
16.839	STOP School Violence	\$197,024
16.922	Equitable Sharing Program	-\$10,611
	TOTAL	\$18,252,479
	DEPARTMENT OF LABOR	\$18,252,479
17.002	Labor Force Statistics	\$602,605
17.005	Compensation and Working Conditions	\$98,404
17.201	Registered Apprenticeship	\$589,874
17.225	Unemployment Insurance	\$260,053,671
17.225	COVID-19 - Unemployment Insurance	\$499,740,638
17.235	Senior Community Service Employment Program	\$434,726
	DEPARTMENT OF JUSTICE TOTAL	\$1,814,248

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, 2020

	Amount to Subrecipients	Expenditures
17.245 Trade Adjustment Assistance		\$317,742
17.268 H-1B Job Training Grants		
Northern Wyoming Community College 011717-1		\$409,801
17.271 Work Opportunity Tax Credit Program (WOTC)		\$66,000
17.273 Temporary Labor Certification for Foreign Workers		\$190,887
17.277 WIOA National Dislocated Worker Grants / WIA National Emergency Grants	\$211,447	\$579,777
17.504 Consultation Agreements		\$593,235
	TOTAL	\$763,677,360
Employment Service Cluster		
17.207 Employment Service/Wagner-Peyser Funded Activities		\$4,672,759
17.801 Disabled Veterans' Outreach Program (DVOP)		\$622,262
17.804 Local Veterans' Employment Representative Program		\$141,613
	TOTAL	\$5,436,634
WIOA Cluster		
17.258 WIOA Adult Program	\$333,358	\$2,090,571
17.259 WIOA Youth Activities	\$1,496,109	\$2,251,089
17.278 WIOA Dislocated Worker Formula Grants	\$64,558	\$1,572,488
	TOTAL	\$5,914,148
DEPARTMENT OF STATE		
19.009 Academic Exchange Programs - Undergraduate Programs		\$922,435
19.010 Academic Exchange Programs - Hubert H. Humphrey Fellowship Program	\$354,129	
Institute of International Education HHH1901		\$86,681
19.040 Public Diplomacy Programs		\$9,914
19.401 Academic Exchange Programs - Scholars	\$1,022,115	\$1,651,630
19.415 Professional and Cultural Exchange Programs - Citizen Exchanges	\$135,620	\$758,586
Institute of International Education SI_IIE1_SUBR_2017		\$5,050
19.600 Bureau of Near Eastern Affairs		
Georgetown University MSU-20190310		\$54,484
Georgetown University S-NEAAC-17-CA-1016		\$124,134
	TOTAL	\$3,612,914
	DEPARTMENT OF STATE TOTAL	\$3,612,914

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, 2020

DEPARTMENT OF THE INTERIOR	Amount to Subrecipients	Expenditures
15.025 Services to Indian Children, Elderly and Families		\$49,030
15.034 Agriculture on Indian Lands		
Fort Belknap Community Council A10AV00583		\$57,984
15.130 Indian Education Assistance to Schools		\$78,896
15.224 Cultural and Paleontological Resources Management		\$27,117
15.225 Recreation and Visitor Services		\$25,157
15.228 BLM Wildland Urban Interface Community Fire Assistance		\$24,972
15.230 Invasive and Noxious Plant Management		\$40,400
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$85,307
15.236 Environmental Quality and Protection		\$880,465
15.239 Management Initiatives		\$4,979
15.244 Fisheries and Aquatic Resources Management		\$6,442
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$2,081,022
15.252 Abandoned Mine Land Reclamation (AMLR)		\$2,084,458
15.427 Federal Oil and Gas Royalty Management State and Tribal Coordination		\$538,754
15.514 Reclamation States Emergency Drought Relief		\$36,560
15.517 Fish and Wildlife Coordination Act		\$903,928
15.524 Recreation Resources Management		\$97,277
15.608 Fish and Wildlife Management Assistance		\$80,131
15.623 North American Wetlands Conservation Fund		\$100,000
15.628 Multistate Conservation Grant		
North Carolina State University 2018-0319-06		\$182
15.634 State Wildlife Grants		\$697,304
15.637 Migratory Bird Joint Ventures	\$8,000	\$8,000
15.657 Endangered Species Conservation – Recovery Implementation Funds		\$234,058
Wildlife Management Institute WNS 2018-08 (58185)		\$9,958
15.660 Endangered Species - Candidate Conservation Action Funds		\$57,751
State of Utah 186103		\$120
15.663 National Fish and Wildlife Foundation		\$14,704
15.666 Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	\$90,000	\$120,000
15.670 Adaptive Science		\$261,423
15.678 Cooperative Ecosystem Studies Units		\$2,762
15.904 Historic Preservation Fund Grants-In-Aid	\$77,464	\$734,370
15.916 Outdoor Recreation Acquisition, Development and Planning	\$408,835	\$555,570

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, 2020

	Amount to Subrecipients	Expenditures
15.945	Cooperative Research and Training Programs – Resources of the National Park System	\$40,875
15.959	Education Program Management	
	Cherokee School A187AV00723	\$16,973
	Indian Island School A19AV00895	\$16,433
	KHA'O'P Community School A18AV00750	\$16,842
	Little Eagle Grant A17AV00680/A18AV00348	\$7,775
	Paschal Sherman A17AV00680/A18AV00348	\$16,133
	Shiprock Associated Schools, Inc. A17AV00693	\$11,264
15.UXX	Miscellaneous Non-Major Grants	\$54,684
	TOTAL	\$10,080,060
	Fish and Wildlife Cluster	
15.605	Sport Fish Restoration	\$7,792,022
15.611	Wildlife Restoration and Basic Hunter Education	\$17,774,649
15.626	Enhanced Hunter Education and Safety	\$75,112
	TOTAL	\$25,641,783
	DEPARTMENT OF THE INTERIOR TOTAL	\$35,721,843
	DEPARTMENT OF TRANSPORTATION	
20.106	Airport Improvement Program	\$450,810
20.106	COVID-19 - Airport Improvement Program	\$212,432
20.200	Highway Research and Development Program	\$201,219
20.215	Highway Training and Education	\$150,000
20.218	Motor Carrier Safety Assistance	\$2,997,476
20.232	Commercial Driver's License Program Implementation Grant	\$38,823
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	\$275,708
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	\$2,398
20.301	Railroad Safety	\$4,918
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	\$418,192
20.509	Formula Grants for Rural Areas	\$5,406,175
20.509	COVID-19 - Formula Grants for Rural Areas	\$5,728,981
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	\$185,017
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	\$100,503
20.700	Pipeline Safety Program State Base Grant	\$139,679

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, 2020

	Amount to Subrecipients	Expenditures
20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants	\$123,121	\$154,364
20.933 National Infrastructure Investments		\$6,899,154
	TOTAL	\$24,967,076
Federal Transit Cluster		
20.526 Bus and Bus Facilities Formula Program	\$1,846,844	\$1,846,844
	TOTAL	\$1,846,844
Highway Planning and Construction Cluster		
20.205 Highway Planning and Construction	\$3,652,765	\$529,308,201
20.219 Recreational Trails Program	\$1,850,539	\$1,943,270
20.224 Federal Lands Access Program		\$4,310,747
	TOTAL	\$535,562,218
Highway Safety Cluster		
20.600 State and Community Highway Safety	\$218,038	\$1,118,351
20.616 National Priority Safety Programs	\$544,993	\$2,391,546
	TOTAL	\$3,509,897
Transit Services Programs Cluster		
20.513 Enhanced Mobility of Seniors and Individuals with Disabilities	\$953,132	\$993,582
	TOTAL	\$993,582
	DEPARTMENT OF TRANSPORTATION TOTAL	\$566,879,617
DEPARTMENT OF TREASURY		
21.019 COVID-19 - Coronavirus Relief Fund		\$93,151,036
Butte Silver Bow MT20-114	\$79,527,728	\$11,489
21.UXX Miscellaneous Non-Major Grants		\$5,992
	TOTAL	\$93,168,517
	DEPARTMENT OF TREASURY TOTAL	\$93,168,517
DEPARTMENT OF VETERANS AFFAIRS		
64.005 Grants to States for Construction of State Home Facilities		\$6,080,597
64.014 Veterans State Domiciliary Care		\$197,412
64.015 Veterans State Nursing Home Care		\$7,466,808
64.124 All-Volunteer Force Educational Assistance		\$63,187
64.203 Veterans Cemetery Grants Program		\$1,644,783
	TOTAL	\$15,452,787
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	\$15,452,787

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, 2020

	Amount to Subrecipients	Expenditures
ELECTION ASSISTANCE COMMISSION		
90.404 2018 HAVA Election Security Grants	\$1,347,246	\$1,644,219
	TOTAL	\$1,644,219
ELECTION ASSISTANCE COMMISSION TOTAL		
ENVIRONMENTAL PROTECTION AGENCY		
66.034 Surveys, Studies; Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		\$353,685
66.040 State Clean Diesel Grant Program		\$259,275
66.202 Congressionally Mandated Projects		\$8,001
66.204 Multipurpose Grants to States and Tribes		\$12,484
66.419 Water Pollution Control State, Interstate, and Tribal Program Support		\$108,077
66.433 State Underground Water Source Protection		\$187,250
66.454 Water Quality Management Planning		\$87,845
66.460 Nonpoint Source Implementation Grants		\$2,049,870
66.461 Regional Wetland Program Development Grants		\$80,430
66.514 Science To Achieve Results (STAR) Fellowship Program		\$7,185
66.516 P3 Award: National Student Design Competition for Sustainability		\$6,090
66.605 Performance Partnership Grants		\$5,161,310
66.608 Environmental Information Exchange Network Grant Program and Related Assistance		\$535,938
66.708 Pollution Prevention Grants Program		\$291,270
66.716 Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		
eXtension Foundation SA-2020-59		\$8,793
eXtension Foundation SA-2019-61		\$14,858
eXtension Foundation SA-2017-67		(\$13,509)
66.717 Source Reduction Assistance		\$19,735
66.802 Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		\$1,924,740
66.804 Underground Storage Tank Prevention, Detection and Compliance Program		\$341,517
66.805 Leaking Underground Storage Tank Trust Fund Corrective Action Program		\$563,419
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements		\$247,206
66.817 State and Tribal Response Program Grants		\$681,555
	TOTAL	\$12,937,024
Clean Water State Revolving Fund Cluster		
66.458 Capitalization Grants for Clean Water State Revolving Funds		\$305,240,100
	TOTAL	\$305,240,100

The accompanying notes are an integral part of this schedule.

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2020

	Amount to Subrecipients	Expenditures
<i>Drinking Water State Revolving Fund Cluster</i>		
66.468 Capitalization Grants for Drinking Water State Revolving Funds		\$178,551,711
	TOTAL	\$178,551,711
ENVIRONMENTAL PROTECTION AGENCY TOTAL		
		\$496,728,835
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.001 Employment Discrimination Title VII of the Civil Rights Act of 1964		\$9,635
	TOTAL	\$9,635
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL		
		\$9,635
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001 High Intensity Drug Trafficking Areas Program		\$36,949
	TOTAL	\$36,949
EXECUTIVE OFFICE OF THE PRESIDENT TOTAL		
		\$36,949
GENERAL SERVICES ADMINISTRATION		
39.003 Donation of Federal Surplus Personal Property		\$84,100
39.011 Election Reform Payments		\$105,177
	TOTAL	\$189,277
GENERAL SERVICES ADMINISTRATION TOTAL		
		\$189,277
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.301 Museums for America		\$15,444
45.310 Grants to States		\$1,018,539
45.312 National Leadership Grants	\$52,472	\$122,863
	TOTAL	\$1,156,846
INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL		
		\$1,156,846
LIBRARY OF CONGRESS		
42.UXX Miscellaneous Non-Major Grants		\$5,300
	TOTAL	\$5,300
LIBRARY OF CONGRESS TOTAL		
		\$5,300
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001 Science		\$106,479
Space Science Institute 950		\$1,470
University of Washington UWSC8987		\$69,994

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, 2020

		Amount to Subrecipients	Expenditures
43.008	Education		
	Sciencenter	2016-01-UMT/NNX16AM22G	\$3,171
		TOTAL	\$181,114
		NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	\$181,114
		TOTAL	\$8,800
		NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	\$8,800
		NATIONAL ENDOWMENT FOR THE ARTS	
45.024	Promotion of the Arts Grants to Organizations and Individuals		\$70,317
	Arts Midwest	AM CASE #00023805	\$24,994
	Arts Midwest	00021928	\$8
45.025	Promotion of the Arts Partnership Agreements		\$769,126
		\$416,582	
		TOTAL	\$864,445
		NATIONAL ENDOWMENT FOR THE ARTS TOTAL	\$864,445
		NATIONAL ENDOWMENT FOR THE HUMANITIES	
45.129	Promotion of the Humanities Federal/State Partnership		
	Humanities Montana	20R007	\$1,000
	Humanities Montana	20R005	\$824
	Humanities Montana	18R034	\$800
	Humanities Montana	17R025	\$2,874
45.149	Promotion of the Humanities Division of Preservation and Access		\$217,942
	Idaho State Historical Society	PJ-261034-18	\$18,337
45.160	Promotion of the Humanities Fellowships and Stipends		\$47,212
45.161	Promotion of the Humanities Research		\$20,671
45.162	Promotion of the Humanities Teaching and Learning Resources and Curriculum Development		\$7,220
45.163	Promotion of the Humanities Professional Development		\$70,102
		TOTAL	\$386,982
		NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	\$386,982

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, 2020

	Amount to Subrecipients	Expenditures
PEACE CORPS		
45.400 Peace Corps' Global Health and PEPFAR Initiative Program		\$24,511
	TOTAL	\$24,511
PEACE CORPS TOTAL		
		\$24,511
SMALL BUSINESS ADMINISTRATION		
59.037 Small Business Development Centers Montec 2019-518		\$807,619
59.037 COVID-19 - Small Business Development Centers		\$72,389
59.058 Federal and State Technology Partnership Program		\$23,552
59.061 State Trade Expansion		\$118,963
		\$374,436
	TOTAL	\$1,396,959
SMALL BUSINESS ADMINISTRATION TOTAL		
		\$1,396,959
SOCIAL SECURITY ADMINISTRATION		
96.008 Social Security - Work Incentives Planning and Assistance Program	\$66,392	\$203,636
	TOTAL	\$203,636
Disability Insurance/SSI Cluster		
96.001 Social Security Disability Insurance		\$6,215,142
	TOTAL	\$6,215,142
SOCIAL SECURITY ADMINISTRATION TOTAL		
		\$6,418,778

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001 USAID Foreign Assistance for Programs Overseas		\$20,962
Rutgers, The State University of New Jersey S19050: PO#1137707		\$20,962
AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL		
DEPARTMENT OF AGRICULTURE		
Agricultural Research Service		
10.001 Agricultural Research Basic and Applied Research		\$400,178
South Dakota State University 3TN612		(\$36)
Washington State University 134967-G003986		\$7,849
Animal and Plant Health Inspection Service		
10.025 Plant and Animal Disease, Pest Control, and Animal Care		\$263,855
Utah State University 200592-390		\$18,928
Economic Research Service		
10.250 Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		\$8,117
Foreign Agricultural Service		
10.610 Export Guarantee Program	\$33,682	\$38,188
10.960 Technical Agricultural Assistance		
Rutgers, The State University of New Jersey SA#5566; PO 566945		\$40
Forest Service		
10.652 Forestry Research	\$65,000	\$3,305,432
Hydrosolutions MSA 2017-TO1		\$28,639
National Wilderness Stewardship Alliance WI2020		\$61
NatureServe MT-027-FY20		\$863
Tall Timbers Research UM-2020-288		\$3,940
University of Vermont 29034SUB52911		\$48,324
10.664 Cooperative Forestry Assistance		\$9,611
10.672 Rural Development, Forestry, and Communities		(\$19)
10.680 Forest Health Protection	\$17,501	\$161,875
Salish Kootania College 2015-38424-24031		\$1,928
10.682 National Forest Foundation		\$459
10.684 International Forestry Programs		\$238,469

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.699 Partnership Agreements		\$97,839
University of Maine UMS-1216		\$16,227
10.707 Research Joint Venture and Cost Reimbursable Agreements		\$85,494
Miscellaneous		
10.RD Miscellaneous Research and Development		\$219,367
University of California, Davis A17-0837-S001		\$24,004
University of Illinois Urbana-Champaign 078863-16983		\$50,523
National Institute of Food and Agriculture		
10.200 Grants for Agricultural Research, Special Research Grants		
North Dakota State University FAR0030566		\$7,353
North Dakota State University FAR0031981		\$16,288
University of California, Davis A19-3981-S001		\$11,457
University of Idaho AP1008-SB1-870848/P0057780		\$12,100
Washington State Department of Transportation T6737 TASK 13		\$2,179
10.202 Cooperative Forestry Research		\$653,385
10.203 Payments to Agricultural Experiment Stations Under the Hatch Act		\$2,603,379
10.207 Animal Health and Disease Research		\$52,739
10.215 Sustainable Agriculture Research and Education	\$960,043	\$1,872,105
South Dakota State University 3TC473		\$588
Utah State University 200592-385		\$1,707
Utah State University 200592-395	\$22,400	\$90,118
Utah State University 200592-390		\$61,418
Utah State University 150893-00001-174		\$27,660
Utah State University 201207-587		\$19,934
Utah State University 201207-554		\$10,019
Utah State University 201207-597		\$6,354
Utah State University 201207-504		\$2,339
Utah State University 200592-447		\$1
Utah State University 200592-384		\$4,640
10.217 Higher Education - Institution Challenge Grants Program		\$214,685
10.226 Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	\$90,042	\$184,710

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.227 1994 Institutions Research Program		
Fort Peck Community College FPCC-092018-001		\$1,479
Little Big Horn College USDA NIFA TO LBHC TO MSU		\$7,439
Salish Kootania College 1		\$649
Salish Kootania College 2016-38424-2558		\$3,788
Salish Kootania College 2		\$20,740
Salish Kootenai College MSU#1: 2017-38424-27077		\$22,812
Integrated Programs		\$597
10.304 Homeland Security Agricultural		
Kansas State University A00-0280-S002-A03 (\$17045.03)	\$166,537	\$46,597
10.307 Organic Agriculture Research and Extension Initiative		\$394,745
National Center for Appropriate Technology BELASCO		\$1,554
Utah State University 202524-663		\$28,393
10.309 Specialty Crop Research Initiative	\$406,676	\$750,436
Colorado State University G-1363-04		\$8,280
Cornell University 73999-10426		\$1,749
University of Minnesota H007082503		\$26,335
University of Tennessee 8500042739		\$11,895
10.310 Agriculture and Food Research Initiative (AFRI)	\$179,337	\$1,243,427
Colorado State University G-91600-2		(\$6)
Colorado State University G-91600-3		\$9,214
Kansas State University S15184		\$36,195
University of California, Davis 201603566-08		\$115,415
University of Illinois Urbana-Champaign 078891-1539		\$35,479
University of Nebraska-Lincoln 25-6268-0005-004		(\$186)
University of New Hampshire L0015		\$9,199
University of Vermont 29034SUB51753		\$42,654
10.312 Biomass Research and Development Initiative Competitive Grants Program (BRDI)	\$115,866	\$322,511
10.318 Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		\$26,336
10.329 Crop Protection and Pest Management Competitive Grants Program	\$12,819	\$348,617
University of California, Davis SA14-2309-34		
University of California, Davis SA14-2309-52		\$10,008

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
10.330 Alfalfa and Forage Research Program	\$19,985	\$51,629
University of California, Davis A18-0619-S003		\$887
10.500 Cooperative Extension Service		\$3,074,073
Washington State University 134194 G004012		\$774
Natural Resources Conservation Service		
10.902 Soil and Water Conservation		\$297,728
Nature Conservancy MTBU122118_JB		\$20,091
Pheasants Forever LPCI 18-01	\$56,353	\$59,214
Pheasants Forever 68-3A75-16-736		\$156,739
10.903 Soil Survey		\$175,844
10.912 Environmental Quality Incentives Program		\$31,676
Risk Management Agency		
10.460 Risk Management Education Partnerships		\$47,337
Rural Business Cooperative Service		
10.350 Technical Assistance to Cooperatives		
National Association of Development Organizations 483.01		\$5,032
National Association of Development Organizations 800.01		\$112,372
National Association of Development Organizations 482.01		\$457
USDA, Office of the Chief Economist		
10.290 Agricultural Market and Economic Research		\$15,199
		\$18,460,716
DEPARTMENT OF COMMERCE		
Economic Development Administration		
11.020 Cluster Grants	\$24,545	\$159,604
National Institute of Standards and Technology		
11.609 Measurement and Engineering Research and Standards		\$434
National Oceanic and Atmospheric Administration		
11.431 Climate and Atmospheric Research		\$136,964
University Corporation for Atmospheric Research SUBSAWD000858		\$187,897
11.438 Pacific Coast Salmon Recovery Pacific Salmon Treaty Program		
Alaska Department of Fish and Game AKSSF-53005		\$826
11.440 Environmental Sciences, Applications, Data, and Education		\$222

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
11.459 Weather and Air Quality Research		\$88,947
11.472 Unallied Science Program		
North Pacific Research Board 1718B		\$22,636
U.S. Census Bureau		
11.016 Statistical, Research, and Methodology Assistance		\$7,494
	DEPARTMENT OF COMMERCE TOTAL	\$605,024
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910 Research and Technology Development	\$2,089,686	\$2,996,714
North Carolina State University 2016-2896-04		\$283,874
Defense Logistics Agency		
12.002 Procurement Technical Assistance For Business Firms		\$10,706
Big Sky Economic Development Authority SP4800-18-2-1822		
Department of the Air Force		
12.800 Air Force Defense Research Sciences Program	\$340,478	\$18,563,958
S2 Corp		\$109,448
S2 Corp #S2-1954-19-01A (3B)		\$200,317
S2 Corp #S2-1954-19-01F (3A)		\$211,051
University of Minnesota A005720602		\$112,867
Department of the Army		
12.005 Conservation and Rehabilitation of Natural Resources on Military Installations	\$4,522	\$275,236
12.114 Collaborative Research and Development		\$3,859
West Point Military Academy		\$5,785
12.420 Military Medical Research and Development	\$95,971	\$449,759
Baylor College 7000001103		\$18,896
University of California, Davis A19-0382-S001		\$35,783
12.431 Basic Scientific Research	\$74,557	\$5,289,298
Department of the Navy		
12.300 Basic and Applied Scientific Research		\$415,606
Blackmore Sensor and Analytics		\$34,190
Pennsylvania State University S000044-ONR		\$174,656
TPS Associates Inc. PO MSU-7971/3002		\$90,788

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
Miscellaneous		
12.RD Miscellaneous Research and Development		\$3,830,405
Charles River Analytics SC1812501		\$132,680
Duke University 313-0873		\$59,386
Duke University SUBCONTRACT NUMBER 313-0742		\$134,729
Nutronics, Inc. SUBK-MSU-VDHWFS2-01-012720		\$39,288
Nutronics, Inc. SUBK-MSU-NLAO-01-100518		\$948
S2 Corp S2-1025-19-01		\$196,821
Spectral Energies SB1911-001-1		\$30,191
Tufts University ARM212-MSU/ PO# EP0166321		\$9,649
University of Maryland 31236-Z8409102		\$4,989
Office of the Secretary of Defense		
12.630 Basic, Applied, and Advanced Research in Science and Engineering		\$24,947
National Science Teachers Association 20-871-014		\$46,279
Technology Student Association		\$48
12.632 Legacy Resource Management Program		
DEPARTMENT OF DEFENSE TOTAL		\$33,793,151
DEPARTMENT OF EDUCATION		
Institute of Education Sciences		
84.305 Education Research, Development and Dissemination		\$192,037
SRI International 51-001312		\$172,514
University of Missouri C00064217-1		
Office of Elementary and Secondary Education		
84.299 Indian Education -- Special Programs for Indian Children		\$99,555
Office of Innovation and Improvement		
84.336 Teacher Quality Partnership Grants		\$155,096
Office of Postsecondary Education		
84.116 Fund for the Improvement of Postsecondary Education		\$85
Western Interstate Commission for Higher Education		
84.217 TRIO McNair Post-Baccalaureate Achievement		\$230,192
DEPARTMENT OF EDUCATION TOTAL		\$849,479

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF ENERGY		
81.049 Office of Science Financial Assistance Program	\$138,630	\$1,180,613
Amethyst Research Inc		\$13,327
Bonneville Power Administration IAA 82184		\$9,266
Glacigen Materials, Inc.		(\$35)
Montana Emergent Technologies		(\$10,443)
Montana Emergent Technologies		\$53,550
University of Wyoming 1002415-MT		\$89,666
Washington State University 132345-G003797		\$108,662
Washington State University 132345 G004119		\$14,408
Washington State University 134124-G003968		\$34,869
Yale University GR104542 (CON-80001480)		\$181,492
81.086 Conservation Research and Development	\$69,954	\$3,426,979
81.087 Renewable Energy Research and Development	\$264,331	\$437,977
Bridger Photonics DOE WATER VAPOR SUB		\$3,504
Clemson University 2107-219-2023054		\$116,534
Michigan State University RC107739		\$133,790
University of Toledo F-2019-14		\$292,118
81.089 Fossil Energy Research and Development	\$156,292	\$692,368
New Mexico Institute of Mining P0019650		\$19,852
81.121 Nuclear Energy Research, Development and Demonstration		\$199,721
81.135 Advanced Research Projects Agency - Energy		
Cornell University 84185-11060		\$1,836
Miscellaneous		
81.RD Miscellaneous Research and Development		
Idaho National Laboratory 230444		\$5,291
Idaho National Laboratory 223911		\$6,000
Sandia National Laboratories 2151826		\$26,456
Sandia National Laboratories 1663302		\$26,224
Sandia National Laboratories 1922244		\$45,340
	DEPARTMENT OF ENERGY TOTAL	\$7,109,365

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Administration for Children and Families		
93.670 Child Abuse and Neglect Discretionary Activities		\$13,192
Futures Without Violence 2756		\$21,095
Futures Without Violence 3075		
Administration for Community Living		
93.433 ACL National Institute on Disability, Independent Living, and Rehabilitation Research	\$32,897	\$846,379
Institute for Rehabilitation and Research 18-PDR-01		\$1,737
Institute for Rehabilitation and Research 19-MS2-017		\$12,176
Institute for Rehabilitation and Research 2020-YR4-UMONTANA-SCIMS		\$34,198
University of Kansas FY2017-048-M3 A3	\$57,432	\$181,823
University of Kansas FY2017-048	\$22,759	\$59,873
Centers for Disease Control and Prevention		
93.136 Injury Prevention and Control Research and State and Community Based Programs	\$209,891	\$435,379
93.262 Occupational Safety and Health Program		\$169,606
Pennsylvania State University 5965-MSU-CSU-1107		\$5,872
Utah State University 202633-668		\$22,244
93.772 Tribal Public Health Capacity Building and Quality Improvement Umbrella Cooperative Agreement		
Rocky Mountain Tribal Leaders NU380T000275-01		\$16,583
Food and Drug Administration		
93.103 Food and Drug Administration Research		\$15,262
Health Resources and Services Administration		
93.107 Area Health Education Centers		\$738,572
93.155 Rural Health Research Centers	\$441,386	
National Rural Health Association NRHA 2019		\$4,188
National Rural Health Association NRHA 2020		\$6,300
93.247 Advanced Nursing Education Workforce Grant Program		\$396,619
93.300 National Center for Health Workforce Analysis		
State University of New York at Albany 3-86321		\$19,800
93.301 Small Rural Hospital Improvement Grant Program	\$447,422	\$597,604
93.359 Nurse Education, Practice Quality and Retention Grants	\$105,625	\$632,072

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.913 Grants to States for Operation of State Offices of Rural Health		\$191,315
Indian Health Service		
93.933 Demonstration Projects for Indian Health		\$2,580
Blackfeet Community College 2014-01-MSU		\$69,670
93.970 Health Professions Recruitment Program for Indians		
Miscellaneous		
93.RD Miscellaneous Research and Development	\$1,446,733	\$5,414,300
Boston Children's Hospital GENFD0001583403		\$758,671
Duke University 7273 POPS V		\$7,624
ICF International 18BBSK0053 (HHSN26100014)		\$20,092
National Institutes of Health		
93.113 Environmental Health	\$272,093	\$1,078,401
Meadowlark Science and Education, LLC UM_ES01A1		(\$6,126)
Michigan State University RC107307MON		\$62,906
Scripps Research Institute 5-53234		(\$402)
University of New Mexico 3RY74 PILOT PROJECT		(\$806)
University of New Mexico 3RY74		\$79,671
University of Rochester R0AE5030940-01		\$163,101
University of Rochester 417656G/UR FAO GR510992		\$20,523
93.121 Oral Diseases and Disorders Research		\$63,960
93.172 Human Genome Research		
Institute for Systems Biology 2018.0008		\$178,368
Southcentral Foundation 2018-201		\$103,608
93.173 Research Related to Deafness and Communication Disorders		
Massachusetts General Hospital 300315		\$224,988
MGH Institute of Health Professions 300326-01		\$1,260
Promiladi Biopharma R41-DC017641-01		\$52,240
93.213 Research and Training in Complementary and Integrative Health		\$1
Flat Earth Inc NIH SUMMER INTERNSHIPS		\$14,604
93.242 Mental Health Research Grants		\$88,814
Advanced Medical Electronics Corporation AME19_ANIMALHEADSTAGE-07		\$82,997
University of Washington UWSC10191 (BPO28076)		\$19,724

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
93.273 Alcohol Research Programs	\$159,870	\$223,771
93.279 Drug Abuse and Addiction Research Programs Yale University GK000120 (CON-80000426)		\$115,975
93.286 Discovery and Applied Research for Technological Innovations to Improve Human Health	\$25,211	\$12,068
93.307 Minority Health and Health Disparities Research	\$480,497	\$535,159
93.350 National Center for Advancing Translational Sciences University of Washington BPO26008 / UWSC9979 University of Washington UWSC 9979		\$1,002,534
93.351 Research Infrastructure Programs		\$51,469
93.361 Nursing Research Medical College of Wisconsin PO:6105504 (PREVIOUS #1759446) University of Florida UFDSP00012150		\$16,980
93.393 Cancer Cause and Prevention Research		\$24,329
93.778 Medical Assistance Program	\$155,430	\$10,961
93.837 Cardiovascular Diseases Research		\$16,632
93.838 Lung Diseases Research		\$135,466
93.846 Arthritis, Musculoskeletal and Skin Diseases Research		\$469,716
93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research		\$0
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders University of Washington UWSC10752/ BPO34774 University of Washington UWSC10752/ BP034774 Yale University M17A12590-GR104248 (80001410)	\$191,304	\$48,167
93.855 Allergy and Infectious Diseases Research Albert Einstein College of Med P0767522 (SUB NO: 31194A) Emory University A156367 Harvard University 114487-5109468 Indiana University PO1464301 Intact Genomics, Inc. 18_8765MTU Promilad Biopharma R42A118104 University of Connecticut PO 50074 University of Florida UFDSP00011787 University of Kentucky PO7800004770/3200002108-19-191	\$324,294	\$277,442
		\$342,059
		\$1,673,711
		\$1,584,982
		\$11,610
		\$13,103
		\$879
		\$5,223,002
		\$14,904
		\$104,354
		\$26,217
		(\$4)
		\$6
		\$159,031
		\$5,104
		\$78
		\$22,104

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
University of Louisville Research Foundation, Inc. ULRF 17-0750-01		\$29,535
University of Maryland 1600589, PO# SR00005156		\$21,458
University of Notre Dame 202953MSU		\$148,685
Biomedical Research and Research Training	\$1,984,184	\$16,246,356
City of Missoula 1R2SGM132950-01		\$27,046
Meadowlark Science and Education, LLC UM-OD01		\$69,852
Meadowlark Science and Education, LLC UM_GEN01		\$31,611
Northwest Indian College NWIC-SA24226-MSU		\$82,194
Oklahoma State University 5-554009		\$19,772
Rutgers, The State University of New Jersey PO# 663268/ SUBAWARD #0222		\$119,199
University of Alaska PO538440		\$3,650
University of Alaska UAA 20-0113		\$25,254
University of Nevada, Las Vegas GR07331 UMT-06-04-PILOT		\$2,812
University of Nevada, Las Vegas GR09462 UMT-07-01-CP3		\$115,240
University of Nevada, Las Vegas GR09462 UMT-07-01-BERD		\$26,633
University of Nevada, Las Vegas GR:07331		\$1,628
University of Nevada, Las Vegas GR07331 DTTG SLOVARP		\$534
University of Nevada, Las Vegas GR09462 UMT-07-01-CEO		\$86,215
University of Nevada, Las Vegas GR07325		\$843
University of Nevada, Las Vegas TASK MSU-07-02-CEO (GR09456)		\$16,168
University of Nevada, Las Vegas TASK MSU-07-01-BERD (GR09456)		\$26,726
University of New Mexico 3REV9		\$113,227
University of New Mexico Health Sciences Center 3REV9		\$34,310
University of Utah 10047369-S2		\$21,638
University of Utah PO U000148335 / 10047369-S2		\$26,730
University of Washington UWSC9319		\$139,459
Child Health and Human Development Extramural Research		\$886,919
University of Arkansas 51460		\$15,697
University of Arkansas 51460 PO#G190121109		\$140,476
University of Arkansas for Medical Sciences		\$344
Washington University WU-20-478		\$46,891
93.866 Aging Research		\$2,111

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
Johns Hopkins University 2003050472		\$19,805
Michigan State University RC108877UM		\$43,269
University of Washington UWSC10030/BPO26347		\$111,540
93.867 Vision Research		\$5,613
University of California, Berkeley SUBAWARD NO. 00010266		\$37,444
University of California, Berkeley PO #BB01134177		\$4,636
93.879 Medical Library Assistance		
Augusta University Research Institute, Inc. 32242-1		\$15,410
Baylor College 7000000701		\$33,631
Office of the Secretary		
93.001 Civil Rights and Privacy Rule Compliance Activities		
Arrevus Inc		(\$2,435)
Substance Abuse and Mental Health Services Administration		
93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance		
Browning Schools 2586-001		\$35,031
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	\$43,877,624
	DEPARTMENT OF HOMELAND SECURITY TOTAL	\$1,527,489
	DEPARTMENT OF JUSTICE	
Office of Justice Programs		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		\$106,268
	DEPARTMENT OF JUSTICE TOTAL	\$106,268
	DEPARTMENT OF STATE	
Bureau of Educational and Cultural Affairs		
19.408 Academic Exchange Programs - Teachers		
International Research and Exchanges Board FY20-FTEA-MSU-01		(\$170)
International Research and Exchanges Board FY19-FTEA-MSU-01		\$199,066
19.415 Professional and Cultural Exchange Programs - Citizen Exchanges		
Institute of International Education ASPEN INSTITUTE SI IIEI 2017		(\$456)

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
Bureau of Near Eastern Affairs		
19.600 Bureau of Near Eastern Affairs		
Georgetown University MSU-GR205769		\$6,262
		\$204,702
DEPARTMENT OF THE INTERIOR		
Bureau of Indian Affairs		
15.035 Forestry on Indian Lands		
Salish Kootania College NBR-19-01		\$22,451
15.043 Indian Child and Family Education		\$21,846
Bureau of Land Management		
15.224 Cultural and Paleontological Resources Management		\$152,870
Society for California Archaeology		\$5,020
15.225 Recreation and Visitor Services		\$2,581
15.228 BLM Wildland Urban Interface Community Fire Assistance		\$9,292
15.230 Invasive and Noxious Plant Management	\$5,000	\$61,314
15.231 Fish, Wildlife and Plant Conservation Resource Management		\$309,116
15.232 Wildland Fire Research and Studies		\$114,693
Utah State University 200588-00001-294		\$2,155
15.236 Environmental Quality and Protection	\$260,356	\$321,005
15.238 Challenge Cost Share		\$79,639
15.247 Wildlife Resource Management		\$99,358
Bureau of Reclamation		
15.517 Fish and Wildlife Coordination Act		
Whitefish Lake Institute RD-WLI-591		\$2,591
15.530 Water Conservation Field Services (WCFS)		
Farmer Canal Company of Gallatin County R17AP00325		\$2,190
Miscellaneous		
15.RD Miscellaneous Research and Development		\$630,405
Oregon State University L0212A-A		\$201,721
Oregon State University L0205A-A		\$209,286
PG Environmental, LLC 50002/001		\$57,532
PG Environmental, LLC 50002.001		\$139,043

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
Portland State University 100130		\$46,745
Portland State University 100145		\$38,228
Portland State University 100006		\$224,518
RRC Associates 33172.002		\$3,797
National Park Service		
15.915 Technical Preservation Services		\$30
15.926 American Battlefield Protection		\$13,777
15.944 Natural Resource Stewardship		\$177,434
15.945 Cooperative Research and Training Programs – Resources of the National Park System	\$78,318	\$838,968
15.954 National Park Service Conservation, Protection, Outreach, and Education		\$19,465
Office of Surface Mining, Reclamation and Enforcement		
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		\$225,734
15.255 Science and Technology Projects Related to Coal Mining and Reclamation		\$52,443
U.S. Fish and Wildlife Service		
15.605 Sport Fish Restoration		
Wyoming Game and Fish Department 002822		\$59,465
15.608 Fish and Wildlife Management Assistance		\$165,353
15.611 Wildlife Restoration and Basic Hunter Education	\$310,456	\$2,459,173
Colorado Parks and Wildlife 220-IGA-142182		\$11,629
Idaho Department of Fish and Game IDFG-FY19-516		\$96,292
Idaho Department of Fish and Game IDFA-MA-20151029		\$39,074
Idaho Department of Fish and Game IDFG-MA-20151029		\$51,363
Michigan State University RC108133 UMT		\$25,573
Missouri Department of Conservation 377-B		\$41,232
Missouri Department of Conservation 369-B		\$32,271
North Dakota Game and Fish Department F18AF00057		\$14,684
North Dakota Game and Fish Department W-68-R-3		\$28,409
Colorado Parks and Wildlife 17-IGA-94119		\$22,765
State of South Dakota 19CS06W008		\$44,429
State of South Dakota 19CS06W012		\$208,909
15.615 Cooperative Endangered Species Conservation Fund		\$23,006

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
15.631 Partners for Fish and Wildlife		\$52,979
Blackfoot Challenge 2019-37		\$17,814
15.634 State Wildlife Grants		
Alaska Department of Fish and Game 19-145		\$43,118
Wyoming Game and Fish Department 003033		\$22,467
15.637 Migratory Bird Joint Ventures		\$28,721
15.650 Research Grants (Generic)		\$21,441
15.655 Migratory Bird Monitoring, Assessment and Conservation		\$17,596
15.657 Endangered Species Conservation – Recovery Implementation Funds		\$351,312
South Dakota Department of Game, Fish and Parks 19-0600-048-01		\$283,168
South Dakota Department of Game, Fish and Parks 19-0600-048		\$18,785
15.663 National Fish and Wildlife Foundation		
National Fish and Wildlife Foundation 0103.13.038862		\$1,120
15.665 National Wetlands Inventory		\$35,880
15.670 Adaptive Science		\$20,247
Center for Large Landscape Conservation UM-SBSI-C-18-02		\$3,185
15.678 Cooperative Ecosystem Studies Units		\$503,168
U.S. Geological Survey		
15.805 Assistance to State Water Resources Research Institutes	\$1,476	\$119,829
15.808 U.S. Geological Survey Research and Data Collection		\$420,170
15.810 National Cooperative Geologic Mapping		\$200,776
15.812 Cooperative Research Units		\$249,359
15.814 National Geological and Geophysical Data Preservation		\$73,028
15.815 National Land Remote Sensing Education Outreach and Research		
America View Inc AV18-MT-01		\$27,137
15.820 National and Regional Climate Adaptation Science Centers		
University of Washington UWSC100967/BP041681		\$45,312
University of Washington UWSC10097/BP033702		\$6,123
University of Washington UWSC100967/BP041680		\$19,669
University of Washington UWSC10097/BPO33701		\$13,584
15.980 National Ground-Water Monitoring Network		\$4,586
	DEPARTMENT OF THE INTERIOR TOTAL	\$10,009,448

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
DEPARTMENT OF TRANSPORTATION		
Federal Aviation Administration		
20.109 Air Transportation Centers of Excellence		\$88,674
Federal Highway Administration		
20.200 Highway Research and Development Program	\$253,029	\$997,087
Cadmus Group 4652FHWA-MTI-1		\$9,538
California Department of Transportation 65A0606		\$14
California Department of Transportation 65A0550		\$134,019
California Department of Transportation 65A0604		\$38,905
California Department of Transportation 65A0772		\$9,141
California Department of Transportation 65A0614		
California Department of Transportation 65A0770		\$16,106
California State University, Long Beach SG199416100		\$7
Idaho Department of Transportation 2016-01		\$42,240
Minnesota Department of Transportation 1003322 WORK ORDER NO. 4		\$55,971
Minnesota Department of Transportation 1003322 WO 3		\$69,051
Minnesota Department of Transportation 1003322 WORK ORDER NO. 5		\$13,850
Nevada Department of Transportation P701-18-803 TASK 02		\$19,633
Nevada Department of Transportation P701-18-803 TASK 01		\$76,998
Nevada Department of Transportation P701-18-803 TASK 06		\$5,948
South Dakota Department of Transportation 311280 SD2016-03		\$13,818
Transportation Research Board HR 20-122 SUB0001256	\$1,359	\$22
Washington State Department of Transportation T6737 TASK 12		\$33,939
20.205 Highway Planning and Construction	\$12,000	\$1,458,771
Center for Large Landscape Conservation		\$29,931
Maryland Department of Transportation P01814 X-1	\$20,199	\$102,090
Minnesota Department of Transportation 1002306	\$20,749	\$249,202
Federal Transit Administration		
20.514 Public Transportation Research, Technical Assistance, and Training		
ICF International 19SSSK0091		\$8,405

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
National Highway Traffic Safety Administration		
20.600 State and Community Highway Safety		
North Dakota Department of Transportation 12181527		\$2,510
North Dakota Department of Transportation 12191245		\$23,739
20.614 National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		\$46,547
20.616 National Priority Safety Programs		
Washington Traffic Safety Commission 2020-VENDOR CONTRACT-4004		\$8,900
Washington Traffic Safety Commission 2020-AG-3688		\$32,457
Washington Traffic Safety Commission		\$49,337
Washington Traffic Safety Commission 2019-AG-2784		\$723
Office of the Secretary		
20.701 University Transportation Centers Program	\$984,700	\$1,584,694
		\$5,222,267
DEPARTMENT OF TREASURY		
Community Development Financial Institutions		
21.020 Community Development Financial Institutions Program		\$56,690
		\$56,690
DEPARTMENT OF VETERANS AFFAIRS		
VA Health Administration Center		
64.054 Research and Development		\$690,884
		\$690,884
ENVIRONMENTAL PROTECTION AGENCY		
66.202 Congressionally Mandated Projects		
Idaho Department of Environmental Quality 5574		\$40,089
Idaho Department of Environmental Quality S613		\$59,931
66.461 Regional Wetland Program Development Grants		\$65,117
University of Wyoming 1004254-UM		(\$7,882)
66.509 Science To Achieve Results (STAR) Research Program		
University of New Mexico 3RAW5		\$7,528
University of New Mexico 3RAW5 / 83615701		\$24,594

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
66.510 Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development		\$2,238
66.716 Pegasus Technical Services, Inc. #MONT-18-001 Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		\$28,871
66.802 Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		\$14,095
66.951 Dine' College 1819-16-513 Environmental Education Grants		\$1,963
Arizona State University ASUB00000207		
Miscellaneous		
66.RD Miscellaneous Research and Development		\$4,047
Pegasus Technical Services, Inc. MONTT-19-001		\$240,591
ENVIRONMENTAL PROTECTION AGENCY TOTAL		
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.312 National Leadership Grants	\$14,323	\$40,685
45.313 Laura Bush 21st Century Librarian Program		\$28,727
INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL		
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001 Science	\$528,107	\$4,173,194
Arizona State University 16-005		\$14,473
Bay Area Environmental Research ELA_NEX_103018		\$40,962
Bowling Green State University 10010205-UMT		\$13,372
California Institute of Technology, JPL 1587131		\$354
California Institute of Technology, JPL 1649019		\$6,656
Dartmouth College R1148		\$18,119
Dartmouth College R1060		\$475,738
Georgia Institute of Technology RH809-03		\$528,619
Lockheed Martin Corporation 8100002702		\$356,489
Princeton University SUB0000148		\$24,436
SETI Institute SC 3118		\$37,190
Smithsonian Astrophysical Observatory G08-19069X		\$25,310
Smithsonian Astrophysical Observatory G09-20094X		\$38,170
Smithsonian Astrophysical Observatory G07-18086A		\$22,578

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
Smithsonian Astrophysical Observatory GO5-16091B		\$15
Smithsonian Astrophysical Observatory SV9-89001		\$162,125
Southwest Research Institute K99081KJ		\$25,393
Space Telescope Science Institute HST-GO-14047.005-A		(\$17)
Space Telescope Science Institute HST-GO-13943.007-A		\$33,945
Space Telescope Science Institute HST-GO-14251.004-A		\$35,326
Stone Aereospace/PSC Inc		\$11,166
Stottler Henke Associates, Inc. DIS-MAESTRO2 MSU		\$3,460
Stottler Henke Associates, Inc. DIS-MAESTRO1-STOTTLER-HENKE-MO		\$13,155
Sustainable Bioproducts NSSA		\$45,745
Sustainable Bioproducts NASA STTR		\$14,675
Universities Space Research Association 04555-036		\$7,530
University Corporation For Atmospheric Research SUBAWD001459		\$29,858
University of Alaska UAF 18-0082		\$52,004
University of California, Irvine 2016-3348		\$37,792
University of Colorado Denver 1557527 (PO1001165441)		\$140,750
University of Colorado Denver 1552610 / NNA15BB02A		\$72,174
University of Maryland 3TB432		\$16,359
University of Massachusetts 20-010961 A		\$110,609
University of Minnesota A007438701		\$15,263
University of Washington UWSC8879/BPO13182		\$138,555
Wildlife Conservation Society SERDP110515-217		\$17,745
43.008 Education	\$24,709	\$1,506,293
43.012 Space Technology	\$47,285	\$657,519
Miscellaneous		
43.RD Miscellaneous Research and Development		
California Institute of Technology, JPL 1422120		\$176,029
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		\$9,099,128
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.129 Promotion of the Humanities Federal/State Partnership		(150)
Humanities Montana 18R045		(\$150)
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		(150)

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
NATIONAL SCIENCE FOUNDATION		
47.041 Engineering Grants	\$29,821	\$2,017,326
Case Western Reserve University RES514053		\$85,355
Integrative Economics LLC		\$104,643
Syracuse University 28250-04301-S18		\$5,000
University of Michigan SUBK00011355		\$50,737
47.049 Mathematical and Physical Sciences		\$1,855,449
Association of Universities for Research in Astronomy N87463C		\$40,990
S2 Corp S2-1330880-13-03		\$1,620
University Wisconsin-Milwaukee 153405537		\$28,520
47.050 Geosciences	\$42,839	\$2,237,404
George Washington University 14-S17 (PLR-1304555)		\$3,332
George Washington University 14-S17		\$42,610
Lehigh University/Global Village 543851-78002		\$10,324
University of Colorado - Boulder 1555555 PO 1000879023		\$30,107
University of Colorado 1555338-PO 1000856931		\$41,561
University of Colorado - Denver 1555337/PO#1000855308		\$140,174
University of Hawaii at Manoa MA 1391		\$18,272
University of Kansas FY2018-050		\$504
University of Tennessee A17-0124-S001		\$452
Woods Hole Oceanographic Institute A101357		\$8,027
47.070 Computer and Information Science and Engineering	\$38,299	\$946,969
University of North Texas GF30041-1		\$3,302
47.074 Biological Sciences	\$288,079	\$5,170,678
Cary Institute of Ecosystem Studies 3340-200201873		\$13,339
USDA Rocky Mountain Reserach 16-JV-11221633-029		\$66,898
Washington State University 118996_G003357		\$109
47.075 Social, Behavioral, and Economic Sciences	\$134,136	\$750,966
47.076 Education and Human Resources	\$34,475	\$3,122,099
Aaniih Nakoda College MSU-3753		\$42,064
Colorado State University 96702-5		\$73,874
Mathematical Association of America MAA 3-8-710-891		\$74,132

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, 2020

Research and Development Cluster	Amount to Subrecipients	Expenditures
Michigan State University RC104101MONTANA		\$34,476
Murray State University MOA No. 2020-075		\$9,549
Salish Kootenai College MSUN-18-1		\$750
Salish Kootenai College SAG-18-UOM-001		\$2,100
University of San Diego		\$12
Washington State University 131202 G004100		\$11,687
47.078 Polar Programs	\$55,827	\$74,500
47.083 Office of Integrative Activities	\$1,166,173	\$5,669,432
North Carolina State University 2019-3154-01		\$9,959
South Dakota School of Mines SDSMT-MSU-20-10		\$84,111
South Dakota School of Mines SDSMT-MSU 18-04		\$556,344
Trustees of Dartmouth College R896/R897/1632738		\$285,938
University of Alaska P0539392		\$848
University of Nebraska 25-6222-0984-050		\$150,687
NATIONAL SCIENCE FOUNDATION TOTAL		\$23,877,230
SOCIAL SECURITY ADMINISTRATION		
96.007 Social Security Research and Demonstration		\$8,005
University of Wisconsin-Madison 0000000424		\$25,414
University of Wisconsin-Madison RDR18000001-01		\$33,419
SOCIAL SECURITY ADMINISTRATION TOTAL		\$33,419
RESEARCH AND DEVELOPMENT CLUSTER TOTAL		\$155,853,699
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL		\$4,994,267,335

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, 2020

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, 2020. 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, 2020.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are generally recorded in the accounting period in which the liability is incurred. However, there are some payments, such as compensated absences, that are only recorded when the payment is due.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Montana University System uses full accrual accounting to report campus federal expenditure activity. The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantee Programs (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented using the basis of accounting described in each note. The Books for the Blind and Physically

Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of Federal Awards but is provided as additional information regarding the types of donations received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Coronavirus Relief Fund

The state of Montana expended \$685,219,735 in Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funds during fiscal year 2020. Amounts funded under the various CARES Act programs are indicated by a "COVID-19" reference in front of the federal program name on the fiscal year 2020 Schedule of Expenditures of Federal Awards.

A summary of the federal programs that received funding under the CARES Act is shown on the following page:

CFDA #	CARES Act Funding	FY 2020 Expenditures
10.551	Supplemental Nutrition Assistance Program	\$22,609,431
10.553	School Breakfast Program	\$805,929
10.555	National School Lunch Program	\$1,959,640
10.556	Special Milk Program for Children	\$206
10.558	Child and Adult Care Food Program	\$3,205,405
10.559	Summer Food Service Program for Children	\$10,563,625
10.569	Emergency Food Assistance Program (Food Commodities)	\$314,196
14.231	Emergency Solutions Grant Program	\$100,715
14.241	Housing Opportunities for Persons with AIDS	\$31,894
16.034	Coronavirus Emergency Supplemental Funding Program	\$52,143
17.225	Unemployment Insurance	\$499,740,638
20.106	Airport Improvement Program	\$212,432
20.509	Formula Grants for Rural Areas	\$5,784,009
21.019	Coronavirus Relief Fund	\$93,151,036
59.037	Small Business Development Centers	\$23,552
84.007	Federal Supplemental Educational Opportunity Grants	\$75,560
84.425	Education Stabilization Fund	\$12,191,090
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	\$10,820
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	\$300,463
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	\$1,786,293
93.048	Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	\$304,000
93.052	National Family Caregiver Support, Title III, Part E	\$141,846
93.268	Immunization Cooperative Agreements	\$523
93.301	Small Rural Hospital Improvement Grant Program	\$2,849,939
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	\$4,909,222
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	\$2,604,568
93.498	Provider Relief Fund	\$934,894
93.568	Low-Income Home Energy Assistance	\$3,571,621
93.569	Community Services Block Grant	\$35,386
93.575	Child Care and Development Block Grant	\$6,682,283
93.636	ACA - Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	\$49,256
93.889	National Bioterrorism Hospital Preparedness Program	\$619
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$10,216,501
	Total CARES Act Funding	\$685,219,735

The state received \$3,121,023 in supplies and equipment under CFDA #97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters) which is shown on the Schedule of Expenditures of Federal Awards. Of this amount, \$576,228 was received from the Strategic National Stockpile and \$691,191 was donated hand sanitizer, swabs, and cloth face masks from the Federal Emergency Management Agency.

Families First Coronavirus Response Act

Section 6008 of the Families First Coronavirus Response Act provided a temporary 6.2 percentage point increase to each qualifying state and territory's Federal Medical Assistance Percentage (FMAP) under section 1905(b) of the Social Security Act. In fiscal year 2020, the state paid an additional \$36,762,371 for the Medical Assistance Program (CFDA #93.778), and an additional \$2,137,212 for the Children's Health Insurance program (CFDA #93.767), as a result of this FMAP increase.

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 2020, Montana distributed \$1,202,826 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$12,212,219 in commodities in fiscal year 2020. The June 30, 2020 value of commodities stored at the state's warehouse is \$4,749,696, 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 2020. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2020, Montana received 185,060 vaccine doses valued at \$10,501,107.

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, 2019 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2020:

CFDA#	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2020 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 303,244,326
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 172,607,800
	Total State Revolving Loan Programs	\$ 475,852,126

CFDA#	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2020 Ending Balance
	University Loans	
84.038	Federal Perkins Loan Program_Federal Capital Contributions	\$23,537,043
93.264	Nurse Faculty Loan Program (NFLP)	\$6,063
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$251,002
93.364	Nursing Student Loans	\$2,435,380
	Total Student Financial Assistance Programs	\$26,229,488

Perkins Loan Programs

Under the Perkins Loan Extension Act of 2015, universities participating in this program are no longer permitted to make Perkins Loan disbursements after June 30, 2018. Institutions may choose to continue servicing their existing Perkins Loans until such time the institution's outstanding loans have been paid in full or otherwise retired. Both Montana State University and the University of Montana have chosen to continue to service their current loans.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) consists of two separate awards, which are reported on the Schedule of Expenditures of Federal Awards at the June 30, 2020 ending loan balances.

The amount of loans outstanding as of June 30, 2020 is \$312,521 for award number 05-19-02445 and \$3,006,744 for award number 05-79-73005. The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Title IX SSED Revolving Loan Fund		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2020		\$ 293,074
Cash & Investments FYE 2020		\$ 147,097
FY 2020 Admin paid out of RLF Income		\$ -
Unpaid Principal of loans written of during FY		\$ -
		\$ 440,171
Federal Percentage		71%
Federal Share of Revolving Loan Fund		\$ 312,521

Award Number: 05-79-73005		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Economic Adjustment Assistance		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2020		\$ 5,885,488
Cash & Investments FYE 2020		\$ 98,076
FY 2020 Admin paid out of RLF Income		\$ 29,923
Unpaid Principal of loans written of during FY		\$ -
		\$ 6,013,487
Federal Percentage		50%
Federal Share of Revolving Loan Fund		\$ 3,006,744

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 2020. The amount of the loan outstanding as of June 30, 2020 is \$5,215,385.

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, 2020, the loan outstanding is \$1,691,794, and reimbursable interest during construction is \$162,581.

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, 2021 will be issued by March 31, 2022.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2021.

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 20 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	\$1,638,881
84.033	Federal Work-Study Program	\$1,914,835
84.038	Federal Perkins Loan Program_Federal Capital Contributions	\$28,249,249
84.063	Federal Pell Grant Program	\$40,941,532
84.268	Federal Direct Student Loans	\$155,770,460
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	\$5,838
93.264	Nurse Faculty Loan Program (NFLP)	\$8,630
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$320,347
93.364	Nursing Student Loans	\$2,925,738
	Total Student Financial Assistance Cluster	\$231,775,510

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 23.34% of the original acquisition cost of the property.

Property received under CFDA #81.UXX, Miscellaneous Non-major Grants, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2020. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 20 Amount	FY 20 Ending Inventory
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	\$0	\$124,578
10.500	Cooperative Extension Service	\$0	\$3,157
10.664	Cooperative Forestry Assistance	(\$165,984)	\$4,487,536
10.UXX	Miscellaneous – Non-major Grants	\$0	\$136,426
15.UXX	Miscellaneous – Non-major Grants	\$0	\$3,553
39.003	Donation of Federal Surplus Personal Property	\$84,100	\$193,804
81.UXX	Miscellaneous – Non-major Grants	(\$2,235)	\$2,370
43.UXX	Miscellaneous – Non-major Grants	\$0	\$665,190
47.UXX	Miscellaneous – Non-major Grants	(\$1,254)	\$122,614

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 23.34% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2020:

CFDA #	Program	FY 20 Amount	FY 20 Ending Inventory
12.UXX	Miscellaneous – Non-major Grants	\$66,811	\$3,220,138

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, 2020 was \$917,764.

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	\$ 265,690,764
Federal UI Expenditures	<u>494,103,546</u>
Total	\$ 759,794,310

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 includes federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency or university. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency or university, is shown below:

CFDA #	Federal Program	Amount to Subrecipients
Non Research and Development		
16.833	National Sexual Assault Kit Initiative	\$100,202
21.019	Coronavirus Relief Fund	\$79,527,728
84.048	Career and Technical Education -- Basic Grants to States	\$2,798,047
84.419	Preschool Development Grants	\$86,953
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	\$38,449
93.262	Occupational Safety and Health Program	\$14,581
	Total - Non Research and Development	\$82,565,960
Research and Development Cluster		
20.205	Highway Planning and Construction	\$12,000
93.778	Medical Assistance Program	\$155,430
	Total Research and Development Cluster	\$167,430

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)

<i>Federal Agency</i>	<i>State Agency</i>	<i>Contract or Grant Number</i>	<i>Amount</i>
DEPARTMENT OF AGRICULTURE			
10.U01	Montana State University - Bozeman	Unknown	\$986
10.U02	Department of Natural Resources and Conservation	15-FI-11010200-001	\$322
10.U03		16-FI-11010200-019	\$1,392
10.U04		16-FI-11011100-057	\$1,789
10.U05		16-FI-11011100-060	\$29,708
10.U06		16-FI-11011500-026	\$744
10.U07		17-FI-11011600-013	\$2,820
10.U08		17-FI-11015200-003	\$24,110
10.U09		18-FI-11011600-026	\$3,580
10.U10		18-FI-11015200-008	\$9,896
10.U11		18-FP-11011500-017	\$15,465
10.U12		DNRC-BLM-18-001	\$1,445
DEPARTMENT OF DEFENSE			
12.U01	University of Montana - Missoula	1900163	\$78,510
12.U02		W9128F-17-2-0028	\$172,108
12.U03	Department of Fish, Wildlife and Parks	19-102P	\$170,654
12.U04		19-85P	\$1,187,025
12.U05		20-105P	\$458,487
12.U06		20-144P	\$61,193
12.U07		W9128F-15-D-0015	\$202,951
12.U08		W9128F-20-D-0025	\$145,270
12.U09		W912DW-15-2-0001-0005	\$337,449
12.U10		W912DW-20-2-0001	\$44,014
12.U11	Department of Natural Resources and Conservation	Unknown	\$66,811
DEPARTMENT OF EDUCATION			
84.U01	Office of Public Instruction	Contract # ED-IES-14-C-0086	\$113,496
DEPARTMENT OF ENERGY			
81.U01	Department of Fish, Wildlife and Parks	19-36G	\$60,551
81.U02		20-18G	\$58,624
81.U03		00-UGPR-34	\$222,717
81.U04	Department of Natural Resources and Conservation	Unknown	\$42,830
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.U01	Department of Public Health and Human Services	Unknown	\$163,827
DEPARTMENT OF THE INTERIOR			
15.U01	Department of Fish, Wildlife and Parks	140G0219P0131	\$54,684
DEPARTMENT OF TREASURY			
21.U01	Department of Administration	Unknown	\$5,992
LIBRARY OF CONGRESS			
42.U01	Montana Historical Society	Unknown	\$5,300

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (XX.RD)

Federal Agency	State Agency	Contract or Grant Number	Amount				
DEPARTMENT OF AGRICULTURE	10.RD	Montana State University - Bozeman	A17-0837-S001	\$24,004			
			078863-16983	\$50,523			
			14-CS-11011100-026	\$7			
			15-CS-11021400-031	\$12,831			
			16-JV-11221639-136	\$6,085			
			17-CS-11010200-019	\$5,929			
			17-CS-11011100-012	\$7,300			
			17-CS-11015600-056	\$576			
			17-JV-11221636-068	\$16,388			
			18-CS-11011800-017	\$13,837			
	University of Montana - Montana Tech	58-2056-5-002	\$13,354				
		59-0206-5-002	\$9,624				
		59-0206-5-003	\$12,138				
		59-0206-5-004	\$7,993				
		AG-3151-C-17-0012	\$100,698				
		MSU-ARF ORBC MOU	\$12,608				
		09-CS-11010800-018	-\$1				
		DEPARTMENT OF DEFENSE	12.RD	University of Montana - Missoula	SC1812501	\$132,680	
					N62473-19-2-0005	\$72,586	
					W911KB-19-2-1500	\$492,429	
W911KB-19-2-1501	\$1,944						
W9126G-19-2-0035	\$9,916						
W9126G-20-2-0016	\$681						
W9128F20P0030	\$2,510						
W912G-19-2-0007	\$510,676						
313-0873	\$59,386						
SUBCONTRACT NUMBER 313-0742	\$134,729						
Montana State University - Bozeman	SUBK-MSU-VDHWFS2-01-012720			\$39,288			
	SUBK-MSU-NLAO-01-100518			\$948			
	S2-1025-19-01			\$196,821			
	SB1911-001-1			\$30,191			
	ARM212-MSU/ PO# EP0166321			\$9,649			
	31236-28409102			\$4,989			
	FA701418C5000			\$332,581			
	FA701418C5004			\$326,511			
	M67854-18-3-1330			\$2,061,223			
	W912HZ-18-2-0010			\$19,348			
DEPARTMENT OF ENERGY	81.RD	University of Montana - Montana Tech	230444	\$5,291			
			223911	\$6,000			
			2151826	\$26,456			
			1663302	\$26,224			
			1922244	\$45,340			
			DEPARTMENT OF HEALTH AND HUMAN SERVICES	93.RD	University of Montana - Missoula	GENFD0001583403	\$758,671
7273 POPS V	\$7,624						
75N93019C0045	\$1,036,127						
HHSN272201400050C	\$1,802,944						
HHSN272201800048C	\$2,369,073						
Montana State University - Bozeman	18BBSK0053 (HHSN26100014)	\$20,092					
	75N91019P00691	\$63,295					
	Department of Public Health and Human Services	Unknown			\$142,861		
	DEPARTMENT OF HOMELAND SECURITY	97.RD			Montana State University - Bozeman	70RSAT19TPIA00001	\$1,527,489
						DEPARTMENT OF THE INTERIOR	15.RD
L0205A-A			\$209,286				
50002.001			\$196,575				
100130			\$46,745				
100145	\$38,228						

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (XX.RD)

Federal Agency	State Agency	Contract or Grant Number	Amount
		100006	\$224,518
		33172.002	\$3,797
		140B0619F0343	\$11,311
		140F0619C0021	\$10,067
		140F0619P0068	\$22,321
		140F0619P0069	\$14,743
		140L0618F0380	\$291,593
		140L0619F0248	\$4,869
		140L0619F0249	\$64
		140L0619F0291	\$643
		140L0619F0292	\$1,965
		140L0619F0301	\$41,635
		140L0619F0302	\$8,026
		140L0619F0359	\$58,164
		140L1018P0018	\$1
		140L619F0285	\$33,994
		140L619F0342	\$1,803
	Montana State University - Bozeman	G15PC00055	\$16,117
		G19AC00047	\$40,760
	University of Montana - Montana Tech	68-0325-15-005	\$95,724
		H1580070001	-\$23,395
ENVIRONMENTAL PROTECTION AGENCY 66.RD	University of Montana - Montana Tech	MONTT-19-001	\$4,047
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION 43.RD	University of Montana - Missoula	1422120	\$176,029

AUDITOR'S REPORT & FINDINGS

AUDITOR’S REPORT AND FINDINGS

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LEGISLATIVE AUDIT DIVISION

C-1

Angus Maciver, Legislative Auditor
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Cindy Jorgenson
William Soller

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, 2021. The state of Montana's major federal programs are identified in the summary of auditor's results section in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the state of Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our adverse, qualified, and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the state of Montana's compliance.

Basis for Adverse Opinion on Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

As described in Findings #2021-052, 2021-054, 2021-055, 2021-062, and 2021-066 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-052	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Subrecipient Monitoring
2021-054			Subrecipient Monitoring
2021-055			Subrecipient Monitoring
2021-062			Activities Allowed or Unallowed Allowable Costs/Cost Principles
2021-066			Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Adverse Opinion on Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion of Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)” paragraph, the state of Montana did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) Program for the two fiscal years ended June 30, 2021.

Basis for Adverse Opinion on Foster Care-Title IV-E

As described in Findings #2021-051, 2021-061, 2021-063, 2021-065, and 2021-067 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-051	93.658	Foster Care-Title IV-E	Subrecipient Monitoring
2021-061			Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
2021-063			Allowable Costs/Cost Principles
2021-065			Reporting
2021-067			Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Adverse Opinion on Foster Care-Title IV-E

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion of Foster Care-Title IV-E” paragraph, the state of Montana did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Foster Care-Title IV-E program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Highway Planning and Construction Cluster

As described in Finding #2021-002 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-002	20.205 20.219 20.224	Highway Planning and Construction Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

Qualified Opinion on Highway Planning and Construction Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Highway Planning and Construction Cluster” paragraph, the state of Montana complied, in all material respects, with the types of 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, 2021.

Basis for Qualified Opinion on Formula Grants for Rural Areas Program

As described in Findings #2021-003 and 2021-004 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-003	20.509	Formula Grants for Rural Areas	Procurement, Suspension, and Debarment
2021-004			Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Qualified Opinion on Formula Grants for Rural Areas Program

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Formula Grants for Rural Areas Program” paragraph, 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 the Formula Grants for Rural Areas Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on SNAP Cluster

As described in Finding #2021-045 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-045	10.551, 10.561	SNAP Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

Qualified Opinion on SNAP Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on SNAP Cluster” paragraph, 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 the SNAP Cluster for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in Finding #2021-039 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-039	10.553	Child Nutrition Cluster	Special Tests and Provisions
	10.555		
	10.556		
	10.559		

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

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 types of 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, 2021.

Basis for Qualified Opinion on Unemployment Insurance

As described in Findings #2021-017, 2021-018, and 2021-019 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-017	17.225	Unemployment Insurance	Special Tests and Provisions
2021-018			Activities Allowed or Unallowed
2021-019			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the 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 types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in Findings #2021-035, 2021-043, and 2021-044 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-035	84.010	Title I Grants to Local Educational Agencies	Subrecipient Monitoring
2021-043			Matching, Level of Effort, Earmarking
2021-044			Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the 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 types of compliance requirements referred to above that could have a direct and material effect on the Title I Grants to Local Educational Agencies Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in Finding #2021-035 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-035	84.027 84.173	Special Education Cluster (IDEA)	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Special Education Cluster (IDEA)” paragraph, the state of Montana complied, in all material respects, with the types of 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, 2021.

Basis for Qualified Opinion on Temporary Assistance for Needy Families

As described in Findings #2021-053, 2021-063, and 2021-064 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-053	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
2021-063			Allowable Costs/Cost Principles
2021-064			Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Qualified Opinion on Temporary Assistance for Needy Families

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Temporary Assistance for Needy Families” paragraph, 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 the Temporary Assistance for Needy Families Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on CCDF Cluster

As described in Finding #2021-059 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-059	93.575 93.596	CCDF Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

Qualified Opinion on CCDF Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on CCDF Cluster” paragraph, the state of Montana complied, in all material respects, with the types of 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, 2021.

Basis for Qualified Opinion on Children’s Health Insurance Program

As described in Findings #2021-046, 2021-048, and 2021-063 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-046	93.767	Children’s Health Insurance Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2021-048			Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2021-063			Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Qualified Opinion on Children’s Health Insurance Program

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Children’s Health Insurance Program” paragraph, the state of Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Children’s Health Insurance Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Medicaid Cluster

As described in Findings #2021-046, 2021-049, and 2021-063 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-046	93.775	Medicaid Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2021-049	93.777		Special Tests and Provisions
2021-063	93.778		Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

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 types of 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, 2021.

Basis for Qualified Opinion on Coronavirus Relief Fund

As described in Findings #2021-007, 2021-010, and 2021-011 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-007 2021-010 2021-011	21.019	Coronavirus Relief Fund	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Qualified Opinion on Coronavirus Relief Fund

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Coronavirus Relief Fund” paragraph, 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 the Coronavirus Relief Fund Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disasters)

As described in Finding #2021-014 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-014	97.036	Disaster Grant – Public Assistance (Presidentially Declared Disasters)	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disasters)

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disasters)” paragraph, 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 the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Research and Development Cluster

As described in Finding #2021-034 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-034	Various	Research and Development Cluster	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

Qualified Opinion on Research and Development Cluster

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Research and Development Cluster” paragraph, 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 the Research and Development Cluster for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act

As described in Findings #2021-035, 2021-036, 2021-037, 2021-038, and 2021-042 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Program Name	Compliance Requirement
2021-035	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Subrecipient Monitoring
2021-036			Activities Allowed or Unallowed Subrecipient Monitoring
2021-037			Reporting
2021-038			Reporting
2021-042			Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the program.

Qualified Opinion on Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act”

paragraph, 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 the Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act Program for the two fiscal years ended June 30, 2021.

Basis for Qualified Opinion on Student Financial Assistance Programs Cluster

As described in Findings #2021-021, 2021-022, 2021-023, 2021-026, 2021-028, 2021-029, 2021-030, 2021-031, 2021-032, and 2021-033 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	ALN #	Cluster Name	Compliance Requirement
2021-021	84.007	Student Financial Assistance Programs Cluster	Special Tests and Provisions
2021-022	84.033		Special Tests and Provisions
2021-023	84.038		Special Tests and Provisions
2021-026	84.063		Special Tests and Provisions
2021-028	84.268		Special Tests and Provisions
2021-029	84.379		Special Tests and Provisions
2021-030	93.264		Special Tests and Provisions
2021-032	93.342		Special Tests and Provisions
2021-033	93.364		Special Tests and Provisions
2021-031	93.925		Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with requirements applicable to the cluster.

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 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 Question Costs for the two fiscal years ended June 30, 2021.

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 #2021-009, 2021-013, 2021-015, 2021-068, and 2021-069. Our opinion on each major federal program is not modified with respect to these matters.

The state of Montana's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The state of Montana's response was not subjected to the auditing procedures applied on 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, and listed in the following table, to be material weaknesses.

Material Weaknesses			
Finding #	ALN #	Program Name or Cluster	Compliance Requirement
2021-002	20.205 20.219 20.224	Highway Planning and Construction Cluster	Special Tests and Provisions
2021-007	21.019	Coronavirus Relief Fund	Subrecipient Monitoring
2021-008	21.019	Coronavirus Relief Fund	Subrecipient Monitoring
2021-010	21.019	Coronavirus Relief Fund	Subrecipient Monitoring
2021-011	21.019	Coronavirus Relief Fund	Subrecipient Monitoring
2021-016	97.050	Presidentially Declared Disaster Assistance to Individuals and Households - Other Needs	Reporting
2021-018	17.225	Unemployment Insurance	Activities Allowed or Unallowed
2021-019	17.225	Unemployment Insurance	Special Tests and Provisions
2021-021 2021-022 2021-023	84.007 84.033 84.038 84.063 84.268 84.379 93.264 93.342 93.364 93.925	Student Financial Assistance Cluster	Special Tests and Provisions

2021-026	84.007 84.033 84.038 84.063 84.268 93.264 93.364 93.925	Student Financial Assistance Cluster	Special Tests and Provisions
2021-028	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Special Tests and Provisions
2021-029	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Special Tests and Provisions
2021-030	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Special Tests and Provisions
2021-031	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Reporting
2021-032	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Special Tests and Provisions
2021-033	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Special Tests and Provisions

2021-034	Various	R&D Cluster	Equipment and Real Property Management
2021-035	84.010	Title I Grants to Local Educational Agencies	Subrecipient Monitoring
	84.027 84.173	Special Education Cluster (IDEA)	
	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	
2021-036	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Activities Allowed or Unallowed Subrecipient Monitoring
2021-037	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Reporting
2021-038	84.010	Title I Grants to Local Educational Agencies	Reporting
	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	
2021-039	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Special Tests and Provisions
2021-042	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Cash Management
	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	
2021-043	84.010	Title I Grants to Local Educational Agencies	Matching, Level of Effort, Earmarking
2021-044	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions
2021-045	10.551 10.561	SNAP Cluster	Special Tests and Provisions
2021-046	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
	93.775	Medicaid Cluster	
	93.777		
	93.778		

2021-047	93.767 93.775 93.777 93.778	Children's Health Insurance Program Medicaid Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2021-048	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
2021-049	93.775 93.777 93.778	Medicaid Cluster	Special Tests and Provisions
2021-051	93.658	Foster Care - Title IV-E	Subrecipient Monitoring
2021-052	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Subrecipient Monitoring
2021-053	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
2021-054	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Subrecipient Monitoring
2021-055	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Subrecipient Monitoring
2021-058	93.575 93.596	CCDF Cluster	Matching, Level of Effort, Earmarking Period of Performance
2021-059	93.575 93.596	CCDF Cluster	Special Tests and Provisions
2021-061	93.658	Foster Care - Title IV-E	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
2021-062	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2021-063	93.558	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles
	93.658	Foster Care - Title IV-E	
	93.767	Children's Health Insurance Program	
	93.775 93.777 93.778	Medicaid Cluster	
2021-064	93.558	Temporary Assistance for Needy Families	Reporting
2021-065	93.658	Foster Care - Title IV-E	Reporting
2021-066	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Reporting
2021-067	93.658	Foster Care - Title IV-E	Reporting

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, and listed in the following table, to be significant deficiencies.

Significant Deficiencies			
Finding #	ALN #	Program Name or Cluster	Compliance Requirement
2021-001	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Allowable Costs/Cost Principles
2021-003	20.509	Formula Grants for Rural Areas	Procurement, Suspension, and Debarment
2021-004	20.509	Formula Grants for Rural Areas	Subrecipient Monitoring
2021-005	20.509	Formula Grants for Rural Areas	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
2021-006	21.019	Coronavirus Relief Fund	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2021-012	21.019	Coronavirus Relief Fund	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2021-014	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Reporting
2021-017	17.225	Unemployment Insurance	Special Tests and Provisions
2021-020	17.225	Unemployment Insurance	Activities Allowed or Unallowed Eligibility
2021-024	84.007 84.033 84.038 84.063 84.268 93.264 93.364 93.925	Student Financial Assistance Cluster	Special Tests and Provisions
2021-025	84.007 84.033 84.038 84.063 84.268 93.264 93.364 93.925	Student Financial Assistance Cluster	Eligibility

2021-027	84.007 84.033 84.038 84.063 84.268 84.379 93.342	Student Financial Assistance Cluster	Eligibility
2021-040	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Activities Allowed or Unallowed
2021-041	84.027 84.173	Special Education Cluster (IDEA)	Activities Allowed or Unallowed Allowable Costs/Cost Principles Matching, Level of Effort, Earmarking Period of Performance
2021-045	10.551 10.561 93.558	Temporary Assistance for Needy Families SNAP Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2021-050	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2021-056	93.558	Temporary Assistance for Needy Families	Reporting
2021-057	93.568	Low-Income Home Energy Assistance	Reporting
2021-060	93.575 93.596	CCDF Cluster	Activities Allowed or Unallowed

The state of Montana's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The state of Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

June 9, 2022

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section I – Summary of Auditor’s Results

Basic Financial Statements

For Each of the Two Fiscal Years Ended June 30, 2021

	<u>2020</u>	<u>2021</u>
Type of report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	Unmodified
Internal control over financial reporting:		
• Material Weaknesses identified?	No	Yes
• Significant Deficiencies identified?	Yes	Yes
Noncompliance material to the financial statements noted?	Yes	Yes

Federal Awards

For the Two Fiscal Years Ended June 30, 2021

	<u>2020 and 2021</u>
Internal control over major programs:	
• Material Weaknesses 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: <ul style="list-style-type: none"> • Epidemiology and Laboratory Capacity for Infectious Diseases (ELC); and Foster Care-Title IV-E, which are adverse. • Highway Planning and Construction Cluster; Formula Grants for Rural Areas; SNAP Cluster; Child Nutrition Cluster; Unemployment Insurance; Title I Grants to Local Educational Agencies; Special Education Cluster (IDEA); Temporary Assistance for Needy Families; CCDF Cluster; Children’s Health Insurance Program; Medicaid Cluster; Disaster Grants – Public Assistance (Presidentially Declared Disasters); Coronavirus Relief Fund; Research

and Development Cluster; Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act; and Student Financial Assistance Programs Cluster, which are qualified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes

Identification of major programs:

ALN(s)

10.551 & 10.561

10.553, 10.555, 10.556, & 10.559

12.401

17.225

20.205, 20.219, & 20.224

20.509

21.019

21.023**

66.458

66.468

84.010

84.027 & 84.173

84.425

84.007, 84.033, 84.038, 84.063, 84.268, 84.379,
93.264, 93.342, 93.364, & 93.925

93.323

93.558

93.568

93.575 & 93.596

93.658

93.767

93.775, 93.777, & 93.778

Name of Federal Program or Cluster

SNAP Cluster

Child Nutrition Cluster

National Guard Military Operations and
Maintenance Projects (O&M)

Unemployment Insurance

Highway Planning and Construction Cluster

Formula Grants for Rural Areas

Coronavirus Relief Fund

Emergency Rental Assistance Program

Clean Water State Revolving Fund

Drinking Water State Revolving Fund

Title I Grants to Local Educational Agencies

Special Education Cluster (IDEA)

Education Stabilization Fund Under the
Coronavirus Aid, Relief, and Economic
Security Act

Student Financial Assistance Programs

Epidemiology and Laboratory Capacity for
Infectious Diseases (ELC)

Temporary Assistance for Needy Families

Low-Income Home Energy Assistance

CCDF Cluster

Foster Care- Title IV-E

Children's Health Insurance Program

Medicaid Cluster

97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.050	Presidentially Declared Disaster Assistance to Individuals and Households – Other Needs
Various ** High-risk Type B program	Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$30,000,000
Auditee qualified as low-risk Auditee?	No

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section II – Financial Statement Findings

Finding 2021-1:

Criteria: Article VIII, Section 15, of the Montana Constitution requires defined benefit public retirement systems to be funded on an actuarially sound basis. To be actuarially sound, a retirement system's contributions and investments must be sufficient to pay the full actuarial cost of the plan over a scheduled period of time, defined in §19-2-409, Montana Code Annotated (MCA), as no more than 30 years.

Condition: Based on the June 30, 2020, actuarial valuations of the defined benefit public retirement systems administered by the Montana Public Employee's Retirement Administration (MPERA), the following three are not actuarially sound, as the amortization periods are more than 30 years.

- Public Employees' Retirement System (PERS) – 35-year amortization period
- Game Wardens and Peace Officers' Retirement System (GWPORS) – 40-year amortization period
- Highway Patrol Officers' Retirement System (HPORS) – 39-year amortization period

The June 30, 2021 actuarial valuation indicated PERS and HPORS were actuarially sound, as the systems amortize within 30 years. However, GWPORS continued to not be actuarially sound, as its amortization period was 35 years.

Effect: The board is not in compliance with Montana Constitution and state law.

Cause: For the June 30, 2020, valuations, the systems remained above the 30-year amortization period primarily because the average annual investment returns over the preceding 7 years were lower than the assumed rate. However, for GWPORS, the actuarial valuation also noted that without significant good investment experience, the current contributions would not be sufficient to ever bring the amortization period below 30 years.

For the June 30, 2021, GWPORS valuation, increase in investment returns did decrease the amortization period, but not to within 30 years.

Recommendation: We recommend the Legislature work with the Public Employees' Retirement Board to restore the actuarial soundness of the Game Wardens' and Peace Officers' Retirement System, the Highway Patrol Officers' Retirement System, and the Public Employees' Defined Benefit Retirement Plan as required by the Montana Constitution and state law.

Views of Responsible Officials: MPERA concurs with this recommendation. For additional information regarding MPERA's planned corrective action, see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section II – Financial Statement Findings

Finding 2021-2:

Criteria: Section 17-1-102(2), Montana Code Annotated (MCA), requires activity to be reported in accordance with generally accepted accounting principles (GAAP).

Montana Operations Manual Policy, 399, indicates Management is responsible for establishing and maintaining an effective internal control system.

Montana Operations Manual Policy, 302, indicates state agencies and component units shall record all financial activity in accordance with GAAP by fiscal year-end in SABHRS, as required by §17-1-102(2), Montana Code Annotated (MCA). It also indicates state agencies are responsible for implementing internal control procedures.

Condition: In fiscal year 2021, the Department of Labor and Industry’s (department) controls did not prevent, or detect and correct in a timely manner, several multimillion-dollar misstatements in its accounting records related to the Unemployment Insurance program.

The department discovered several misstatements in financial activity for the Unemployment Insurance program subsequent to the books closing at fiscal year-end 2021. For the Unemployment Insurance enterprise fund, the department identified the following errors:

- Cash was understated by \$25.3 million
- Current Accounts Receivable, less allowance for doubtful accounts, were overstated by \$40.1 million
- Long-Term Receivables, less allowance for doubtful accounts, were understated by \$53.4 million
- Operating Grants and Contribution Revenues were understated by \$29.5 million
- Expenses, primarily comprised of bad debt expense, were overstated by \$9.8 million
- Net Position was understated by \$35.0 million

We reviewed the identified misstatements to evaluate the accuracy of the department’s calculation of the errors and agree with the department’s analysis.

Effect: The department’s accounting records and financial reports were misstated.

Cause: The misstatements were the result of transactions not being recorded on the accounting records, transactions entered incorrectly, and inaccurate accounting estimates.

Department personnel stated the errors were not detected and corrected before fiscal year-end for several reasons including the significantly increased workload due to the coronavirus public health emergency, the department’s aging unemployment insurance benefits system which lacks

the necessary queries and reports to easily analyze activity, and the need to analyze a separate system for the Pandemic Unemployment Assistance benefit program. In addition, the large volume of pandemic-related activity made it difficult to run a journal line detail for all claims payments; instead, each day was run separately and compiled in manual spreadsheets which increased the chance of error. These challenges, combined with a shorter fiscal year-end period, resulted in less time to properly review the entries.

Recommendation: We recommend the Department of Labor and Industry enhance its internal controls over the recording of financial transactions related to its Unemployment Insurance Program to ensure all necessary transactions are recorded in the state's accounting system before fiscal year-end as required by state law.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section II – Financial Statement Findings

Finding 2021-3:

Criteria: Section 17-1-102(2), Montana Code Annotated (MCA), requires activity to be reported in accordance with generally accepted accounting principles (GAAP).

Montana Operations Manual Policy, 399, indicates management is responsible for establishing and maintaining an effective internal control system.

Montana Operations Manual, 302, indicates to help facilitate statewide compliance with GAAP, state agencies are responsible for implementing internal control procedures. In addition, it indicates to help a department facilitate GAAP compliance, management of a State agency must document their internal control systems for major financial processes. They also must update their internal control documentation to reflect current procedures, prior to each following fiscal year-end.

Condition: The Department of Administration (department) State Financial Services Division’s (SFSD) internal controls were ineffective in preventing, or detecting and correcting, errors in the Unemployment Insurance (UI) enterprise fund activity presented within the state’s basic financial statements (BFS). Our audit work identified several multimillion-dollar errors in the UI enterprise fund information presented in the BFS.

To prepare the BFS, personnel in the department’s SFSD use the financial data from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) used by all agencies, and record adjustments as necessary for correction of errors made by agencies to present the BFS in accordance with GAAP.

As part of preparing the BFS, including making adjustments to SABHRS for agency errors, we identified the following types of errors, indicating room for improvement in internal controls:

- (1) As outlined in Finding 2021-2, internal controls at the Department of Labor and Industry (DLI) were ineffective in ensuring all UI-related financial activity was recorded on SABHRS at fiscal year-end. SFSD personnel recorded several large adjustments to the UI enterprise fund’s accounting records as part of preparing the BFS. One of the necessary adjustments increased cash and federal revenues in the fund by approximately \$26.3 million.

As part of a separate process completed while preparing the BFS, SFSD written procedures directed staff to review the fiscal year-end cash reconciliation of the UI enterprise fund cash on SABHRS to the state’s cash balance in the U.S Treasury. The written procedures directed personnel to adjust cash and accounts payable for the

reconciling items, without considering the nature of the reconciling items. For fiscal year 2021 there were approximately \$34 million in reconciling items, the largest of which was the \$26.3 million in federal revenues and cash that were not recorded on SABHRS at fiscal year-end. SFSD personnel did not consider the nature of the reconciling items or identify that they previously adjusted the accounting records for \$26.3 million of the \$34 million and recorded the adjustment as directed by written procedures.

- (2) DLI's UI enterprise fund accounting records at fiscal year-end also contained errors in the allowance for doubtful accounts and bad debt expense related to accounts receivable for benefit overpayments. SFSD recorded adjustments to SABHRS for these errors, at incorrect amounts.
- (3) We also identified several errors in the Statement of Cash Flows (SCF) for the UI enterprise fund. The initial SCF provided for audit included the effect of the errors in cash and accounts payable previously discussed, and therefore required modification by SFSD personnel. In each of the next two versions of the SCF provided for audit, we identified multiple errors in the activity presented for the UI enterprise fund.

Based on the extent, size, and nature of the errors identified, we believe there is a material weakness in internal controls over financial reporting. This material weakness is isolated to reporting for the UI enterprise fund, which is presented in both the Government-Wide financial statements, in the Business Type Activities column, and the Proprietary Fund financial statements, in the Unemployment Insurance column.

Effect: The UI enterprise fund information in the BFS provided for audit contained several multimillion-dollar errors:

- (1) A \$26.3 million overstatement of cash and accounts payable.
- (2) A \$12.65 million overstatement of bad debt expense, a \$2.30 million overstatement of allowance for doubtful accounts (current portion), a \$14.99 million understatement of allowance for doubtful accounts (non-current portion), and a \$12.65 million understatement of Net Position.
- (3) Errors ranging from approximately \$6.5 million to \$87.8 million, across six lines on the SCF.

SFSD corrected these errors after we brought them to their attention.

Cause: Overall, SFSD's processes for preparing the BFS did not accommodate or fully contemplate the significant fluctuations in UI enterprise fund financial activity resulting from the coronavirus public health emergency.

Additionally:

- (1) Department personnel indicated their preliminary review procedures did not identify the overstated cash and accounts payable, partially due the volatility of the activity of the UI enterprise fund caused by the coronavirus public health emergency. They also believed

additional review procedures, completed later in the process, would have identified the error.

- (2) SFSD recorded adjustments to SABHRS for DLI doubtful account related errors based on preliminary adjusting entries in DLI's accounting records but did not realize DLI's adjustments were not yet finalized. Per SFSD personnel, when DLI finalized their analysis, the dollar amounts changed.
- (3) SFSD processes did not consider the nature of the activity associated with various asset and liability accounts, and which revenue and expense streams are affected by changes in the asset and liability accounts.

Recommendation: We recommend the Department of Administration State Financial Services Division enhance internal controls to ensure:

- A. Staff consider the underlying nature of UI enterprise fund activity when preparing the basic financial statements, especially in years where the fund has new or unusual activity and
- B. Adjustments made for errors in agency accounting records do not duplicate adjustments made through other processes completed while preparing the basic financial statements and are appropriate to correct the errors.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section II – Financial Statement Findings

Finding 2021-4:

Criteria: Federal regulation 2 CFR 200.510(b)(1) and (3) require the Schedule of Expenditures of Federal Awards (SEFA) to list individual federal programs and to provide total federal awards expended for each individual federal program by its assigned Assistance Listing Number (ALN).

Office of Budget and Program Planning's (OBPP) instructions for preparation of the fiscal year 2021 SEFA indicate each federal financial assistance program must be placed on one row of the worksheet which is submitted to OBPP.

In addition, federal regulation 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Contrary to standard department practices, the department of Public Health and Human Services (department) recorded federal expenditures for the Pandemic-Electronic Benefits Transfer (P-EBT) program as activity of another federal program on the state's accounting records. The P-EBT activity was comingled with the Supplemental Nutrition Assistance Program (SNAP) activity. This resulted in a \$27.6 million error in SEFA information the department submitted to OBPP for fiscal year 2021.

Effect: Comingling the activity from two federal programs caused the Business and Financial Services Division (BFSD) to report the total on the department's SEFA spreadsheet as SNAP activity and to not report any activity for P-EBT. This resulted in a \$27.6 million error in the SEFA information submitted to OBPP. By including P-EBT expenditure with SNAP expenditures on the SEFA spreadsheet, the department did not comply with OBPP instructions which are designed to comply with federal requirements for SEFA reporting. Additionally, had the department incurred costs for P-EBT in excess of the state's major program threshold, this error could set the state up for not properly identifying and auditing its major federal programs. OBPP corrected the error in the final SEFA.

Cause: The department's standard procedures include using a separate account with the federal special revenue fund be used to record activity for each federal program it administers. However, the department's Health and Community Services Division did not use a separate account within the state's federal special revenue fund to record P-EBT benefits despite the fact that P-EBT has its own federal award identification number. The department's BFSD, the division responsible for preparing the department's SEFA spreadsheet, was not aware of the comingling of SNAP and P-EBT expenditures until we brought it to their attention. To prevent comingling of federal award activity in the future, the department must enhance internal controls.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to ensure a separate account is used to record activity for each federal program administered by the department.
- B. Report information for each federal financial assistance program on a separate row of the department's SEFA worksheet, as required by Office of Budget and Program Planning instructions.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section II – Financial Statement Findings

Finding 2021-5:

Criteria: Montana Operations Manual Policy, 399, states “Management’s role is to provide the leadership that an agency needs to achieve its goals and objectives. Part of that responsibility encompasses the establishment of internal control policies and procedures designed to... help ensure compliance with applicable laws and regulations.”

Condition: Montana State University (the university) does not have controls in place to ensure capital assets reported on the financial statements are complete and accurate. The university does not ensure the data processed by its asset management system is complete and accurate. While the university has consistently obtained a System and Organization Controls (SOC) report from the software vendor, it is a SOC 2 report, which does not provide any assurance over data processing and controls relevant to financial reporting.

The university has approximately \$562 million in capital assets, net of depreciation, including buildings, infrastructure, and equipment. The university contracts with a software vendor, considered a service organization, for an asset management system. The university has contracted with the service organization since 2013. The asset management system is used to track the acquisition of capital assets, disposal of capital assets, and the related depreciation. The data tracked and calculated by the system is used as a basis to record accounting entries related to capital assets.

If the university chooses to use a SOC report as assurance over service organization controls to address their control issue, they should obtain a SOC 1 report, which is used to evaluate internal controls over financial reporting. In addition to obtaining the SOC 1 report, the university needs to review the report’s contents. Without proper review of the report, the university would not be aware of any deficiencies identified and additional user entity controls the university is responsible to implement. If the university does not choose a SOC report as assurance, they will need to implement compensating controls.

While the university does not have controls in place to ensure capital assets reported on the financial statements are complete and accurate, we did not identify any errors in the amount reported.

Effect: Without adequate internal controls in place, there is risk errors may not be identified in a timely manner in the financial records.

Cause: University staff indicated they were not aware of the different kinds of SOC reports and that the one they received did not provide the type of assurance needed. Additionally, they have not received training about SOC reports.

Recommendation: We recommend Montana State University establish and maintain adequate internal controls over capital asset activity to ensure complete and accurate financial reporting.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section II – Financial Statement Findings

Finding 2021-6:

Criteria: Montana Operations Manual Policy, 399, states “Management’s role is to provide the leadership that an agency needs to achieve its goals and objectives. Part of that responsibility encompasses the establishment of internal control policies and procedures designed to... help ensure compliance with applicable laws and regulations.”

Montana Operations Manual Policy, 335, provides guidance related to the financial transactions and reporting of capital assets. Policy requires integral parts of a structure, when replaced, be recorded as building improvement costs and recorded as a new capital asset which can be linked to the original building. Policy also specifies once projects are completed and placed in service the project is retired from Construction Work In Progress (CWIP) and recorded to the appropriate capital asset account.

Condition: The University of Montana’s (university) draft financial statement capital asset disclosure and underlying support classified various capital assets in a manner which did not adhere to state accounting policy. During the audit, we identified capital asset misclassifications or discrepancies that indicated existing managerial procedures and internal controls are not effective to provide accurate financial data that adheres to state accounting policy.

We identified several instances totaling approximately \$9.2 million of building improvement and land improvement projects completed and placed in service in fiscal years 2018, 2019, and 2020 still included in the university’s CWIP listing. Additionally, we identified \$688 thousand of assets classified as buildings that should have been classified as building improvements.

Lastly, we identified ongoing projects totaling approximately \$6.1 million listed in the university’s commitment disclosure but not their CWIP listing. For these ongoing projects not in the CWIP listing, the university believe three projects totaling the \$6.1 million do not meet capital asset requirements as the university considers them basic repair and maintenance projects that should be expensed in the year incurred. The projects in their entirety do not fall within the repair and maintenance definition. Rather, equipment such as fixed seating, light fixtures, AV equipment, and athlete lockers are intended to be used over a longer period and would lose their identity if removed from the building. Thus, they are considered integral parts of the building and the cost should be captured for future capitalization when the projects are complete. We believe a portion of each project falls under capitalizable building cost items per state policy. The university will need to determine what portion of the \$6.1 million should be capitalized.

The net effect of the three situations described above resulted in a net CWIP overstatement up to approximately \$3.1 million and \$688 thousand of misclassified capital assets for the draft fiscal year 2021 financial statements we received. The university corrected the identified errors as part

of the financial statement process. Corrections included reclassifying approximately \$8.7 million from CWIP to building improvements and reclassifying approximately \$688 thousand from buildings to building improvements.

Effect: Inadequate internal controls and managerial procedures that contrast state accounting policy over capital asset activity increase the risk of incomplete or inaccurate financial statements and notes. Projects that are completed but remain in CWIP overstate this account and understate the appropriate capital asset account. Additionally, the effect of not having projects in the CWIP listing understates CWIP, which has the potential to result in a material misstatement in the university's financial statements. Lastly, misclassification between capital asset types can cause improper classification and recognition of depreciation expense in the financial statements.

Cause: The university interpreted state accounting policy as not explicitly stating what the proper method of recording an asset is when there is an overarching construction project that is broken down into phases. The university made the decision to capitalize all phases of a project when the overall project is completed rather than capitalizing each phase as it is completed and placed into service. For projects on the commitments list but not in CWIP, the university believed three projects that included replacing fixed seating, light fixtures, replacing athlete locker room lockers, and upgrading AV equipment did not meet capital asset requirements as the university considered them basic repair and maintenance projects that should be expensed in the year incurred.

Recommendation: We recommend that the University of Montana:

- A. Enhance, document, and implement internal controls to ensure the completeness and accuracy of capital assets and their related note disclosures on the university's financial statements.
- B. Adhere to state policy when recognizing building improvements as capital assets.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section II – Financial Statement Findings

Finding 2021-7:

Criteria: Montana Operations Manual Policy, 399, indicates management is responsible for establishing and maintaining an effective internal control system.

Federal regulations, 42 CFR 435.914(a) and 42 CFR 457.965, require the Department of Public Health and Human Services (department) to include facts to support their eligibility decision in each applicant's case record for the Medicaid Cluster and the Children's Health Insurance Program (CHIP), respectively.

Federal regulations, 42 CFR 435.603, 42 CFR 457.310, and 42 CFR 457.315, require the use of multiple criteria, including household income, when determining eligibility for Medicaid and CHIP.

Condition: The department administers the Medicaid and CHIP programs to provide medical coverage to eligible individuals. The department's internal controls over Medicaid and CHIP eligibility determination did not consistently operate as designed in fiscal year 2020. We considered this to be a significant deficiency in internal controls over financial reporting for fiscal year 2020.

In the prior Single Audit for the two fiscal years ending June 30, 2019, we reported internal control and compliance issues related to eligibility determinations for the Medicaid and CHIP programs. Conclusions were based on federal and state program requirements, federal guidance to auditors, and results of our review of 63 case files which also included consideration of state tax data as an external data source. As a result, we reported a material weakness in internal controls and material non-compliance in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements for fiscal year 2019, and reported Financial Statement finding 2019-3 in the prior Single Audit report.

As required by auditing standards, we performed follow-up on the internal control and compliance issues identified in our fiscal year 2019 testing as part of the fiscal year 2020 audit of the state's basic financial statements. We noted several changes occurred for fiscal year 2020, including:

- Federal guidance to auditors no longer contained a requirement to redetermine eligibility to ensure beneficiaries qualify for the Medicaid program and are in the appropriate enrollment category. Additionally, the federal guidance indicated the auditor is not expected to test beyond the requirements of the state. As such, if the department accepted self-attested information verified at a later date, then the auditor should accept such information in audit testing.
- Montana Chapter 415, Laws of 2019 (House Bill 658) required the department to verify the information provided on application for Medicaid to confirm an applicant's eligibility

before authorizing payment of benefits under the program. House Bill 658 also required the department to use state tax data in its verifications. The department implemented verification at application as of January 1, 2020, and the use of state tax data began on May 14, 2020. The department was ready to require proof of residency in March 2020, but the change was put on hold due to a requirement in Section 6008 of the Families First Coronavirus Response Act which prevented the inclusion of additional eligibility policy changes during the pandemic. As such, the department continued to accept self-attestation as proof of residency during the remainder of fiscal year 2020.

We considered these changes as we designed and conducted audit tests in support of the audit of the state's basic financial statements for fiscal year 2020.

We conducted a stratified judgmental sample from nearly 300,000 client eligibility determinations or redeterminations made during fiscal year 2020. From that population, we selected 34 clients, including new clients (initial eligibility determinations) and continuing clients (eligibility redeterminations). A portion of our sample was directed at clients who incurred more significant benefit costs during the fiscal year. We randomly selected 25 of the clients reviewed. Of the remaining nine, we selected two clients based on eligibility categories where issues were identified in the prior audit, one client based on the initial intake information being collected by the Department of Corrections, and six because of the significant benefits costs they incurred during the audit period. This was not a statistically valid sample.

Through our testing of the randomly selected files, we identified one instance where a Medicaid client's eligibility for their current category had not been confirmed since November 2017. While the department's automated data processes occurred, a difference flagged by the system requiring department staff resolution was not completed as required. In fiscal year 2020 when the department completed the required procedure, the individual was misclassified in the state's eligibility system, which resulted in the individual incorrectly not being required to pay a premium. We identified the misclassified individual through our audit work. In this situation, the misclassification did not result in an incorrect federal or state match.

We considered the results of our testing, as well as the magnitude of the Medicaid and CHIP programs, which collectively incurred over \$2 billion in benefits and claims expenditures. While there was no misapplication of federal and state match for this identified instance, the breakdown in internal controls could have resulted in a misapplication of match or the department not identifying an ineligible individual. Given the magnitude of the payments under the programs, we considered this to be a significant deficiency in internal controls over financial reporting for fiscal year 2020. We did not issue a new recommendation to the department as a result of this work.

Subsequent to the follow-up performed in support of our audit of the state's basic financial statements for fiscal year 2020, we completed a separate audit of the department for fiscal years 2020 and 2021, through which we tested the Medicaid and CHIP programs, in accordance with Uniform Guidance.

In that separate audit, we considered the Center for Medicaid Services (CMS) response to the related federal compliance finding from the prior Single Audit, and its implications over financial reporting. We determined the department's controls over eligibility no longer correlate to internal controls over financial reporting. As such, we have not issued a recommendation to the department related to internal controls over financial reporting. However, our testing of Medicaid and CHIP eligibility in accordance with Uniform Guidance continue to indicate room for improvement in internal controls over compliance with eligibility requirements of the programs, and we have issued Federal Findings 2021-046 through 2021-048. These recommendations address both internal controls over compliance and compliance with eligibility determinations.

Effect: When these controls do not operate as designed, the state of Montana is at risk of misapplying match requirements between the General Fund and the Federal Special Revenue Fund sources, or of not identifying ineligible participants.

Cause: Department personnel attribute the error we identified in our fiscal year 2020 testing primarily to human error. They indicated the case was properly identified by the system as up for renewal in fiscal year 2019, and properly ran through the department's process for auto-renewal. Since the member's premium needed to be re-calculated, the complete auto renewal process was stopped and a task was created. The task was never completely worked, so a new re-determination process was not triggered to be set-up in the system, which directly resulted in a delayed re-determination in fiscal year 2020.

Recommendation: As previously outlined, we did not issue a new recommendation to the department related to internal controls over financial reporting based on our findings from our testing in support of the state's basic financial statements for fiscal year 2020. Federal Findings 2021-046 through 2021-048 contain recommendations on internal controls over and compliance with federal eligibility requirements of the Medicaid and CHIP programs based on our compliance audit for fiscal years 2020 and 2021.

Views of Responsible Officials: See Federal Findings 2021-046 through 2021-048 for the department's views on the continued eligibility findings for the Medicaid and CHIP programs.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-001: U.S. Department of Defense
ALN # 12.401, National Guard Military Operations and Maintenance
(O&M) Projects
Grant # W9124V-18-2 and W9124V-21-2

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

National Guard Regulations (NGR) 5-1 states in section 5-3, that in order for costs to be allowable, they must be allocable, allowable, and reasonable. Allocable means the costs must have been incurred by the grantee and allocable to the cooperative agreement (CA) supported program, project, or facility.

Condition: A Post Engineer split is calculated every six months to allocate costs of certain workers, such as carpenters, between the General Fund and the O&M grant based on actual hours worked on buildings or projects for the previous six months. Based on the actual hours worked a ratio is calculated for charging either federal or state funds. The splits are entered into the state's accounting system so that when applicable employees input their time, their salaries are appropriately allocated between the federal and state funds. Through our sample testing, we found that splits effective for January 1, 2020, through June 30, 2020, were not updated in the state's accounting system. The splits from the previous six-month time frame continued to be used. While the splits do not typically change substantially each period, using the incorrect splits for a six-month time period resulted in a \$6,179 overallocation to the federal fund and under allocation to the General Fund for the same amount.

Questioned Costs: We identified \$6,179 in questioned costs.

Context: During our audit, we sampled 40 expenditure transactions from a population of 23,472 and found two instances where payroll charges were not properly allocated between the federal grant and the General Fund. The two instances allowed us to identify a systematic problem that extended to all applicable employees during the affected time frame. This was not a statistically valid sample.

Effect: Internal controls did not ensure the recalculated payroll split was input into the state's accounting system which resulted in \$6,179 in overcharges to the federal grant.

Cause: Adequate controls, such as a checklist or calendar reminder, were not in place to ensure that the payroll splits were updated in the state's accounting system.

Recommendation: We recommend the Department of Military Affairs:

- A. Comply with federal requirements to allocate the correct amount of salaries for employees whose time is split between federal and state projects.
- B. Establish internal controls to ensure the state's accounting system is updated when the splits are recalculated, and
- C. Reimburse the federal government for the amount of payroll costs it was overallocated.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-002: U.S. Department of Transportation
 ALN # 20.205, 20.219 and 20.224, Highway Planning and Construction
 Cluster
 Grant # Not Applicable

Criteria: Federal regulation, 29 CFR 5.5, requires certified payrolls be submitted for each week in which any contract work is performed.

Federal regulation, 29 CFR 5.6, indicates no payment be made if the contractor and its subcontractors are not in compliance with the provisions of 29 CFR 5.5.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with federal statutes, regulations, and the terms and conditions of the Federal award. This establishes an expectation that the Montana Department of Transportation (department) will have internal controls in place to ensure contractors and subcontractors are compliant with wage rate requirements.

Condition: The department's internal controls were ineffective in ensuring all certified payrolls for highway construction projects were submitted in a timely manner.

Questioned Costs: None.

Context: In the prior audit of the department, we determined the department did not ensure all payrolls were received prior to issuing payments to contractors. We also identified multiple projects for which the department did not receive all payrolls. In the current audit, we noted the department took steps to address this situation, including continuing to use the new electronic payroll submission module within AASHTOWare's Construction and Materials System. The new module has built in flags designed to identify instances of missing payrolls when contractor pay estimates are generated in the system. This system was implemented for all new projects let from October 2019 forward. Older projects not migrated to the new system use procedures and paper payrolls which have not changed since the last audit. The older system is expected to still be in use through the next biennium and accounts for 187 of the 546 projects.

We sampled 36 projects and identified:

- Seven projects using paper payrolls, that were certified by department personnel as having submitted all payrolls at project close, where 27 payrolls were missing. This is across four department districts and 12 contractors.

- Five projects, three using paper and two using electronic submission, having 16 overdue payrolls. The overdue payrolls were across three department districts and seven contractors.
- Two projects were missing four subcontractor approval checklists which are used to determine which subcontractors are held to certified payroll submission requirements. Without these checklists, the contractor was not notified of the reporting requirements.

These samples were not statistically valid. Given the number of active projects during the audit period and the control deficiency, we believe there are likely other instances of non-compliance.

Effect: These untimely or incomplete certified payroll submissions constitute noncompliance with federal regulations. Further, the department is in noncompliance with federal regulations requiring the withholding of payment until certified payrolls are submitted. Additionally, there is risk the department will not identify instances where contractors or subcontractors are not paying prevailing wages.

Cause: While the new system was implemented for all new projects let from October 2019 forward, the use of the system features is not consistent across all project managers or districts. For the project flags to work, the department personnel must complete daily work reports and fill in the contractor and subcontract performing on the day reported. Of the 25 projects tested that use the new system, 9 projects did not have the contractor section completed.

Projects in the old system are tracked manually and the department's internal controls have not been sufficient to ensure the certified payrolls are received. As the department implemented a new system, the department has no plans to improve the manual process.

Repeat Finding: This is a repeat finding and has been reported as Single Audit findings 2017-028 and 2019-026 in the audits for the two fiscal years ending June 30, 2017, and June 30, 2019, respectively.

Recommendation: We recommend the Montana Department of Transportation:

- A. Enhance internal controls to ensure all required payrolls are received.
- B. Obtain and review all required certified payrolls weekly from contractors and subcontractors for all active construction projects under the Highway Planning and Construction program to ensure compliance with federal prevailing wage requirements.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-003: U.S. Department of Transportation
 ALN # 20.509, Formula Grants for Rural Areas
 Grant # MT-18-X064-00, MT-2016-005, MT-2017-002,
 MT-2017-022, MT-2018-011, MT-2020-003, MT-2020-013

Criteria: Federal regulation, 2 CFR 200.317, requires the state to follow state procurement policy to procure federally funded procurements.

Montana Operation Manual Procurement Policy 335 (VII)(D) lays out strict requirements for the use of sole source procurements, where this procurement method may only be used if the item is only available from a single vendor.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

For vehicle purchases, Montana Department of Transportation (department) policy requires Post-Delivery Certifications to be filed with the department's procurement section within 30 days of final vehicle acceptance.

Condition: The department's internal controls did not ensure vehicles procured using the Formula Grants for Rural Areas program followed state policy and procedures.

Questioned Costs: We question \$75,825 of costs charged to the program.

Context: From a population of nine purchase orders, we tested three and identified instances in all three where the department did not follow state policy and procedures for vehicles purchased under the program, as outlined below. This was not a statistically valid sample.

- The first instance was a sole source procurement used to replace an existing purchase order for vans. The vans are available from more than one vendor. As such, the two vans costing \$75,825 were improperly purchased as a sole source procurement.
- The second and third instances, totaling \$680,740, were procurements where the department did not complete and file Post-Delivery Certifications in accordance with department policy. Department policy requires the certifications be filed with the department's procurement sections within 30 days of final vehicle acceptance. The certifications are evidence the vehicles met specifications and were received as agreed upon within the procurement.

Effect: The department is not in compliance with state procurement policies and procedures. As a result of the first instance of non-compliance, there are questioned costs.

Cause: For the sole source procurement, department staff incorrectly interpreted federal procurement best practices as requiring significant deviations from an initial invitation to bid be considered a sole source procurement. The department thought a new procurement using sole source was required instead of using a change order to accommodate the significant deviation.

For the Post-Delivery Certifications, department staff overlooked the need to complete the certifications at the time of vehicle inspection. The department's internal controls were insufficient to ensure the certifications were completed and submitted in the time frame required by department policy.

Recommendation: We recommend the Montana Department of Transportation:

- A. Enhance internal controls to ensure all procurement follow state policy to comply with federal requirements.
- B. Comply with state procurement policy for all vehicle purchases.
- C. Complete and submit the Post-Delivery Certifications as required by department policy.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-004: U.S. Department of Transportation
 ALN # 20.509, Formula Grants for Rural Areas
 Grant # MT-18-X064-00, MT-2016-005, MT-2017-002,
 MT-2017-022, MT-2018-011, MT-2020-003, MT-2020-013

Criteria: Federal regulation, 2 CFR 200.1, defines a subaward and requires a legal agreement.

Federal regulation, 2 CFR 200.331, lays out the fourteen required elements to communicate to subrecipients, the requirements for risk assessments, and monitoring during and after the award to ensure subrecipient compliance. This federal regulation was renumbered to 2 CFR 200.332 during the audit period.

Federal regulation, 2 CFR 200.334, requires the retention of records for audit review.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Montana Department of Transportation’s (department) monitoring of subrecipients of the Formula Grants for Rural Areas program can be enhanced.

Questioned Costs: None

Context: Under this program, the department provides operating and capital grant awards to subrecipients. The subrecipients include local government transit authorities, nonprofit organizations or an operator of public transportation, or intercity bus services. We identified several discrepancies relating to the subrecipient monitoring requirements, as summarized below:

- In our sample of eight of the 39 subrecipients, we looked at 13 grant agreements. This was not a statistically valid sample. A subrecipient receives separate grant agreements based on the type of award: operating, capital, or intercity bus grants. Of the 13 grant agreements, seven did not contain the total amount of federal funds obligated to the subrecipient including the current obligation. As the different types of awards are not awarded at the same time, each grant should include the awards provided to the subrecipient prior to the current award in the total obligation under the current year’s Formula Grants for Rural Areas program.
- The risk assessment performed on a new subrecipient receiving federal funds from the department in fiscal year 2021 was completed without all elements of risk being assessed.

- The department performs detailed financial reviews on the first year's submission of quarterly reports for new subrecipients. During fiscal year 2021, the third quarter detail review was not performed for the new subrecipient. After we communicated the issue, the department initiated the review.
- One of eight subrecipient compliance reviews was not documented. The compliance reviews for the remaining seven were not performed following department policy. The department reviewer only looked at one vehicle to check compliance instead of the required two.
- The department's review of quarterly reports from the subrecipients did not address vehicle disposals during their reviews, which require additional procedures. This resulted in one vehicle being maintained on the subrecipients records for an additional year. In addition, the department's record retention policies were not followed for several vehicle disposals. Two of eight sales forms and four of eight lien releases were unaccounted for as of when we completed our procedures.

Effect: Without efficient internal controls over compliance to ensure all elements of subrecipient monitoring are followed, the department is noncompliant with federal regulations. Additionally, noncompliance with subrecipient monitoring could result in undetected noncompliance on the part of the subrecipient and potentially unidentified questioned costs.

Cause: Department personnel indicated the myriad of errors relating to subrecipient monitoring were due to staff turnover, incomplete archiving of documentation, an office remodel resulting in missing or misplaced documentation, and one file was unintentionally shredded/destroyed instead of archived.

Recommendation: We recommend the Montana Department of Transportation comply with federal subrecipient monitoring requirements by:

- A. Performing and documenting risk assessments,
- B. Including required elements in grant agreements,
- C. Performing subrecipient monitoring, and
- D. Maintaining associated documentation.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-005: U.S. Department of Transportation
 ALN # 20.509, Formula Grants for Rural Areas
 Grant # MT-18-X064-00, MT-2016-005, MT-2017-002,
 MT-2017-022, MT-2018-011, MT-2020-003, MT-2020-013

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.332(d)(3), requires the state to issue a management decision for applicable audit findings pertaining to federal awards.

Condition: The Montana Department of Transportation (department) did not collect identified unallowable costs of the Formula Grants for Rural Areas program that were identified as part of the internal audit function's audits of completed grants. The length of time that transpired between identification and recovery of questioned costs indicates internal controls are not effective.

Questioned Costs: We question \$13,237 of costs charged to the program.

Context: The department's Audit Services office conducted three audits of transit grant recipients during fiscal year 2020 as part of monitoring subrecipients of the program. Each of these audits identified questioned costs that needed to be recovered by the state and then remitted to the Federal Transit Authority (FTA). These audits were published in September 2019, December 2019, and April 2020, with a total of \$13,237 in questioned costs.

The department's procedures are to reduce the next quarterly payment to the grant recipient by the amount of the questioned costs. In fiscal year 2021, the quarterly payments were disrupted due to additional funding received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The department chose not to conflate funding by reducing the CARES grants for the previously identified questioned costs. While we understand the extenuating circumstances, we did identify regular quarterly payments for one of the grant recipients that could have been used to offset the questions costs. As of September 2021, the questioned costs had not been recovered.

Effect: The department is not in compliance with federal regulations. Additionally, there is risk the questioned costs will be forgotten and never recovered. Federal regulations allow the FTA to collect interest on funds owed. While interest rates remain low, depending on the length of time

outstanding, the amount owed to the federal grating agency could grow larger than the initial questioned costs.

Cause: The department indicated their current processes did not consider timely return of identified questioned costs.

Recommendation: We recommend the Montana Department of Transportation enhance internal control procedures to ensure timely recovery and remittance of identified questioned costs.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-006: U.S. Department of the Treasury
 ALN # 21.019, Coronavirus Relief Fund
 Grant # SLT0077, SLT0006

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility determinations are performed in accordance with program requirements.

Per 21 USC 812(c)(10), marijuana is a Schedule 1 drug and controlled substance. Per 21 USC 841(a) “it shall be unlawful for any person knowingly or intentionally- (1) to manufacture, distribute, or dispense, or possess with intent to manufacture, distribute, or dispense, a controlled substance”.

The Montana Department of Commerce (department) established eligibility criteria for the Business Stabilization Grant Program (BSG), funded by the Coronavirus Relief Fund. The eligibility criteria included being a business in good standing in Montana, with 50 or fewer employees, and having sustained revenue loss due to the pandemic. Additionally, criteria indicated marijuana-based businesses were ineligible.

Condition: The department’s controls over the BSG were not adequate to ensure only businesses meeting the department’s eligibility requirements received funding under this program, and that the funding was used only for purposes allowed by this program. Some ineligible businesses received funding under the BSG, including two medical marijuana companies.

Questioned Costs: We identified questioned costs totaling \$49,716.

Context: The BSG provided working capital to support allowable business expenses for small businesses in the state. This program aimed to help businesses retain their current employees and maintain business viability. The department spent approximately \$253.8 million on grants for the BSG in fiscal years 2020 and 2021.

In a non-statistical sample of 60 of the 13,049 grant recipients, we identified one business that was not eligible and that has identified questioned costs, six businesses that used the funding for salary draws which was unallowed, and one nonprofit that received funding. For each of these situations, we performed additional analytical procedures and reviews of supporting documents

to determine if these were isolated situations or if other similar situations existed for more than the businesses included in our initial sample.

- One of the businesses that received assistance was a medical marijuana provider. Medical marijuana is illegal at the federal level, and the department's eligibility requirements disallowed these providers from receiving funding under this program. However, the department's application review process did not identify the business as a medical marijuana provider and awarded the business \$27,620. The department performed additional reviews after we identified this business and identified one additional medical marijuana provider that was awarded \$22,096. We consider both of these to be questioned costs of \$49,716.
- Several sole proprietors received assistance for salary draws, which are not considered business expenses but instead a return of income. We identified six sole proprietors who indicated they used the funding for salary draws. The department indicated this was confusing to sole proprietors, and many misclassified expenses such as payments to contractors, as salary. During their detailed post-award reviews, the department also identified that sole proprietors who claimed salary draws also had other eligible expenses allowed under the BSG program. The department expects this is the case for the ones we identified but completed post-award reviews were not available to support their assertion at the time of our testing.
- One of the six sole proprietors also indicated on their BSG application that they were receiving unemployment insurance assistance. Sole proprietors could apply for and receive benefits through the Unemployment Insurance program. Disallowing sole proprietor salary draws ensured funding was not received from two federal sources for the same expenses. Using data from the department collected through the application process, we identified an additional 93 businesses that appear to be sole proprietors receiving both unemployment insurance and BSG funding for salary draws. Based on the review of available data, we could not determine if funding was received for the same period, or for the same expenses. As a result, we do not consider these to be questioned costs.
- Nonprofit entities were not initially eligible to receive funding through the BSG program. The Department of Public Health and Human Services administered a separate program with CRF funds specifically for nonprofits. However, after multiple nonprofits applied for the BSG program, the department decided to allow nonprofits to receive funding under the BSG program if they hadn't received funding through the other CRF program. During our testing we identified four of the 34 nonprofits received funding from both programs. We reviewed the information submitted for each program and determined the funds were used for different purposes under each program, so we do not consider these questioned costs. However, since the department's controls were not sufficient to prevent or detect these situations, these nonprofits could have received funding for the same activities from both CRF programs.

Effect: This resulted in questioned costs and ineligible businesses receiving funding.

Cause: The department did perform application reviews before awarding funding and performed audits of randomly selected businesses after the program ended. However, none of these procedures identified the situations above as the department's controls were not sufficient.

Recommendation: We recommend the Department of Commerce:

- A. Recover the funds from the subrecipients, and pay back the Coronavirus Relief Fund for the \$49,716 questioned costs.
- B. Perform additional risk analysis and post-award reviews of subrecipient use of funds.
- C. Develop controls that are sufficient to ensure only eligible applicants receive funding, that applicants understand the requirements for the use of funds, and required documentation is sufficient to ensure any new federal program funds are used for appropriate purposes.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-007: U.S. Department of the Treasury
ALN # 21.019, Coronavirus Relief Fund
Grant # SLT0077, SLT0006

Criteria: Federal regulation, 2 CFR 200.331, requires pass through entities to communicate specific required information to subrecipients. This federal regulation was renumbered to 2 CFR 200.332 during the audit period.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility determinations are performed in accordance with program requirements.

Condition: The Montana Department of Commerce’s (department) did not ensure all required information was provided to subrecipients of the various grant programs established from funding provided through the Coronavirus Relief Fund (CRF). The department’s internal controls were insufficient to ensure that subrecipients received communication regarding the necessary items.

Questioned Costs: None.

Context: Through the Business Stabilization Grant, Tourism Safety, Loan Deferment, and Working Capital Loan programs established using CRF funds, the department provided federal assistance to approximately 13,000 businesses. The department considered all of these businesses to be subrecipients. The department awarded approximately \$253.8 million, \$15 million, \$46.6 million, and \$23.1 million in grants for the Business Stabilization, Tourism Safety, Loan Deferment, and Working Capital Loan programs, respectively, during fiscal years 2020 and 2021.

For each of these programs, the department developed and sent standardized documents to all subrecipients. However, those standardized documents did not contain all required items, such as the Assistance Listing Number (ALN), amount awarded, terms of the award, indirect cost rate, and access to the subrecipient’s records. Some of this information was not initially available when the documents were created. The documents were not updated when the information became available, and other available information was not included in some of the documents.

The specific items not communicated to subrecipients under each program are included in the following table, as red Xs.

Items Required to be Communicated	Business Stabilization Grant	Tourism Safety Grant	Loan Deferment	Working Capital Loan
Federal award identification number	X	X	X	X
Federal award date	X	X	X	X
Total amount of the federal award committed to subrecipient by the department	✓	X	✓	✓
Name of federal awarding agency and contact information for the awarding official of the department	✓	X	X	X
ALN and name	X	X	X	X
Identification of whether the award is research and development	X	X	X	X
Indirect cost rate for the federal award including if the de minimis rate is charged	X	X	X	X
Requirement that subrecipients permit the department and auditors to have access to their records and financial statements	✓	✓	X	X
Subrecipient name (which must match the name associated with its unique entity identifier)	✓	✓	✓	✓
Subrecipient's unique entity identifier	✓	✓	✓	✓
Requirements imposed by the department on the subrecipient so that the Federal award is used following Federal statutes, regulations, and the terms and conditions of the award	✓	✓	✓	✓
Any additional requirements that the department imposes on the subrecipient for the pass-through entity to meet responsibility to the Federal awarding agency	✓	✓	✓	✓
Subaward period of performance start and end date	✓	✓	✓	✓
Amount of Federal Funds obligated by this action, and total Federal fund obligated to the subrecipient by the department	✓	✓	✓	✓

Effect: These required communications are intended to help the subrecipient meet all their reporting requirements, and to meet all award terms. Subrecipients subject to Single Audits will also need this information for their audit which will occur after much of the department's post-award monitoring is complete. The department is also not in compliance with federal subrecipient monitoring requirements.

Cause: The documents the department used to communicate with subrecipients did not contain all required items, and the department used the same documents for all subrecipients within a given program.

Recommendation: We recommend the Montana Department of Commerce:

- A. Communicate all required award information to subrecipients subject to Single Audit.
- B. Develop controls to ensure that all award information is communicated to subrecipients as required for any new federal programs.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-008: U.S. Department of the Treasury
 ALN # 21.019, Coronavirus Relief Fund
 Grant # SLT0077, SLT0006

Criteria: Federal regulation, 2 CFR 200.331(d), requires pass through entities to monitor the activities of the subrecipient to ensure that the subaward is used for authorized purposes. This monitoring must include reviewing financial and performance reports and issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the pass-through entity. This federal regulation was renumbered into 2 CFR 200.332 during the audit period.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility determinations are performed in accordance with program requirements.

Condition: The Department of Commerce (department) does not review subrecipient audit reports and issue management decisions for audits of subrecipients of the Tourism Safety Grant Program, funded by the Coronavirus Relief Fund, as required by federal regulations.

Questioned Costs: None.

Context: The Tourism Safety Grant Program provided money to the six tourism regions and 18 convention visitor bureaus to help them distribute safety information through marketing campaigns. In total, \$15 million in grants were awarded in fiscal years 2020 and 2021. The purpose of the program was to alert those traveling through Montana to COVID restrictions and to promote general safety during the pandemic. All 24 recipients of this funding were considered subrecipients. They are primarily nonprofits subject to Single Audit requirements. This program awarded over \$750,000 to two of the subrecipients. Additional subrecipients could also meet this threshold through other federal funding received in addition to Tourism Safety.

Effect: If the department does not review audit reports and issue management decisions they will not be in compliance with federal regulations. The department also will not be aware of instances where the subrecipient did not use the funds as required by the program and not recover those funds from the subrecipient, as appropriate.

Cause: Program staff indicated that they initially believed the monitoring they are performing was sufficient, but they do plan to review the Single Audit reports for subrecipients.

Recommendation:

We recommend the Department of Commerce:

- A. Develop controls to perform the required subrecipient monitoring which includes reviewing the subrecipients' Single Audit reports and issuing management decisions.
- B. Review the Single Audits of the Tourism Safety Grant program subrecipients, and issue management decisions.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-009: U.S. Department of the Treasury
 ALN # 21.019, Coronavirus Relief Fund
 Grant # SLT0077, SLT0006

Criteria: Federal regulation, 2 CFR 200.331(b), (d), and (e), establishes requirements for subrecipient monitoring that includes assessing risk and developing a level of monitoring in line with the level of risk. This federal regulation was renumbered into 2 CFR 200.332 during the audit period.

Condition: The Montana Department of Transportation (department) did not initially complete sufficient subrecipient monitoring as required by federal regulation to ensure allowability of expenditures under the Live Entertainment Grant program funded by the Coronavirus Relief Fund. When subrecipients are high-risk, federal regulations require more robust subrecipient monitoring by the department.

Questioned Costs: We question \$189,261 in costs charged to the program. During our audit period we identified \$95,000 in questioned costs, while the department identified an additional \$94,261 subsequent to the audit period.

Context: The State of Montana received \$1.25 billion in funds from the Coronavirus Relief Fund (CRF). In partnership with the Montana Governor’s Office of Budget and Program Planning, the department created the Live Entertainment Grant program from the state’s CRF allocation, totaling \$10.3 million in July 2020. The program was designed to help Montana-based businesses and nonprofits whose income was primarily generated through the live entertainment events. The funding replaced the recipient’s lost revenue from the closure of live events during the pandemic. The department and the Governor’s Office determined these businesses and nonprofits were subrecipients.

The department was responsible for awarding, managing, and monitoring the subgrants. The department performed risk assessments, beginning in September 2020, of the applicants for the Live Entertainment Grants. The risk assessment process was used to determine whether additional review was needed before a funding determination was made. The department also required a final report and a supporting financial statement be submitted by January 2021.

Review of the department’s subrecipient monitoring identified the following:

- The department’s risk assessment process resulted in further review being performed on 29 applications, with a “no fund” determination made for 14 applicants. According to department personnel, subsequent discussion with the Governor’s Office resulted in six of these applicants receiving grants totaling \$1,367,779.

- We reviewed the final report and supporting financial statement for six randomly selected grants out of the 76 grant recipients. This was not a statistically valid sample. At the time of our review in July 2021, the documentation provided for these recipients caused questioned costs. Two of the subrecipients have final reports which do not support the allowability of \$95,000 in costs associated with the grant program. One subrecipient self-certified, with support of an excel spreadsheet, \$36,000 was spent on allowable expenditures during the granted period. The second recipient did not have support in their final report and submitted a profit and loss statement for \$59,000. The second subrecipient reported costs not mentioned in their application and did not provide or document support for why the change in use of the \$59,000 was allowable under the program.
- The department's Audit Services also reviewed eight of 76 grantees in August 2021, including one of the six grants receiving a grant after a no fund recommendation. The reviews addressed approximately 18.5 percent of the awarded funds. We reviewed the results of the eight reviews completed by the department, which included \$94,261 in costs considered to be unallowable, which was about five percent of total expenditures reviewed.

In October 2021, the department indicated they plan to perform reviews over 18 additional subrecipients with completion occurring between October and the end of December 2021.

Effect: Untimely subrecipient monitoring may result in a lack of identified questioned costs or collection of those questioned costs from for-profit businesses which may continue to feel the economic pressures of the pandemic.

Cause: Department staff initially determined the final report was sufficient to consider the costs allowable if the report tied back to the initial grant application. Additionally, due to internal discussions a delay in increasing the detailed review of subrecipients occurred.

Recommendation: We recommend the Montana Department of Transportation continue to complete additional Live Entertainment Grants reviews to ensure subrecipients complied with federal program requirements.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-010: U.S. Department of Treasury
 ALN #21.019, Coronavirus Relief Fund
 Grant # SLT0077, SLT0006

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.331(1)(a), requires the pass-through entities to communicate specific required information to subrecipients. This federal regulation was renumbered into 2 CFR 200.332 during the audit period.

Condition: The Montana Department of Administration's (department) internal controls did not ensure subrecipients of the Coronavirus Relief Fund (CRF) programs administered by the department were provided all of the required information to identify their subaward, and several required items were not communicated to subrecipients.

Questioned Costs: None.

Context: The department administered two programs using CRF funding, one that provided reimbursement-based funding to local governments and one that provided reimbursement-based and advance funding to school districts. The department expended approximately \$193.98 million through the local government program and \$81.77 million through the school district program in fiscal years 2020 and 2021, issuing payments to 124 local governments and 421 school districts. Based on our review, the federal award identification number (FAIN), federal award date, and name of federal awarding agency were not provided to these subrecipients.

Effect: The department is not in compliance with subrecipient monitoring requirements. Additionally, subrecipients of the department's CRF programs were not provided all of the required information to identify their subawards and may not have all of the information necessary to comply with the terms of the award and to meet all of their federal compliance requirements, resulting in unintended noncompliance. Subrecipients subject to Single Audits will also need this information for their audit which will occur after much of the department's post-award monitoring is completed.

Cause: The focus of administering the programs was to provide funding to local governments and school districts to mitigate the impacts of the COVID-19 public health emergency. Due to

this and the department's speed to implement the programs, a few of the upfront communication requirements were overlooked.

Recommendation: We recommend the Montana Department of Administration:

- A. Communicate all required award information to subrecipients, as required by federal regulations for any new federal programs.
- B. Develop controls to ensure that all award information is communicated to subrecipients as required for any new federal programs.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-011: U.S. Department of Treasury
 ALN # 21.019, Coronavirus Relief Fund
 Grant # SLT0077, SLT0006

Criteria: Federal regulation, 2 CFR 200.331(1)(a), requires pass-through entities to communicate specific required information to subrecipients. This federal regulation was renumbered into 2 CFR 200.332 during the audit period.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Internal controls did not ensure the Department of Public Health and Human Services (department) provided subrecipients of the Coronavirus Relief Fund (CRF) programs administered by the department with all of the required information to identify their subaward.

Questioned Costs: None.

Context: During the audit, we reviewed eight of the department's CRF programs. Of the eight, four of the programs made grants to subrecipients. These four programs made subgrants totaling approximately \$132 million in fiscal years 2020 and 2021, to approximately 2,400 subrecipients. These subrecipients consisted of local and tribal health departments, social services nonprofit organizations, behavioral health providers, school districts, and licensed childcare programs. Based on our review, multiple required disclosures were missing including the subrecipient's unique entity identifier, federal award identification number, total amount of federal funds committed to the subrecipient, and the name of the federal awarding agency.

Effect: The department has not complied with federal regulations regarding required subrecipient disclosures. Additionally, failure to provide subrecipients with the required federal award information increases risk of subrecipient noncompliance with federal requirements.

Cause: Per the department, internal controls were not centralized when the funding was awarded to the department resulting in missing disclosures. Due to this and the speed which the department was expected to implement multiple programs, some of the upfront communication with subrecipients was missed.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls to ensure required subrecipient disclosures are included for new federal program subrecipient agreements.

- B. Ensure the required subrecipient disclosures are included correctly in new federal program subrecipient monitoring agreements.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-012: U.S. Department of Treasury
 ALN # 21.019, Coronavirus Relief Fund
 Grant # SLT0077, SLT0006

Criteria: Per the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Title VI, Sec 601(d)(1) funds are allowable if they "are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)".

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) made two duplicate payments to facilities as part of its Quarantine Isolation benefits program using Coronavirus Relief Funds. Duplicate payments are unnecessary expenditures under the Coronavirus Relief Fund (CRF) program.

Questioned Costs: We question costs in the amount of \$35,820.

Context: The Quarantine Isolation program was one of 17 CRF programs the department administered. This program provided funds to facilities for any isolated or quarantined patients for days where the patient was actively positive or presumptively positive for Coronavirus. Providers included nursing homes, assisted living homes, and group homes.

We reviewed a total of 48 payments to 13 different facilities, of 155 total facilities, during fiscal years 2020 and 2021. As part of this work, we identified two duplicate payments to facilities, one for \$28,410 and one for \$7,410. This was not a statistically valid sample.

Effect: The department is not in compliance with federal regulations as the duplicate payments were not an allowable use of the federal funds.

Cause: Internal controls did not prevent these payments being issued. Department staff acknowledged the payments were made and stated they were identified during a reconciliation process. Per department personnel, the department was expected to implement multiple programs quickly and as a result, items were overlooked. The department is currently working with the entities to recover the overpayments.

Recommendation: We recommend the Department of Public Health and Human Services enhance internal controls to ensure duplicate payments are not made to recipients of federal funds.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-013: U.S. Department of the Treasury
 ALN # 21.023, Emergency Rental Assistance Program
 Grant # ERA-2101123145

Criteria: The Consolidated Appropriation Act, 2021, Section 501 establishes the Emergency Rental Assistance program and indicates who is eligible including income thresholds, that the recipient must be facing housing instability, and they must have been impacted by the COVID-19 pandemic.

Condition: The Department of Commerce’s (department) internal control procedures identified potentially fraudulent applications paid from the Emergency Rental Assistance program funds.

Questioned Costs: For fiscal year 2021, the department identified that \$33,700 was incorrectly paid to these applicants, which we consider questioned costs. Similar situations occurred in fiscal year 2022, and as of December 2021, the department identified \$62,000 that we have reported as questioned costs. We anticipate additional questioned costs may be identified through the department’s review processes as the department has seen a coordinated effort to submit potentially fraudulent applications.

Context: While reviewing applications for this program, the department identified potentially fraudulent applications where applicants submitted incorrect information or, in some cases, did not live at the address they were requesting assistance for. The department determined these applicants were eligible based on the federally-established eligibility criteria for the emergency rental assistance program. Subsequent new information received by the department showed that the initial information submitted by these applicants was incorrect or false, and the department determined these applicants were not actually eligible to receive the funds that had been disbursed to them. The department is working with appropriate authorities to address the potentially fraudulent nature of the applications and could recover some of the payments made to ineligible parties. The United States Department of the Treasury does not require states to report these instances until they reach \$100,000.

After identifying the initial situations described, the department implemented supplementary controls, including some targeted reviews, to detect future situations before the applicant receives funding through the program

Effect: This resulted in the department paying applicants who did not meet the eligibility requirements for the program, resulting in questioned costs.

Cause: The department received a high volume of applicants that had to be processed quickly, and did not initially identify these situations, but after identifying the first couple situations, the department implemented additional controls to identify these situations in the future.

Recommendation: We recommend the Department of Commerce continue to perform processes and reviews to identify ineligible applicants for the Emergency Rental Assistance Program.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-014: U.S. Department of Homeland Security
 ALN # 97.036, Disaster Grants – Public Assistance (Presidentially
 Declared Disasters)
 Grant # 4508DRMTP00000001

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 170, Appendix A requires a Federal Financial Assistance Transparency Act (FFATA) report for each subaward no later than the end of the month following the month in which an obligation was made.

Condition: The Department of Military Affairs (department) did not have controls in place to ensure timely and accurate FFATA reporting over the federally declared disaster related to the Coronavirus public health emergency. While we noted no errors in the information contained in the reports submitted, the department sub-granted funds to six entities during the months of September 2020 through December 2020 which were not reported until February 2021. This is between one and four months later than required by federal regulations.

Questioned Costs: None.

Context: During the audit period, the department submitted three FFATA reports. The initial report in February 2021 included all subawards made from the onset of the disaster including the six entities receiving subgrants during the months of September 2020 through December 2020. The reports submitted in April 2021 and May 2021 included the subawards required to be reported for those time periods. While no controls are documented to review the reports for accuracy, we noted no errors in the data reported on any of the reports. In total, \$35.5 million was spent during fiscal year 2020 and 2021, of which \$6.5 million was not reported timely. Reports should have been filed for the months of October 2020, November 2020, December 2020, and January 2021. Activity that should have been included on these reports were included on the February 2021 report.

Repeat Finding: No.

Effect: A lack of documented internal controls led to the late submission of required FFATA reports and noncompliance with federal regulations. Additionally, a lack of documented internal controls could result in the omission of subawards on the report or the reporting of inaccurate amounts.

Cause: While the department established some controls over the preparation of the report, they did not include documentation of any procedures for review to ensure timeliness and accuracy. Additionally, due to the personnel resources needed to respond to the pandemic, the department did not have the staff necessary to complete timely FFATA reports.

Recommendation: We recommend the Department of Military Affairs:

- A. Document and implement internal controls to ensure the timely and accurate submission of FFATA reports.
- B. Submit FFATA reports in accordance with federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-015: U.S. Department of Homeland Security
 ALN # 97.042, Emergency Management Performance Grants (EMPG)
 Grant # EMD – 2017-EP-00003 (FY19)
 EMD – 2018-EP-00005 (FY19, FY20)
 EMD – 2019-EP-00005 (FY20)

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulations, 2 CFR 200.53 and 2 CFR 200.403, further state that improper payments include any payments where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper and in order for costs to be allowable they must be adequately documented, respectively.

Condition: The Department of Military Affairs (department) does not have adequate internal controls in place to ensure adequate support is provided prior to reimbursement for grant expenditures incurred by local governments. While the department has put in place procedures for the reimbursement process for the grant, the procedures did not properly detail the type of documentation needed from subrecipients in order to approve the reimbursement.

Questioned Costs: In our follow-up on finding 2019-028 from the prior Single Audit, we identified actual questioned costs of \$38,443 and \$89,511 in fiscal years 2019 and 2020, respectively.

Context: In total for fiscal year 2019 and 2020, \$3.7 million was reimbursed to subrecipients for EMPG grants. We completed a statistically valid sample of grants administered by the department's Disaster & Emergency Services (DES) Division. In this sample, there was a total population of 376 EMPG items, and we selected a sample of 17 EMPG payments. Our sample identified 15 instances where the supporting documentation was not adequate to demonstrate the costs were allowable per the grant.

Repeat Finding: This is a repeat finding, initially reported as 2017-011 in the Single Audit report for the two fiscal years ended June 30, 2017. It was reported as finding 2019-028 in the Single Audit report for the two fiscal years ended June 30, 2019.

Effect: Because the department does not have adequate internal controls in place over the DES grant reimbursement process, they have reimbursed subgrantees for unallowable costs. We identified questioned costs, as noted above.

Cause: This issue is on-going from the department prior audit report. The department had planned to make headway with implementing controls to better oversee reimbursements related to the DES grant program. However, due to the fact that the department's prior audit report was not issued until October of 2019, they were not able to implement internal controls prior to the next funding cycle for the grant. The department provided state guidance documents to subrecipients that were updated in January of 2020 and implemented for the fiscal year 2020-2021 grant cycle.

Recommendation: We recommend the Department of Military Affairs continue to enhance internal control procedures and provide training to ensure proper documentation is obtained prior to the reimbursement of expenses under the Emergency Management Performance Grants program.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-016: U.S. Department of Homeland Security
ALN # 97.050, Presidentially Declared Disaster Assistance to Individuals
and Households – Other Needs
Grant # 4508DRMTSPLW

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Labor and Industry’s (department) internal controls did not ensure information reported to the federal government was complete and accurate in relation to its Lost Wages Assistance grant.

Questioned Costs: None.

Context: To help provide additional unemployment benefits during the COVID-19 public health emergency, the department applied for, and received, a federal Other Needs Assistance – Supplemental Payments for Lost Wages (Lost Wages Assistance) grant award, funded by ALN 97.050. In addition to an Unemployment Insurance claimant’s calculated benefit, the grant provided eligible claimants an extra \$400 per week. The Federal Emergency Management Agency (FEMA) Lost Wages Assistance program was active for six benefit weeks.

During the grant award period, the department was required to submit quarterly financial reports and weekly programmatic reports to the federal government. To ensure the accuracy of the quarterly financial reports, the information was reviewed by a person other than the preparer of the report before the report’s submission. However, in our review, two of the four financial reports submitted to the federal government for this grant did not have evidence of a review being completed prior to submission.

In addition, while obtaining an understanding of the department’s procedures for completing the weekly programmatic reports, we were unable to identify a departmental control over the accuracy of the information submitted to the federal government.

Effect: While we did not identify any errors in the information reported to the federal government, without documentation, or implementation, of internal controls, the department is at increased risk of reporting incorrect information to the federal government and is not in compliance with federal regulations.

Cause: Department personnel stated all quarterly financial reports were reviewed and approved, but verbal approval was given for the two we identified as not having documented evidence of review. Additionally, when we inquired specifically about the department's control over the weekly programmatic reports, department personnel stated the risk of error was deemed low for these reports as they did not require complex calculations or a compilation of data from multiple sources. As a result, the department did not have someone review the reported information prior to submitting it to the federal government.

Recommendation: We recommend the Department of Labor and Industry develop, implement, and document internal controls over reporting requirements for new federal funding sources to ensure compliance with federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-017: U.S. Department of Labor
 ALN # 17.225, Unemployment Insurance
 Grant # UI-35659-21-55-A-30 (2021 Base Grant)
 UI-34069-19-55-A-30 (2020 Base Grant)
 UI-34726-20-55-A-30 (2020 COVID funding)

Criteria: Federal regulation, 20 CFR 602.30(a), indicates the U.S. Department of Labor (USDOL) shall establish required methods and procedures and provide technical assistance as needed on the QC process. This regulation outlines the U.S. Department of Labor will establish guidelines for states to follow regarding quality control reviews.

Federal regulation, 20 CFR 602.21(a) – Standard methods and procedures, requires each state to perform the requirements of this section in accordance with instructions issued by the U.S. Department of Labor, pursuant to §602.30(a) of this part, to ensure standardization of methods and procedures in a manner consistent with this part. This regulation instructs the Department of Labor and Industry (department) to follow the Benefit Accuracy Measurement (BAM) State Operation Handbook.

Benefit Accuracy Measurement State Operations Handbook (ET Handbook No. 395, 5th Edition) Chapter II Section 3, states “each SWA must develop written procedures to guide the operation of the BAM program. The procedures must cover all investigative and administrative functions of the BAM unit. The procedures should be adapted to the particular circumstances of the state, but must adhere to the guidelines contained in this Handbook so as to provide for proper administration of the BAM program.”

Montana Benefit Accuracy Measurement Quality Control Program Policy and Procedures Manual, Section IX(A), states “The BAM Supervisor is responsible for the cases completed in the BAM unit, whether she reviews each of them or not. USDOL has recommended that the BAM Supervisor review as many completed cases as possible. At a minimum, the Montana BAM Supervisor will review all improper cases.”

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department did not follow its documented internal control regarding BAM audits resulting in noncompliance with federal regulations.

Questioned Costs: None.

Context: We tested a sample of 41 BAM reviews out the approximately 1,400 completed by the department's BAM unit in fiscal years 2020 and 2021. The sample included both paid and denied claims. The sample was not statistically valid. Per the department's BAM policies, the BAM supervisor must review all cases where improper payments to claimants are identified by BAM staff. In our review, we found BAM staff determined improper payments were made to claimants for seven of the 19 paid claims in our sample. However, six of the seven improper payments were not reviewed by the BAM supervisor as required by department policy.

Effect: Because internal controls failed to ensure required supervisory reviews occurred, the department was not in compliance with the department's BAM policies and procedures, and thus, not in compliance with federal regulations. If policies and procedures over the BAM process are not followed, the department is at increased risk of additional errors occurring within the Unemployment Insurance program.

Cause: Department staff stated the required reviews did not occur due to significant staff turnover and restructuring within the BAM unit in addition to the significant demands placed on the department resulting from the COVID-19 public health emergency.

Recommendation: We recommend the Department of Labor and Industry:

- A. Follow its documented internal control policies and procedures governing benefit accuracy measurement reviews completed by the department, and
- B. Complete the required supervisory reviews of benefit accuracy measurement audits that identify improperly paid unemployment insurance benefits, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-018: U.S. Department of Labor
 ALN # 17.225, Unemployment Insurance
 Grant # UI-34726-20-55-A-30 (2020 COVID funding)

Criteria: Federal regulation, 20 CFR 625.6(a), states “In all States, except as provided in paragraphs (c) and (d) of this section, the amount of DUA payable to an unemployed worker or unemployed self-employed individual for a week of total unemployment shall be the weekly amount of compensation the individual would have been paid as regular compensation, as computed under the provisions of the applicable State law for a week of total unemployment. In no event shall such amount be in excess of the maximum amount of regular compensation authorized under the applicable State law for that week.”

Federal regulation, 20 CFR 625.6(b), states “If the weekly amount computed under paragraph (a) of this section is less than 50 percent of the average weekly payment of regular compensation in the State, as provided quarterly by the Department, or, if the individual has insufficient wages from employment or insufficient or no net income from self-employment (which includes individuals falling within paragraphs (a)(3) and (b)(3) of § 625.5) in the applicable base period to compute a weekly amount under paragraph (a) of this section, the individual shall be determined entitled to a weekly amount equal to 50 percent of the average weekly payment of regular compensation in the State.”

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Labor and Industry’s (department) internal controls did not detect and correct errors in benefit amounts for unemployment insurance claimants receiving Pandemic Unemployment Assistance (PUA) benefits.

Questioned Costs: We identified \$4,066 in known question costs, and project likely questioned costs of more than \$25,000.

Context: In a statistical sample of 60 PUA claimants, we found four claimants who received incorrect benefit amounts, as described below. This was a statistically valid sample.

- For one claimant, department staff entered the claimant’s yearly wages divided equally between all four quarters instead of recording the wages that were actually earned each quarter. This resulted in the claimant receiving \$1,088 less than entitled.

- For one claimant, the department again entered the claimant's yearly wages divided equally between all four quarters, instead of recording the wages actually earned each quarter. While we determined the underpayment could be as much as \$3,042, when we brought this error to the department's attention, it was determined further investigation was necessary due to potential fraud.
- One claimant had two Schedule Cs filed with their taxes, one showing a profit and one showing a loss. To determine the claimant's base period wages, the department should have netted the two schedules together. However, the department only entered the information reflecting the profit resulting in an overpayment of \$448.
- For one claimant, the department accepted a 1099-MISC tax form as proof of income. However, the 1099-MISC tax forms report gross income, but regulations require net income to be used in benefit calculations. This resulted in an overpayment of \$3,618.

Effect: The department is not in compliance with federal requirements related to the PUA program with the Unemployment Insurance program for fiscal years 2020 and 2021. We brought the discrepancies we found to the department's attention. Claimants entitled to additional benefits have been paid what they were owed, and the department waived the overpayments of the claimants, as allowed by federal regulations, who received more than they were entitled to.

Cause: Per department personnel, these were human errors on the part of the department. All four instances were due to department staff entering incorrect base period wages into the PUA system.

Recommendation: We recommend the Department of Labor and Industry:

- A. Enhance internal controls to ensure wage information is correctly used to calculate unemployment insurance benefits, and
- B. Calculate Unemployment Insurance benefits correctly in accordance with federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-019: U.S. Department of Labor
 ALN # 17.225, Unemployment Insurance
 Grant # UI-35659-21-55-A-30 (2021 Base Grant)
 UI-34069-19-55-A-30 (2020 Base Grant)
 UI-34726-20-55-A-30 (2020 COVID funding)

Criteria: Federal regulation, 26 USC 3304(a)(4)(D), states “all money withdrawn from the unemployment fund of the State shall be used solely in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305(b); except that...amounts shall be deducted from unemployment benefits and used to repay overpayments as provided in section 303(g) of the Social Security Act.”

Federal regulation, 42 USC 503(a)(11)(A), states “At the time the State agency determines an erroneous payment from its unemployment fund was made to an individual due to fraud committed by such individual, the assessment of a penalty on the individual in an amount of not less than 15 percent of the amount of the erroneous payment.”

Section 39-51-3201(1)(a)(ii), Montana Code Annotated (MCA), states “A person who makes a false statement or representation knowing it to be false or who knowingly fails to disclose a material fact in order to obtain or increase any benefit or other payment under this chapter or under an employment security law of any other state or territory or the federal government, either for the individual or for any other person, is...required to repay to the department, pursuant to the provisions of §39-51-3206, a sum equal to the amount wrongfully received by the individual, plus a department-assessed penalty equal to 50% of the fraudulently obtained benefits. The department-assessed penalty incorporates the 15% penalty required under 42 U.S.C. 503(a).”

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Labor and Industry (department) did not implement adequate internal controls to ensure compliance with federal regulations and state laws governing pandemic-related unemployment insurance overpayment recovery and did not comply with those laws and regulations.

Questioned Costs: None.

Context: We completed a sample of 60 of approximately 25,600 department-identified overpayments and found ten claimants who continued to receive unemployment benefits after their overpayment was established. This was not a statistically valid sample. For six claimants, the department took measures to recover the associated overpayment by reducing the benefit amount the claimants were still receiving. However, the department did not offset the continuing benefits for four claimants to reduce their established overpayment.

Based on our review, the four claimants without benefit offsets had been placed in the wrong Unemployment Insurance program at the beginning of their claims which resulted in the overpayments, as described below.

- Three claimants were incorrectly established in the Pandemic Unemployment Assistance (PUA) program when they were eligible for regular Unemployment Insurance. When the department discovered this, they created an overpayment in the PUA program for the PUA benefits received to date and established the claims in the regular Unemployment Insurance program. The claimants then received a payment for the amount they would have received under the regular Unemployment Insurance program had they been established correctly, in addition to the amounts already received in the PUA program, essentially doubling the claimants' benefits. The PUA overpayments were not paid back by the claimants using the regular UI benefits received after the overpayments were established and they were not offset against the regular Unemployment Insurance benefits the claimants continued to receive.
- One claimant was incorrectly established in the regular Unemployment Insurance program when the claimant qualified for the PUA program. An overpayment was established in the regular Unemployment Insurance program and a claim established in the PUA program. The claimant received a PUA program payment for the time they were on regular Unemployment Insurance and should have been on PUA, resulting in excess benefits being paid. In this instance, the claimant did repay a significant portion of the regular Unemployment Insurance overpayment though not through a departmental offset.

Additionally, in our review, we discovered the department did not assess the required penalty on PUA overpayments related to fraud.

Effect: Since internal controls were insufficient to ensure overpayments were offset by continuing Unemployment Insurance benefit payments, were unable to identify overpayments that resulted from fraudulent activity in the PUA program, and were unable to ensure penalties were assessed, the Department of Labor and Industry is not in compliance with federal regulations governing Unemployment Insurance overpayments.

Cause: Department personnel stated because the department was utilizing two different benefits systems, one for regular Unemployment Insurance and one for PUA, it was not possible to offset some PUA claims. Programming did occur in the fall of 2020 to allow the offset of an overpayment if a claimant went from the PUA program to the regular Unemployment Insurance program. However, overpayment offsets were not always established by the department.

Additionally, related to assessing required penalties, department personnel stated they were working with the PUA system vendor prior to the end of the PUA program to improve system capabilities to be able to identify, and assess penalties on, overpayments due to fraud. This was not accomplished prior to fiscal year-end 2021, resulting the department's inability to assess the required penalties for fraud related PUA overpayments during the audit period.

Recommendation: We recommend the Department of Labor and Industry:

- A. Develop and implement internal controls to ensure necessary information system modifications are made to properly administer new federal programs, and
- B. Recover unemployment benefit overpayments, including any associated penalties, as required by federal and state law.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-020: U.S. Department of Labor
ALN # 17.225, Unemployment Insurance
Grant # UI-34726-20-55-A-30 (2020 COVID funding)

Criteria: Montana Operations Manual (MOM) State Information Technology Services Division (SITSD) Security Policy – Appendix A outlines baseline security controls for every state agency to implement for information technology systems they manage. Included among the baseline controls are requirements for the development and documentation of a security plan; documentation of access control policies and procedures, including periodic review of user access; and documentation of a formal change management system.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Labor and Industry (department) relied on the Pandemic Unemployment Assistance (PUA) information system to determine claimant eligibility and calculate benefit payments. However, we determined the department relied on the PUA system without having adequate internal controls in place to do so.

Questioned Costs: None.

Context: The department utilizes one system to collect employer contributions and another to process claims and provide benefits to eligible claimants. However, the department's regular unemployment benefit system, MISTICS, was not equipped to process new requirements, such as acceptance of self-employment information, imposed by the PUA benefit program. As a result, the department contracted with a vendor to utilize software explicitly designed to administer the PUA program.

The department did not obtain a Service Organization Controls (SOC) report specifically for the PUA system and while the department does have a system security plan (SSP) for the PUA system, it does not document all the information required by state policy. The vendor did provide the department with a SOC report, but it was for a different service offered by the vendor and provided no assurance over the PUA system.

In addition to not having sufficient documentation of security controls in general, we also identified two important system controls not adequately addressed by the department: user access and change management controls. The process for requesting, terminating, and reviewing user access to the system should be clearly documented. However, while the department does have

procedures for requesting and terminating access for department employees, those procedures are not officially documented. The department also does not perform any periodic reviews of current user access and does not manage the access of employees outside of the department.

The second system control not addressed by the department pertains to change management. Although the department could not make changes to the application, they were responsible for knowing what changes the vendor made and why. Even though the department held weekly meetings with the vendor to discuss software changes and had access to an environment to test new features before implementation, the department still relied on the vendor to provide a complete log of changes made. Without testing the system, the department had no assurance that changes were made as described or that other, unexpected changes were not made.

Effect: These internal control issues have a cumulative effect on software processing integrity and we were unable to determine if all eligibility and benefit determinations were complete, valid, accurate, timely and authorized. This resulted in a significant deficiency in internal controls and noncompliance with federal regulations and state policies.

Cause: The department put great effort into making the PUA program operational in a very short time frame with many competing priorities of high importance. The department's focus on operational success resulted in some general system controls being overlooked or not officially documented. Additionally, department management considered the SOC report received adequate even though it did not address the core responsibilities of the department or the vendor related to the PUA system.

Recommendation: We recommend the Department of Labor and Industry enhance internal controls by obtaining an application-level Service Organization Controls (SOC) report, or implement and formally document baseline security controls for all new Unemployment Insurance program-related information technology systems, as required by state policy and federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-021: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.264, 93.342, 93.364, 93.925, Student Financial Assistance
Programs Cluster
Grant # Not Applicable

Criteria: Federal regulation, 16 CFR 314.4(b) (version effective for fiscal years 2020 and 2021), requires Montana’s universities to “Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks. At a minimum, such a risk assessment should include consideration of risks in each relevant area of your operations, including:

- (1) Employee training and management;
- (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and
- (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.”

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Section 20-32-101, Montana Code Annotated (MCA), establishes an educational telecommunications network for instructional and educational coursework of students from kindergarten through higher education as well as any supporting information to teachers.

Section 20-25-301, MCA, outlines the powers and duties of the Board of Regents (board), including that the board shall ensure an adequate level of security for data within the university system by addressing state law information security requirements. These requirements are further defined in §2-15-114, MCA, and direct agencies to develop and maintain policies and procedures to ensure information security, ensure an individual is responsible for a security program and safeguards, and conduct internal evaluations of the security program for improvements.

Board policy is meant to clarify how this statute is carried out and states that “Where appropriate, campuses should follow the National Institute of Standards and Technology (NIST) Framework for policy guidance.”

Condition: The current board security policy has not been reviewed since 2014. The Office of the Commissioner of Higher Education (OCHE) has delegated to the major campuses the authority to administer their own information network. As a result, campuses have the individual responsibility to assess their IT environments and security programs for various risks from external threats, weak controls, and compliance with state and federal requirements. As described in Findings 2021-022 and 2021-023, during fieldwork we identified that risk management processes within IT were not consistent or comprehensive at the universities. This has contributed to the universities’ non-compliance with federal regulations requiring an information security risk assessment process.

Questioned Costs: None.

Context: The universities gather and store various types of sensitive information electronically related to students’ education and personal information, employees’ personal information, credit and bank account information, intellectual property, and personal health information. Personally identifiable information (PII) can include student names, mothers’ maiden names, social security numbers, identification numbers, or parent/guardian information. As the entity directed to ensure security, the board and OCHE are responsible for governance and policies that guide the frameworks in place for the university system. This governing policy should create consistency and be explicit about the high-level procedures to maintain a security program. Each university can determine more specific policies around controls and how they are managed as they also need to consider business differences.

Effect: The universities are not in compliance with federal regulations as described in Findings 2021-022 and 2021-023.

Cause: One FTE at OCHE is tasked with operational, management, and oversight responsibilities, leaving little time for establishing governance or coordinating security across an entire university system. OCHE staffing does not include dedicated security responsibilities. According to board security policy, security responsibilities are expected to be established at each university. Currently, these staff dedicated to security are at each flagship campus. The smaller campuses do not have IT security staff. While OCHE intended to give the universities leeway in deciding on what exact framework would work best, the language chosen has caused the universities to not formally adopt any framework to guide their security programs. The lack of framework has contributed to the current state of security programs and has slowed progress in development. The lack of this governance structure has contributed to the struggles in maturing security programs at each university and could make sharing IT services related to security more complicated. If each university addresses a problem differently, they lose the ability to share knowledge and services for efficiency.

Recommendation: We recommend that the Board of Regents establish system-wide IT governance that ensures:

- A. OCHE has an active role in improving security posture of the university system,
- B. Security policy addresses the requirements of data security statute and other relevant federal requirements,
- C. There is clear allocation of security responsibility, authority, and accountability, and
- D. Communication and reporting mechanisms are formalized between various entities that oversee or make decisions within the university system.

We further recommend that Board of Regents and the universities review and enforce university system security policy that includes:

- E. Clear direction within policy to manage a security program and mandate a consistent security framework, going above and beyond maintaining security policies.
- F. Requirements for Board of Regents security policy to be reviewed continuously.

Views of Responsible Officials: OCHE concurs with these recommendations. For additional information regarding OCHE'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 2021-022: U.S. Department of Education
 ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
 Assistance Programs Cluster
 Grant # Not Applicable

U.S. Department of Health and Human Services
 ALN # 93.264, 93.364, 93.925, Student Financial Assistance Programs
 Cluster
 Grant # Not Applicable

Criteria: Federal regulation, 16 CFR 314.4(b) (version effective for fiscal years 2020 and 2021), requires Montana State University (university) to “Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks. At a minimum, such a risk assessment should include consideration of risks in each relevant area of your operations, including:

- (1) Employee training and management;
- (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and
- (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.”

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: As indicated in finding 2021-021, the Office of the Commissioner of Higher Education (OCHE) has delegated to the major campuses the authority to administer their own information network. As a result, campuses have the individual responsibility to assess their IT environments and security programs for various risks from external threats, weak controls, and compliance with state and federal requirements. We identified that risk management processes within information technology (IT), including those required by federal regulations governing the Student Financial Assistance Cluster related to information security and risk assessment, were not consistent or comprehensive at the university.

We determined that the Bozeman campus has individuals coordinating the information security program. However, it’s unclear how affiliate campuses at Billings, Great Falls and Havre should be included in this work because the boundary of the security programs that each university manages is not clearly defined. After reviewing IT risk assessment procedures, we determined

that the Bozeman campus has not performed an IT risk assessment that addresses the three areas required by federal regulations. There is no IT formal risk management program, including documented safeguards, that supports the improvements and drives initiatives for a comprehensive security program that meets the intentions of the requirements.

Industry standards provide many tools and guidance on assessing security programs. For our work, we chose an assessment tool that was developed for higher education. The tool assesses high-level, common security practices. The university scored low in risk management. We also contracted with an outside consultant with experience in security testing and phishing campaigns to review security vulnerabilities and security awareness at the university. Our contractor's work identified vulnerabilities where the control structure does not completely mitigate a specific risk. From testing, the university had two high concerns and five moderate concerns found in testing. The university's security program is at a lower maturity level.

Questioned Costs: None.

Context: The university is comprised of four separate campuses with a combined total enrollment of 20,261 and 19,422 students during fiscal years 2020 and 2021, respectively.

The table below summarizes the number of students receiving assistance through Title IV-A programs by campus; the table contains duplicate counts because individual students may qualify for multiple types of assistance. No students received new Perkins loans during this period; students with loan balances from prior periods are not included in the table.

Program	Academic Year 2019-20				Academic Year 2020-21			
	Billings	Bozeman	Great Falls	Havre	Billings	Bozeman	Great Falls	Havre
Federal Supplemental Educational Opportunity Grants	421	848	87	86	376	1,114	83	116
Federal Work-Study Program	102	183	19	62	60	158	8	29
Pell Grants	1,428	3,259	616	472	1,419	2,918	522	404
Direct Loans	1,905	11,122	944	826	3,025	9,820	871	690
Total	3,856	15,412	1,666	1,446	4,880	14,010	1,484	1,239

The university gathers and stores various types of sensitive information electronically related to students' education and personal information, employees' personal information, credit and bank account information, intellectual property, and personal health information. Personally identifiable information (PII) can include student names, mothers' maiden names, social security numbers, identification numbers, or parent/guardian information.

Effect: The university is not in compliance with federal regulations. Possible outcomes could be data breaches or ransomware attacks that impact university reputation and could stop the university from providing services to students.

Cause: While the Office of the Commissioner of Higher Education intended to give the university leeway in deciding on what exact framework would work best, the language chosen has caused the university to not formally adopt any framework to guide their security programs. The lack of framework has contributed to the current state of security programs and has slowed progress in development. University staff indicated that overall IT staffing challenges have impacted the progress of the security program.

Recommendation: We recommend the Montana State University complete a comprehensive IT risk assessment to develop a formal approach for maturing security procedures.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university'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 2021-023: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.342, Student Financial Assistance Programs Cluster
Grant # Not Applicable

Criteria: Federal regulation, 16 CFR 314.4(b) (version effective for fiscal years 2020 and 2021), requires the University of Montana (university) to “Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks. At a minimum, such a risk assessment should include consideration of risks in each relevant area of your operations, including:

- (1) Employee training and management;
- (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and
- (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.”

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: As indicated in finding 2021-021, the Office of the Commissioner of Higher Education (OCHE) has delegated to the major campuses the authority to administer their own information network. As a result, campuses have the individual responsibility to assess their IT environments and security programs for various risks from external threats, weak controls, and compliance with state and federal requirements. During fieldwork we identified that risk management processes within information technology (IT) were not consistent or comprehensive at the university.

We determined the Missoula campus has individuals coordinating the information security program. However, it’s unclear how affiliate campuses at Butte, Helena and Dillon should be included in this work because the boundary of the security programs that each university manages is not clearly defined. After reviewing IT risk assessment procedures, we determined that the Missoula campus has not performed an IT risk assessment that addresses the three areas required by federal regulations. There is no IT formal risk management program, including

documented safeguards, that supports the improvements and drives initiatives for a comprehensive security program that meets the intentions of the requirements.

Industry standards provide many tools and guidance on assessing security programs. For our work, we chose an assessment tool that was developed for higher education. The tool assesses high-level, common security practices. The university scored low in risk management. Additionally, we contracted with an outside consultant to conduct testing and run a phishing campaign at the university. This testing identified specific vulnerabilities and showed what security weaknesses could be exploited if identified by a malicious actor. Our contractor's work also identified vulnerabilities where the control structure does not completely mitigate a specific risk. From testing, the university had two high concerns and five moderate concerns found in testing. The university's security program is at a lower maturity level.

Questioned Costs: None identified

Context: The university is comprised of four separate campuses with a combined total enrollment of 12,764 and 11,915 students during fiscal years 2020 and 2021, respectively. The table below summarizes the number of students receiving assistance through Title IV-A programs by campus; the table contains duplicate counts because individual students may qualify for multiple types of assistance. No students received new Perkins loans during this period; students with loan balances from prior periods are not included in the table.

Program	Academic Year 2019-20				Academic Year 2020-21			
	Missoula	Butte	Dillon	Helena	Missoula	Butte	Dillon	Helena
Federal Supplemental Educational Opportunity Grants	1,068	291	176	152	942	258	186	217
Federal Work-Study Program	579	82	96	32	327	60	77	10
Pell Grants	2,777	604	564	585	2,366	533	491	524
Direct Loans	4,736	1,611	796	502	4,168	1,431	704	380
TEACH Grants	1		1				1	
Total	9,161	2,588	1,633	1,271	7,803	2,282	1,459	1,131

The university gathers and stores various types of sensitive information electronically related to students' education and personal information, employees' personal information, credit and bank account information, intellectual property, and personal health information. Personally identifiable information (PII) can include student names, mothers' maiden names, social security numbers, identification numbers, or parent/guardian information.

Effect: The university is not in compliance with federal regulations. Possible outcomes could be data breaches or ransomware attacks that impact university reputation and could stop the university from providing services to students.

Cause: The university's IT division has had multiple changes and temporary staff since 2018. Management is also responsible for ensuring sufficient resources are available for a security program, and that roles and responsibilities are clearly defined. Throughout these changes in

management and leadership, responsibilities related to security have not been defined or documented officially for all security related positions. Key security roles at the university varied in their level of documentation, including a job description that was being updated, a job posting, and an inaccurate job description. Without this clarity, the university's security program lacks accountability and understanding of expectations in some areas. This also limits enforcement to ensure staff complete necessary tasks that meet the needs of the security program. The university has not been able to hire a permanent position to be accountable for a comprehensive security program either. In recent attempts, they have struggled to bring someone in who is willing to progress a security program from a low maturity level.

Recommendation:

We recommend the University of Montana:

- A. Update and formalize job descriptions for positions that have responsibilities for developing, maintaining, or supporting the security program, and
- B. Complete a comprehensive IT risk assessment that is used to develop strategic initiatives and the required budget to mature the security program and security awareness.

Views of Responsible Officials: The university concurs with this recommendation. 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 2021-024: U.S. Department of Education
 ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
 Assistance Programs Cluster
 Grant # Not Applicable

U.S. Department of Health and Human Services
 ALN # 93.264, 93.364, 93.925, Student Financial Assistance Programs
 Cluster
 Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Great Falls College MSU and MSU-Northern did not have documented controls in place addressing review requirements for the School Account Statement (SAS) data file Direct Loan reconciliations and did not retain any documentation demonstrating the reconciliations were reviewed.

Questioned Costs: None.

Context: Through our testing, we determined all four of the Montana State University campuses were completing the required reconciliations. However, two of the four did not have documented internal controls or evidence of reviews being completed.

Effect: Our audit did not identify any material noncompliance, but a lack of documented internal controls could result in reconciliations not being done or being done inaccurately. Current staff are aware of the requirement but if there is staff turnover, that knowledge leaves with the person.

Cause: Both campuses have a process in place to complete the reconciliations and keep documentation of the process, but they were unaware there should be documentation and evidence that a review was completed.

Recommendation: We recommend the Great Falls College MSU and MSU-Northern document their internal control process and retain evidence of reviews over Direct Loan reconciliations.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-025: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.264, 93.364, 93.925, Student Financial Assistance Programs
Cluster
Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Through our testing, we determined Montana State University (MSU) Bozeman, MSU Billings, MSU-Northern, and Great Falls College MSU do not have documentation of review of the Cost of Attendance (COA) calculation performed by someone not involved in the process of creating it.

Questioned Costs: None.

Context: This condition exists at all four of the MSU campuses. Each campus calculates and awards individual student financial aid awards based on the institution's COA and the individual's expected family contribution. Although each campus uses slightly different methodology, the financial aid director at each campus creates the COA using historical costs, known or estimated tuition and fee increases, averages of meal plans and local rents, as well as consumer price index increases. A different COA is calculated for the different enrollment categories such as: resident vs nonresident, off campus vs on campus, graduate, undergraduate, and full-time vs $\frac{3}{4}$ time vs $\frac{1}{2}$ time.

Effect: Deficiencies in internal control increase the risk the university may not identify non-compliance in a timely manner. The large number of COAs at each campus increases the risk that not all errors in the COA would be identified on a timely basis and may cause students' Student Financial Assistance amounts to be incorrect.

Cause: University staff indicated they believe their practice is sufficient because any large errors would be noticed as they would significantly affect the amount of aid students are awarded.

Recommendation: We recommend each campus of Montana State University document their internal controls over the calculation of Cost of Attendance.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-026: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.264, 93.364, 93.925, Student Financial Assistance Programs
Cluster
Grant # Not Applicable

Criteria: Federal regulation, 34 CFR 674.19(e)(4)(iii), requires an institution to return the original or a true and exact copy of the note marked “paid in full” to the borrower, or otherwise notify the borrower in writing that the loan is paid in full and retain a copy for the prescribed period, after the loan obligation is satisfied.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Montana State University (MSU) Northern did not send paid in full letters to Perkins Loan borrowers when the loan obligation was satisfied, contrary to federal regulations.

Questioned Costs: None.

Context: The MSU Bozeman, MSU Billings, and MSU Northern campuses participate in the Perkins Loan program. While new loans are no longer made under the program, the three campuses are still servicing loans. They each contract with a third-party service provider to perform some of the services and federal record retention requirements of these loans.

We tested a sample of 71 of the approximate 3,500 borrowers with paid in full, cancelled, or assigned loans status, divided proportionately between the three campuses. This was not a statistically valid sample. We tested a total of 17 borrowers at MSU Northern and found none of them received the paid in full letters. Of the three campuses, MSU Northern is the only campus where we found noncompliance with this requirement.

Effect: MSU Northern is not in compliance with federal regulations for the Student Financial Assistance cluster. Such noncompliance could result in inaccurate loan records of whether a loan is still active or fully paid off.

Cause: MSU Northern staff indicated they thought the service provider was responsible for the letters. While a contract could not be located to support this, compliance with federal regulations is ultimately the responsibility of the university.

Recommendation: We recommend that MSU Northern:

- A. Develop internal controls to ensure paid in full notifications are sent when a borrower's loan obligation is satisfied.
- B. Send "paid in full" letters to borrowers after the loan obligation is satisfied in accordance with federal Perkins loan requirements.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-027: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.342, Student Financial Assistance Programs Cluster
Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: We found that the University of Montana (university) campuses UM Missoula, UM Western, and Helena College do not have internal controls in place to ensure review and approval of the cost of attendance (COA) calculations by someone not involved in the process of creating it. Helena College has a process in place to provide the calculations to various other campus staff for review, but their review is not documented and thus untestable. Montana Tech did not have these controls in place for fiscal year 2020, but controls were put in place and documented beginning in fiscal year 2021.

Questioned Costs: None.

Context: The financial aid director at each campus calculates and awards individual students financial aid based on the COA at the institution and the individual's expected family contribution. The COA is, generally, the total of: tuition and fees; an allowance for books, supplies, transportation and miscellaneous personal expenses; an allowance for room and board; where applicable, allowances for costs for dependent care; costs associated with study abroad and cooperative education; costs related to disabilities; and fees charged for student loans. Although each campus uses slightly different methodology, they each create the COA using historical costs, known or estimated tuition and fee increases, averages of meal plans and local rents, as well as consumer price index increases.

A different COA is created for the different categories of students: resident vs. nonresident, off campus vs. on campus, graduate, undergraduate, and full-time vs. $\frac{3}{4}$ time vs. $\frac{1}{2}$ time. The number of yearly COAs calculated by each campus range from 76 to 294.

Effect: Without a review and approval process, there is risk the COA calculation may contain errors and/or may not be adequately supported and cause students to be awarded an incorrect amount of financial aid. As part of testing, we identified that UM Western did not have support for three and four of the five elements of the report in the COA calculations for academic years 2019-20 and 2020-21, respectively. Additionally, the total COAs published on the campus website were \$1,020 less than the COA calculated by the campus on the spreadsheets provided to us as part of the audit.

Cause: Some university staff indicated their current practice is sufficient because any large errors would be noticed as they would significantly affect the amount of aid students are awarded.

Recommendation: We recommend:

- A. UM Missoula, UM Western, and Helena College implement internal controls as required by federal regulations to ensure the COA calculations are accurate and supported.
- B. MT Tech continue to implement and document their review process over the COA.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-028: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.342, Student Financial Assistance Programs Cluster
Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 34 CFR 668.22(c)(1) outlines how an institution determines a student's withdrawal date for the purposes of calculating the amount of the term attended by the student.

Federal regulation, 34 CFR 668.22(c)(4) requires an institution to document a student's withdrawal date and maintain the documentation as the date of the institution's determination that a student withdrew.

Federal regulations, 34 CFR 668.22(g)(1) and (2) require an institution to return the lesser of the total amount of unearned Title IV assistance or an amount equal to the total institutional charges incurred by the student for the period multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student, and requires the institutional charges incurred by the student used in the calculation only be tuition, fees, room and board and other educationally-related expenses assessed by the institution.

Federal regulation, 34 CFR 668.22(j)(1) requires an institution return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew.

Condition: We identified material weakness in internal controls for multiple instances where the University of Montana (university) campuses UM Missoula and UM Western did not comply with the federal regulations for calculating and timely returning unearned student financial aid.

Questioned Costs: There are \$5,588 of known questioned costs but likely questioned costs are projected to exceed \$25,000.

Context: The university calculates and awards individual student's financial aid based on the cost of attendance at the institution and the individual's expected family contribution. The cost of attendance used to award the aid is based on the student's enrollment at the beginning of each term. If a student drops any courses or fully withdraws from the university, their aid must be adjusted. If a student fully withdraws, either by officially notifying the university or simply no longer attending classes, federal regulations require each campus to calculate the amount of aid the student earned for the time they attended. If a student attended less than 60 percent of the calendar days in a term, they did not earn the full amount of their initially disbursed financial aid, and federal regulations require the unearned funds be returned to the federal government. We tested a sample of 54 of the 3,849 students who received aid and subsequently withdrew during the audit period. This sample was not statistically valid.

UM Missoula: The campus's process is for one staff member in Student Accounts to complete the calculation of the aid to be returned. If the calculation indicates a portion of the student's aid must be returned, a second staff member in Student Accounts reviews and approves the calculation. If the calculation indicates no aid must be returned, this review and approval does not occur. After Student Accounts staff complete the calculation, Financial Aid staff are responsible for adjusting the student's Banner account and Business Services staff are responsible for returning the funds to the Department of Education (ED). Based on our review of the campus's processes and the results of our sample testing, we identified the following areas of internal control deficiencies and noncompliance:

- For instances where the initial return calculation indicates the student has attended at least 60 percent of the semester, and thus earned 100 percent of their aid, the campus does not have controls in place to verify the accuracy of the calculation. We tested 18 students whom staff determined had attended 60 percent or more of the semester and did not identify any instances where the determination was incorrect. While we did not identify any resulting noncompliance for these students, the university should have a process in place to verify the initial calculations as an error at this stage could result in the campus not returning federal funds as required.
- For three students reviewed in the sample, the university's controls did not ensure the calculation of funds to return was correct. For these instances, staff used an incorrect withdrawal date to determine how much of the semester the students attended, and the review process did not identify the errors.
- The campus also does not have sufficient internal controls to ensure the aid is returned to ED timely once it has been calculated. We identified one instance where the campus completed the return 96 days after the student notified the campus of their withdrawal instead of within the 45 days required. We also identified two instances where the campus did not complete the return process once the amount had been calculated.

UM Western: The campus does not have sufficient internal controls to ensure the amount of aid to be returned was calculated correctly. Staff use a calculation form on the Common Origination and Disbursement (COD) system to determine the amount of funds to be returned. The entire process is completed by a single staff member, without review and approval by another staff person. We identified the following errors in the calculations, indicating internal controls should be enhanced:

- We identified one instance where the campus used an incorrect tuition amount in the calculation and thus miscalculated the amount of aid to be returned by \$75.13. However, the campus ultimately returned the correct amount.
- We identified one instance where the campus used an incorrect withdrawal date in the calculation. However, the campus ultimately returned the correct amount.
- We also identified one instance where the campus was unable to provide support for a student's last day of attendance. As such, we were unable to determine whether the amount of funds returned was appropriate.

Effect: The university is not in compliance with federal regulations for the Student Financial Assistance programs. Additionally, without maintaining supporting documentation for key items in the calculation, such as the last date of attendance, the campus cannot demonstrate compliance with federal regulations.

Cause: UM Missoula staff stated they stop the return process once they have determined a student has attended at least 60 percent of the semester, so these items never make it to the review portion of the process discussed above. Additionally, campus staff believe the items above were the result of an employee not completing assigned job duties who was ultimately relieved of those duties. The employee worked in the position from December 2019 through early January 2021.

UM Western staff believed the use of the COD form to complete the calculation was sufficient internal controls to ensure the calculation is correct.

Recommendation: We recommend:

- A. UM Missoula enhance internal controls to ensure the amount of financial aid to be returned is calculated correctly and the aid is returned to ED timely.
- B. UM Western implement internal controls to ensure the amount of financial aid to be returned is calculated correctly and supporting documentation is maintained.
- C. UM Missoula and UM Western comply with the federal requirements governing the return of Title IV funds process.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-029: U.S. Department of Education
 ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
 Assistance Programs Cluster
 Grant # Not Applicable

U.S. Department of Health and Human Services
 ALN # 93.342, Student Financial Assistance Programs Cluster
 Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303(a) requires non-Federal entities 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 685.309(b) requires schools participating in the Direct Loan program to complete an enrollment reporting process outlined by the Secretary of Education.

Federal regulation, 34 CFR 690.83(b)(2) requires institutions participating in the Pell grant program to submit reports and information required by the Secretary of Education in accordance with established deadlines.

The National Student Loan Data System Reporting Guide, Section 5.1, issued November 2020, requires schools to certify enrollment data at least every 60 days by receiving the Roster file, responding within 15 days and correcting errors within 10 days.

Condition: To assist the Department of Education (ED) in administering the Pell Grant and Direct Loan Programs, each campus is required to complete student enrollment reporting throughout the year. Student enrollment information is housed in a central, federal database by ED: the National Student Loan Data System (NSLDS). Periodically, NSLDS provides a roster file of enrollment information for students who received Pell grants or Direct Loans to the campuses. Each campus must review, update, and verify student enrollment statuses, program information, and effective dates within 15 days of receiving the file. The University of Montana campus UM Missoula did not complete the required enrollment reporting for over 200 students receiving student financial aid, in violation of federal regulations. Given the number of students and range of grade levels affected, this is a material weakness in internal controls.

Questioned Costs: None.

Context: Although ultimately responsible for the reporting, all of the campuses use a third-party organization, the National Student Clearinghouse (clearinghouse), to complete the reporting.

Campus staff extract the current enrollment information from Banner via standard reports and review it for errors and students who should not be included. Staff then send the report to the clearinghouse, who matches it up to the roster file provided by ED and sends it back to NSLDS. If errors or inconsistencies are identified by NSLDS, they provide an error file that must be corrected and resubmitted within 10 days.

As part of our testing, we completed a sample of 69 students across the University of Montana's (university) four campuses, who received Pell grants or Direct Loans during the audit period across all campuses. Of the sampled students, 37 were at UM Missoula. This sample was not statistically valid and identified errors in the enrollment reporting for two students at UM Missoula. Through follow-up testing, we identified deficiencies in UM Missoula's enrollment reporting process and significant noncompliance with the federal reporting requirements, as outlined below:

- **Dual Enrollment Students:** Eligible Montana high school students can take college courses for credit for free or at a reduced cost at any campus in the Montana University System. At UM Missoula, these students are identified in Banner using a specific attribute code. As part of the enrollment reporting process, staff filter out students with the dual enrollment attribute code as they are not eligible to receive federal financial aid and are thus not entered in NSLDS. During our testing, we determined the dual enrollment code was not being updated in Banner for students who became regularly enrolled after participating in the dual enrollment program. There were 147 students with this inaccurate code ranging from freshmen to doctoral students. Of these students, 28 received Pell grants or Direct Loans during the audit period, and thus should have been included in the enrollment reporting to NSLDS. Given the range of grade levels affected, this is a systemic internal control deficiency.
- **Missing Social Security Numbers (SSN):** Students are not required to provide SSNs as part of the admissions application process. Providing SSNs is, however, required to receive federal financial aid and SSNs are provided as part of the student's Free Application for Federal Student Aid (FAFSA) application process. When a student provides the SSN as part of the FAFSA but not the admissions application, their SSN is only housed in the financial aid Banner data. As of spring semester 2021, there were approximately 1,400 students enrolled at UM Missoula who had not provided their SSN as part of the enrollment application. When staff run the extract process for the enrollment reporting, the financial aid data is not included as the reporting is specific to enrollment data. Student's SSNs are used only as an identifier to match campus student records to the NSLDS student records. The SSNs themselves are not required to be reported to NSLDS. As a result, these students with no SSNs in the enrollment Banner data are flagged by the clearinghouse and returned to campus staff as potential errors or students who do not need to be reported. Because the errors are not resolved, these students are not reported to NSLDS by the clearinghouse. Of the 1,400 students with no enrollment SSN, 173 received Pell grants or Direct Loans during the audit period, and thus should have been included in the enrollment reporting to NSLDS.

Effect: By not reporting these 201 students, UM Missoula is not in compliance with the federal requirements and is at risk of being fined by ED for their administration of the Pell Grant program. Additionally, it is like they are not enrolled at all from ED's perspective.

Cause: During our testing, we determined the dual enrollment attribute code was not being updated in Banner for students who became regularly enrolled after participating in the dual enrollment program. For the missing SSNs, UM Missoula staff do not resolve these errors when they are flagged by the clearinghouse because it is not required to be reported to NSLDS and they want to instead focus their time on resolving errors in the information that is required to be reported.

Recommendation: We recommend UM Missoula improve internal controls to ensure all required students are reported to NSLDS and comply with the federal requirements governing the enrollment reporting process.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-030: U.S. Department of Education
ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services
ALN # 93.342, Student Financial Assistance Programs Cluster
Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 34 CFR 685.300(b)(5), requires institutions to reconcile institutional records with Direct Loan funds received from the Secretary and the disbursement records submitted to and accepted by the Secretary on a monthly basis.

Federal regulation, 34 CFR 668.24(c)(1)(vi), requires institutions to maintain records for the reports and forms used in its participation in a title IV, HEA program, and any records needed to verify data that appear in those reports and forms.

Federal regulation, 34 CFR 668.24(e)(2)(ii), requires institutions to keep records relating to its participation in the FFEL or Direct Loan Program, including records of any other reports or forms, for three years after the end of the award year in which the records are submitted.

Condition: The University of Montana (university) did not complete all federally required monthly reconciliations for the Direct Loan Program during the audit period. The university's controls over these monthly reconciliations are not sufficient to ensure the required monthly Direct Loan reconciliations are completed, accurate, and any differences are followed up on in compliance with the federal regulations.

Questioned Costs: None.

Context: Campuses calculate and award individual students Direct Loan awards based on the cost of attendance (COA) at the institution and the individual's expected family contribution. Once accepted, these loans are applied to the students' bills and any excess is disbursed directly to students. The university is then required to report these disbursements to the Department of Education (ED) via the Common Origination and Disbursement (COD) System within 15 days of applying to the students' accounts. Each month, the COD system provides institutions with

School Account Statement (SAS) data files consisting of financial information related to the Direct Loan disbursements. Institutions are required to reconcile these files to their financial records monthly.

We completed a sample of three reconciliations at each campus. This sample was not statistically valid. We identified the following:

- **UM Missoula:** The campus was missing reconciliations for five of the 24 months in fiscal years 2020 and 2021. The campus maintained some supporting documentation for the reconciliations, but not enough to fully tie them back to support for the three reconciliations we sampled. UM Missoula also had a difference of \$910 noted on the reconciliation from January through June 2021 with no documentation of any follow-up being performed. Because a reconciliation process involves both comparing amounts and then following up on any differences, when unresolved differences exist it indicates the campus did not fully complete the process.
- **UM Western:** The campus did not complete any of the required monthly reconciliations during fiscal years 2020 and 2021.
- **MT Tech:** The campus did not complete the June 2021 monthly reconciliation and did not have supporting documentation for the other 23 reconciliations completed during fiscal years 2020 and 2021. The campus also had a difference of \$982 noted on the reconciliations for February, March, and April of 2020. As noted earlier, when unresolved differences exist it indicates the campus did not fully complete the process.
- **Helena College:** The campus did not complete any of the required monthly reconciliations during fiscal years 2020 and 2021.

Effect: By not completing the required monthly reconciliations and maintaining the supporting documents, the university has violated one of the requirements in their program participation agreements with ED and is not in compliance with federal regulations for the Student Financial Assistance program.

Cause: Some university officials indicated that due to limited staff resources, the reconciliations are not always a priority; instead, they focus on activities directly impacting students. Additionally, for UM Missoula, the campus staff stated the staff member responsible for these reconciliations retired and thus they were unsure why the differences were not followed up on and where any remaining supporting documentation was located. UM Western campus staff stated they were not aware they needed to complete these monthly reconciliations. MT Tech campus staff indicated the difference was due to a computer issue and they worked closely with their software provider to investigate and resolve the difference. However, as the work was not documented, we were unable to confirm. The campus staff further stated that the June 2021 reconciliation might not have been saved because no differences were identified. However, in our testing, we observed other monthly reconciliations with no differences saved during the audit period. Helena College campus staff stated the previous employee responsible for these reconciliations left abruptly in January 2020 and did not leave behind any documentation of processes or completed reconciliations. The current staff is developing a process to complete the reconciliations in the future.

Recommendation: We recommend UM Missoula, UM Western, Helena College, and MT Tech:

- A. Implement internal controls to ensure the required monthly Direct Loan reconciliations are completed, accurate, supported, and any differences are followed up on in compliance with the federal regulations, and
- B. Comply with federal requirements governing the Direct Loan Program by reconciling the SAS data files monthly.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-031: U.S. Department of Education

ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
 Assistance Programs Cluster
 Grant # Not Applicable

U.S. Department of Health and Human Services

ALN # 93.342, Student Financial Assistance Programs Cluster
 Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 34 CFR 674.19(d)(2), requires, for the Federal Perkins Loan Program, institutions to submit the Fiscal Operations Report and other information required by the Secretary and to insure the information reported is accurate.

Federal regulation, 34 CFR 675.19(b)(3), requires, for the Federal Work-Study Program, institutions to submit the Fiscal Operations Report and other information required by the Secretary and to insure the information reported is accurate.

Federal regulation, 34 CFR 676.19(b)(3), requires, for the Federal Supplemental Educational Opportunity Grant Program, institutions to submit the Fiscal Operations Report and other information required by the Secretary and to insure the information reported is accurate.

Federal regulation, 34 CFR 668.24(e)(1)(i), requires institutions to keep the Fiscal Operations Report and Application to Participate (FISAP) in the Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant Programs (FSEOG) and any records necessary to support the data contained in the FISAP for three years after the end of the award year in which the FISAP was submitted.

Condition: Internal controls over completing the Fiscal Operations Report and Application to Participate (FISAP) reports were insufficient to ensure the reports submitted were complete and accurate at the University of Montana (university) campuses UM Western and Helena College, as required by federal regulations.

Questioned Costs: None.

Context: Each campus is required to complete the FISAP yearly for its campus-based programs. The institution uses the Fiscal Operations Report portion of the FISAP to report its expenditures and students served in the previous award year and the Application to Participate portion of the FISAP to apply for funding for the following year.

As outlined in the table below, our testing identified instances of incorrect or unsupported line items in the FISAP reports reviewed.

Instances of Incorrect or Unsupported Line Items

Campus	Incorrect	Unsupported
UM Western	8	12
Helena College	0	138

Effect: By not accurately completing and keeping the required support for the FISAP reports, the campuses have violated one of the requirements in their program participation agreements with the U.S. Department of Education and are not in compliance with the federal regulations for the Student Financial Assistance program.

Cause: Helena College staff stated they were not aware they needed to keep the supporting documents for these reports. UM Western staff stated the report preparation process was manual and prone to mistakes and other counting errors.

Recommendation: We recommend UM Western and Helena College:

- A. Implement internal controls to ensure the Fiscal Operations Report and Application to Participate (FISAP) reports submitted are accurate and supported in compliance with the federal regulations, and
- B. Comply with federal requirements governing the Federal Perkins Loan, the Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs by accurately completing the FISAP reports and maintaining the required supporting documentation.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-032: U.S. Department of Education
 ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
 Assistance Programs Cluster
 Grant # Not Applicable

U.S. Department of Health and Human Services
 ALN # 93.342, Student Financial Assistance Programs Cluster
 Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 34 CFR 674.19(e)(3)(ii) requires an institution to retain repayment records, including cancellation and deferment requests for at least three years from the date on which a loan is assigned to the Secretary, canceled or repaid.

Federal regulation, 34 CFR 674.19(e)(4) requires an institution to keep the original promissory notes and repayment schedules until the loans are satisfied.

Federal regulation, 34 CFR 674.19(e)(4)(iii) requires after the loan obligation is satisfied, an institution to return the original or a true and exact copy of the note marked “paid in full to the borrower, or otherwise notify the borrower in writing that the loan is paid in full, and retain a copy for the prescribed period.”

Condition: University of Montana (university) campuses UM Missoula, UM Western, and MT Tech participate in the Perkins Loan Program. While new loans are no longer made under the program, the three campuses still service outstanding loans. Our testing identified multiple instances where the campuses did not comply with federal regulations to retain cancellation and deferment requests, repayment schedules, and notification to the borrower the loan obligation is paid in full.

Questioned Costs: None.

Context: We tested a sample of 65 borrowers with loans in repayment or deferment status out of a population of 2,196 and a sample of 61 borrowers with paid in full, canceled, or assigned loans status out of a population of 1,127. Neither sample was statistically valid. We identified significant noncompliance and systemic internal control issues related to retaining records as described below:

- **UM Missoula:** We identified 22 loans where the campus was unable to provide documentation that the written “paid in full” notification was sent. Per Student Accounts staff, they stopped sending the notification in January 2021 due to limited staffing resources due to the COVID pandemic and instead focused on higher priority work. Fourteen of the loans we identified fell after this decision. However, the remaining eight occurred before and staff indicated the notifications were sent but they were unable to find them during our testing.
- **UM Western:** We identified four loans where the campus was unable to provide cancellation or deferment requests and three loans where they could not provide documentation that the written “paid in full” notification was sent.
- **MT Tech:** We identified five loans where the campus was unable to provide the repayment schedule and seven loans where they could not provide documentation that the written “paid in full” notification was sent.

Effect: The UM Missoula, UM Western, and MT Tech campuses are not in compliance with federal requirements related to records retention. Also, by not completing the “paid-in-full” notifications, there is the potential for borrowers to continue paying on satisfied loans, resulting in the university having to issue refunds.

Cause: As noted above, UM Missoula stopped sending the notification in January 2021 due to limited staffing resources due to the COVID pandemic and instead focused on higher priority work. Additionally, for the missing letters prior to this decision, they were not sure why the letters weren’t filed in the student files, but it could be because they are behind with filing and the office is moving.

Both UM Western and MT Tech staff indicated the reason they were unable to provide the necessary documents during our testing was because their third-party servicer completed them. UM Western staff stated they were unable to retrieve them from the servicer’s system. MT Tech staff stated the missing repayment schedules were not transferred when they switched servicers. For the written “paid in full” notifications, the servicer does not keep copies of these letters but rather considers memos on the borrower’s account in their system to suffice as documentation. Additionally, the servicer indicated there were two borrowers who did not have the letters sent at all and they are unsure why. However, as the ultimate responsibility for complying with the federal regulations belongs to the university, this is noncompliance. Additionally, the federal regulations are clear the documents themselves need to be retained, not just an indication in a system that they were completed.

Recommendation: We recommend:

- A. UM Missoula comply with the federal requirements to notify the borrower in writing that the loan is paid in full and retain a copy for the prescribed period.
- B. UM Western comply with the federal requirements to retain cancellation and deferment requests and written notification to the borrower that the loan is paid in full for the prescribed period.
- C. MT Tech comply with the federal requirements to retain repayment schedules and written notification to the borrower that the loan is paid in full for the prescribed period.

- D. UM Missoula, UM Western, and MT Tech implement internal controls to ensure compliance with the record retention requirements for Perkins Loans.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-033: U.S. Department of Education

ALN # 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, Student Financial
Assistance Programs Cluster
Grant # Not Applicable

U.S. Department of Health and Human Services

ALN # 93.342, Student Financial Assistance Programs Cluster
Grant # Not Applicable

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Per the Office of Management and Budget 2021 compliance supplement for the Student Financial Assistance Program Cluster, page 5-3-52, when an institution uses a third party servicer for its Perkins Loan program, the institution must perform due diligence to ensure the third party servicer is in compliance with the requirements for the functions the third party services is performing for the school.

Condition: The campuses do not monitor their Perkins Loan servicer and are in noncompliance with the federal requirement to monitor their Perkins Loan servicer.

Questioned Costs: None.

Context: University of Montana (university) campuses UM Missoula, UM Western, and MT Tech participate in the Perkins Loans Program. While new loans are no longer made under the program, the three campuses still service outstanding loans. Each campus contracts with a third-party to perform some of the servicing and record retention federal requirements for the Perkins Loans they are still servicing, as outlined in the table on the following page:

Contracted Perkins Loans Service by Campus

Key Compliance Requirement	UM Missoula	MT Tech	UM Western
Creating and retaining borrower repayment schedules.		✓	✓
Processing and maintaining borrower repayment records.	✓	✓	✓
Processing and maintaining borrower cancellation and deferment requests.	✓	✓	✓
Providing "paid-in-full" notice to borrowers.		✓	✓

Although contracting with a third-party is allowed, the ultimate responsibility for these requirements still lies with the university. Additionally, the Department of Education requires the campuses to perform due diligence to ensure their servicer is in compliance with the requirements for the pieces it is performing for the school. This due diligence could take many forms, including, but not limited to, the items we've suggested below.

- **Service Organization Controls (SOC) Report review:** A SOC I Type II report is used to evaluate the design and operating effectiveness of the contractor's internal controls over achieving compliance requirements. This report focuses on controls at the service organization that are useful to user entities and their auditors and is an efficient way for the campuses to monitor the loan servicer. The loan servicer does receive a SOC report and makes it available to clients, however none of the campuses currently review it. This leaves them at risk of being unaware of system issues affecting the services it receives and not implementing all of the necessary compensating user entity controls.
- **Compliance Audit Report review:** Some contractors who perform services for federal programs receive a compliance audit.
- **Loan records review:** Campus staff could perform a review of the documentation for a selection of borrowers to ensure all the required items are present.

Effect: By not performing any due diligence over their third-party loan servicer, the university is not only in noncompliance with the requirement to do so, but also was not aware of the noncompliance with the Perkins Loans record retention federal requirements as discussed in recommendation number 2021-032.

Cause: Per campus staff, they were not aware they needed to perform monitoring of their contractor beyond their normal day-to-day contacts.

Recommendation: We recommend UM Missoula, MT Tech, and UM Western implement internal controls to ensure they perform due diligence over their Perkins Loans servicer and comply with the federal requirements governing Perkins Loans.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-034: Various Federal Agencies*
 ALN # Various*, R&D Cluster
 Grant # Not Applicable

Criteria: Federal regulation 2 CFR 200.313(b) requires that a state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures.

Federal regulation 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Montana Operations Manual Policy 335 (V)(A)(1) requires all major equipment be identified in the manner that promotes easy identification and requires property tags be placed in plain sight on the equipment. While state policy does allow some discretion based on the physical nature of some equipment for situations where property tags may not be feasible, it does require that “whenever possible, the tag number will still be identified on the item by some means such as etching, decal, indelible ink, etc.”

Condition: The University of Montana’s (university) internal controls are not sufficient to ensure equipment purchased with federal Research and Development (R&D) funds are tagged as required by federal requirements.

Questioned Costs: None.

Context: During fiscal years 2020 and 2021, the university purchased approximately \$3.5 million of equipment through the R&D Program.

We sampled ten equipment purchases during the audit period out of approximately 111 equipment purchases over \$5,000, to determine whether the assets were tagged and easily identifiable, as required by state policy. This was not a statistically valid sample. For eight of the items selected, there were no property tags or other permanent identification affixed to the assets that corresponded to university property records. As such, the assets were not easily identifiable by state policy, and we were unable to confirm the assets we observed were those purchased by the federal grant funds. For all eight items, we believe tagging or labeling of the assets was feasible. The items not tagged included network servers, weather stations, cameras, and traveling museum equipment with costs ranging from \$5,054 to \$69,347.

While completing this work, we visited the data center used to house network servers and estimate asset tag numbers were present on only 5 percent of installed units. Additionally, while looking for a high-speed camera at a field station, we observed three other high-speed cameras, none of which had asset tags. Both locations contained visibly identical equipment and university personnel struggled or were unable to differentiate them.

Effect: Equipment tagging is necessary to maintain an accurate physical inventory and to facilitate timely identification of lost or missing equipment. In addition, for equipment purchased using federal funds, there are added requirements related to asset disposals. The primary asset disposal requirement is the university must obtain disposition instructions from the federal awarding agency.

Cause: One university personnel responsible for some of the equipment we tested indicated they did not know the process for obtaining asset tags and conceded that although some equipment is difficult to tag without interfering with its function, labeling the equipment is still necessary and possible. We believe the results of our testing indicate university internal controls for tagging of equipment are not adequate.

Recommendation: We recommend UM Missoula implement internal controls to ensure all equipment is tagged and comply with federal requirements governing equipment for the Research and Development Program.

Views of Responsible Officials: The university concurs with this recommendation. For additional information regarding the university's planned corrective action see the Corrective Action Plan starting on page D-1.

* - See Appendix A

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-035: U.S. Department of Education
ALN # 84.010, Title I Grants to Local Educational Agencies
Grant # SO10A190026-19A, GAN_S010A200026-20A

ALN # 84.027, 84.173, Special Education Cluster (IDEA)
Grant # H027A200096, H173A200099, H027A190096, H173A190099

ALN # 84.425D, Education Stabilization Fund Under the Coronavirus
Aid, Relief, and Economic Security Act
Grant # S425D200006 and S425D210006

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.331, requires the Office of Public Instruction (OPI) to do the following in relation to the monitoring of their subawards:

- Clearly identify award information to subrecipients at the time the award is granted.
- Evaluate each subrecipient’s risk of noncompliance to determine the appropriate monitoring.
- Review subrecipients’ audits, including following up on all deficiencies.
- Issue management decisions for any deficiencies identified in subrecipients’ audit reports within six months of the Federal Audit Clearinghouse’s acceptance of the audit report. The regulation also requires OPI to follow 2 CFR 200.521, which requires these management decisions to contain specific elements, including a timetable for follow-up.

This federal regulation was renumbered to 2 CFR 200.332 during the audit period.

Condition: OPI did not perform all required subrecipient monitoring for federal programs selected for testing, so subrecipient monitoring controls should be improved.

Questioned Costs: None.

Context: In our prior audit report, we recommended OPI enhance internal controls related to subrecipient monitoring and comply with subrecipient monitoring requirements for a variety of federal programs. Although OPI implemented new procedures in response to our audit finding, we continued to find control and compliance issues related to subrecipient monitoring requirements, as outlined below.

Subaward Disclosures:

OPI did not ensure required disclosures were made to the subrecipients. Through a statistically valid sample, we tested grant award documents for 35 of 841 local educational agencies (LEAs). We identified missing elements related to grants for Title I, Elementary and Secondary School Emergency Relief (ESSER), and IDEA. Examples of missing elements are clear identification of the award as a subaward, the federal award date, and the identification of whether the award is a research and development program. Since the grant award documents are compiled automatically in OPI's grant system, we expect any missing elements to impact all grant awards.

Risk Assessments:

During fiscal year 2020, personnel reviewed the audits and considered financial findings in their risk assessment process but did not consider federal findings. Improvements were made in fiscal year 2021, because risk of noncompliance was considered in the overall risk assessment process. However, federal program personnel did not always rely on these centralized monitoring activities, so the federal programs were not always considering Federal Single Audit findings when determining appropriate subrecipient monitoring.

As part of our audit, we conducted three separate samples; a statistically valid sample for the IDEA federal award and separate non-statistically valid samples for each the ESSER and Title I federal awards. In our audit procedures, including the samples, we identified the following issues in the fiscal year 2021 risk assessments:

- For Title I and ESSER, OPI did not use the office-wide risk assessments to determine the appropriate monitoring.
 - Subrecipients identified as high risk overall were not necessarily considered high risk by Title I program staff.
 - A post-expenditure monitoring plan has not yet been developed for ESSER. There was a plan during the first round of payments, but OPI determined the plan was not sustainable.
- For IDEA, OPI adjusted their monitoring level for some subrecipients based on increased risk of federal noncompliance but did not document their additional monitoring.
- For ESSER, OPI did not always document the basis for the LEA's risk assessment. This occurred in 11 out of 60 cash draws tested.

Management Decisions:

During fieldwork, we reviewed OPI's management decision letters to determine compliance with these federal regulations.

From our testing:

- We could not always determine when the management decision letters were sent out because the template document automatically updated to the current date. This occurred in 3 of the 44 IDEA LEAs tested and 3 of the 60 ESSER LEAs tested. The IDEA sample was statistically valid with a population of 841. The ESSER sample was not statistically valid and had a population of 898.

- Management decisions did not always contain a timetable for follow-up as required by federal regulations. This occurred in 7 of the 60 ESSER LEAs cash draws tested.

Repeat Finding: Montana’s Single Audit for the two fiscal years ended June 30, 2019, included a recommendation (#2019-032) to OPI to implement internal controls to ensure compliance with federal subrecipient monitoring requirements and to comply with federal subrecipient monitoring requirements.

Effect: Overall, OPI is not in compliance with federal regulations related to subrecipient monitoring. Monitoring is important, because without it:

- OPI may not properly notify subrecipients of applicable federal requirements,
- OPI may not be aware of all risky areas for non-school entities,
- Subrecipients may not understand their responsibilities over the federal grant and may not comply with all federal requirements, and
- Federal money could be misspent.

These compliance issues indicate OPI did not have adequate controls in place over subrecipient monitoring in either fiscal year 2020 or 2021.

Cause: Per OPI staff, they were adjusting their subrecipient monitoring process during fiscal year 2020 and didn’t get the new process put in place until fiscal year 2021. We also believe the subrecipient monitoring compliance issues happened because there is confusion over the new process’s implementation: what elements of subrecipient monitoring are centralized and what elements are completed by federal program staff. The impacts of COVID-19 and implementing the new ESSER federal program also contributed to confusion on how to implement the prior audit recommendation.

Recommendation: We recommend the Office of Public Instruction:

- A. Continue to implement internal controls to ensure compliance with federal subrecipient monitoring requirements by documenting an office-wide subrecipient monitoring plan, and
- B. Comply with federal subrecipient monitoring requirements.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI’s planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-036: U.S. Department of Education
ALN # 84.425D, Education Stabilization Fund Under the Coronavirus
Aid, Relief, and Economic Security Act
Grant # S425D200006 and S425D210006

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Coronavirus Aid, Relief, and Economic Security (CARES) Act section 18003(d) requires Elementary and Secondary School Emergency Relief (ESSER) grant funds be used for pandemic related expenditures. Further, federal regulation 2 CFR 200.439 requires equipment purchases have prior approval from the US Department of Education or the pass-through entity.

Federal regulation, 2 CFR 200.334, requires states retain records for audit purposes.

Condition: We found the Office of Public Instruction (OPI) did not require sufficient documentation to ensure subrecipients were complying with federal program requirements.

Questioned Costs: We question the unsupported cash requests totaling \$460,154. We believe additional questioned costs may exist.

Context: We tested a random sample of 60 ESSER payments to local educational agencies (LEAs). This was not a statistically valid sample. The population was 898 cash requests. We identified the following issues in the testing:

- Twelve application budgets had insufficient detail to support how funds would be spent on allowable purchases under the subaward. The budgets included salaries, benefits, transportation, and supplies. These descriptions are not specific enough for OPI to determine whether the spending is allowable under ESSER requirements.
- OPI used spreadsheets to calculate ESSER allocations by LEA based on Title I distributions and other factors determined by OPI. We compared the allocations on the spreadsheet to the actual amount in OPI's grant system to see if LEAs received the intended amount. We found 15 differences for a net amount of \$121. No documentation exists on the reasons for the adjustments. Staff noted the person who adjusted the calculation no longer works for OPI.
- Sixteen cash requests, totaling \$460,154, either contained insufficient detail to demonstrate the funds were spent in accordance with ESSER regulations, or could not be tied back to the approved budgets. The requests included broad categories such as

salaries, benefits, and supplies, or a teacher's name without detail in the budget or cash request to demonstrate how the teacher's salary or benefits related to the coronavirus pandemic. Additionally, one equipment line had a budget of "transportation" without the detail of what would be purchased, but the cash request was for a bus totaling \$25,000. Equipment purchases over \$5,000 are required to have prior approval. Thus, we considered the purchase unallowable.

OPI started requiring more documentation in their cash requests for the second and third allocations of ESSER funds. OPI has the opportunity to finalize their post expenditure monitoring plan in addition to reviewing cash requests. This is important as most of the spending is happening in the future.

Effect: The lack of effective internal controls resulted in OPI's inability to detect and prevent noncompliance for fiscal years 2020 and 2021 for subrecipient activity. LEAs may have spent ESSER funds on items not allowed by federal requirements.

Cause: Per OPI staff, this issue occurred because the federal government had not finalized program requirements when they issued the first round of money. We agree federal ESSER program requirements changed, but the requirement to have controls to provide reasonable assurance LEAs comply with federal requirements is not new. OPI needs more information to meet their monitoring responsibilities, no matter how ESSER requirements change. In addition, there were two different ESSER program managers in place during the audit period and the position was a vacant position during our fieldwork. We believe this contributed to difficulties running the ESSER program.

Recommendation: We recommend the Office of Public Instruction:

- A. Strengthen internal controls to ensure ESSER subrecipient grant expenditures are allowable under the program.
- B. Review and evaluate ESSER subrecipients budgets and cash requests and, where appropriate, obtain additional support or recoup improperly spent funds.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-037: U.S. Department of Education
ALN # 84.425D, Education Stabilization Fund Under the Coronavirus
Aid, Relief, and Economic Security Act
Grant # S425D200006, Educational Stabilization Fund Program.

Criteria: Federal regulation, 2 CFR 200.328 and 329(a) and (b), requires the non-Federal entity report financial and performance information as required by the terms and conditions of the Federal award.

Assertion L, Annual Reporting of the compliance supplement for Elementary and Secondary School Emergency Relief (ESSER) funds lays out the required reporting elements as:

- Overall ESSER I and ESSER II Fund Grant for state education agency (SEA);
- SEA Reserve (up to 10 percent of total allocation);
- Mandatory Subgrants to local educational agencies (LEAs), Section 18003(c) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Section 313(c) of the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (at least 90 percent of the ESSER Fund grant);
- Student Participation and Engagement; and
- Full-Time Equivalent (FTE) Positions

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Office of Public Instruction's (OPI) internal controls were ineffective in detecting and preventing noncompliance for fiscal year 2021, when the report ESSER annual report was submitted.

Questioned Costs: None.

Context: The Federal Department of Education required annual reporting of the use of ESSER expenses starting in fiscal year 2021. OPI gathered most of the information in the report by surveying LEAs. They used their grant tracking system for information on total expenditures. OPI submitted the ESSER report twice, and we found the following errors in the required elements in the updated ESSER report:

- OPI reported overall dollar amounts of ESSER I and ESSER II funds granted to OPI and reserves (up to 10 percent of total allocation), but they did not include how the “reserve” was awarded or expended as required.
- Amounts subgranted to LEAs were inaccurate. At least \$1.5 million in subgrants were unreported.
- ESSER I expenditures are not consistent in the report. The total expenditures disbursed to LEAs is \$2.7 million through September 3, 2020, but the detail of how the expenditures were spent as reported by LEAs total \$5.8 million. The dollar amounts should match.
- FTE positions were inaccurately reported (there were 48 LEAs with no reported FTE).

Effect: Because of the number of errors found, we determined OPI’s internal controls were ineffective in detecting and preventing noncompliance for fiscal year 2021, when the report was submitted.

Cause: According to OPI personnel, OPI had difficulties reporting ESSER information accurately, because the required data elements were unclear or changed several times right up to the reporting deadline.

Due to the fluid requirements, it was difficult for OPI to obtain information from the school districts. OPI surveyed school districts to obtain some information, but some schools reported inaccurate information. We agree that the changes in requirements made reporting difficult, but OPI should consider using their grants or accounting systems when possible going forward.

Recommendation: We recommend the Office of Public Instruction:

- A. Enhance internal controls to ensure ESSER annual reports are accurate and supported.
- B. Correct and resubmit the ESSER annual report.
- C. Ensure ESSER annual reports include all required data elements and those elements are fully supported as required by federal regulations.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI’s planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-038: U.S. Department of Education
ALN # 84.425D, Education Stabilization Fund Under the Coronavirus
Aid, Relief, and Economic Security Act
Grant # S425D200006

ALN # 84.010, Title I Grants to Local Educational Agencies
Grant # S010A200026

Criteria: Federal regulation, 2 CFR 170 Appendix A(I)(a)(2)(ii), requires the subaward to be reported no later than the end of the month following the month in which the obligation was made.

Federal regulation, 2 CFR 170.220(b), requires any subaward equal to or exceeding \$30,000 to be reported.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Office of Public Instruction (OPI) had no internal controls to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements for Elementary and Secondary School Emergency Relief (ESSER) I and Title I subawards.

Questioned Costs: None.

Context: Through nonstatistical sampling, we tested five ESSER subawards and five Title I subawards for the June 30, 2021, FFATA reporting, and all ESSER subawards were inaccurate because OPI reported the amount expended, not the amount awarded. We did not find errors for Title I reporting.

We found the following compliance issues with the FFATA reporting for ESSER:

- OPI reported expenditures spent at the local educational agency (LEA) level instead of on the amount of the subaward during fiscal year 2020 and 2021, causing the report to be inaccurate for most subawards.
- Some subawards were not reported as required, because their expenses had not reached the reporting threshold but their subaward amount was large enough to be reported.

We communicated this issue during the design of our audit, and OPI revised the FFATA reports, but the revisions did not occur during our audit period.

The required FFATA summary information is included below.

Transactions Tested	Subaward Not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
5	2	5	3	0
Dollar Amount of Tested Transactions	Subaward Not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$925,846.45	\$423,485.93	\$925,846.45	\$315,373.52	0

Effect: Staff misinterpreting of FFATA reporting requirements resulted in OPI's inability to detect and prevent noncompliance for ESSER I. While we did not find errors for Title I FFATA reporting, errors can occur without a secondary review.

Cause: The general OPI expectation requires a secondary review of all reports, but this requirement was not part of the FFATA desk manual, so it did not occur.

Recommendation: We recommend the Office of Public Instruction:

- A. Establish internal controls to ensure Federal Funding Accountability and Transparency Act (FFATA) reports are submitted, supported and timely.
- B. Review the ESSER I FFATA reports previously submitted and ensure all subawards over \$30,000 have been reported using the subaward amount.
- C. Comply with reporting requirements for the FFATA.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-039: U.S. Department of Agriculture
ALN # 10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant # 193MT306N1099, 203MT306N1099, 213MT306N1099,
213MT306N1199

Criteria: Federal regulation, 7 CFR 250.12(b), requires the Office of Public Instruction (OPI) to, on an annual basis, conduct a physical review of donated food inventories at all storage facilities used by the distributing agency (or by a subrecipient distributing agency), and must reconcile physical and book inventories of donated foods. The distributing agency must report donated food losses to Food and Nutrition Service (FNS) and ensure that restitution is made for such losses.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: OPI personnel stated they did not complete a physical inventory in fiscal year 2020. In fiscal year 2021, OPI completed a physical inventory and a reconciliation between the physical count and OPI's food tracking system. However, OPI's reconciliation documentation was inaccurate. We noted two discrepancies OPI did not identify, and OPI documented a difference that did not exist when we compared OPI's records to the count. The differences we noted above indicate controls are not adequate over the inventory process and OPI has not complied with inventory requirements in fiscal years 2020 and 2021.

Questioned Costs: None.

Context: We noted a 540-item difference in the peanut butter count vs. OPI's tracking system and another small difference. There were no differences when we compared OPI's tracking system to the warehouse's documentation, indicating OPI's physical count was likely incorrect and the food was not missing. If they completed a reconciliation to OPI records, we would expect them to notice the differences and follow up to determine if the count was inaccurate. Our audit tests did not include sampling procedures.

As part of our consideration of the cause of the control issues, we noted the staff member in charge of ordering inventory is also responsible for entering the inventory in the Montana Agreement and Payment System (MAPS) and taking the physical inventory count at fiscal year-end. We generally expect controls to involve more than one person because someone doing the entire process puts them in a position where errors or irregularities may not be detected. Updated control procedures need to address this segregation of duties issue.

Effect: The differences we identified indicate either missing food, inaccurate inventory, or inaccurate OPI records in fiscal year 2021. We could not determine if there were similar differences in fiscal year 2020 because OPI records were not available compared to warehouse records. As explained above, the most likely issue is inaccurate inventory counts.

Cause: OPI personnel stated they did not complete a physical inventory in fiscal year 2020 because of the COVID-19 pandemic, but noted the Montana Department of Public Health and Human Services warehouse personnel did complete an inventory. OPI received an email from the federal government saying another state agency can complete inventory during the pandemic but encouraged OPI to participate via video. OPI did not participate via video, and no documentation of the inventory count reconciliation to OPI records was maintained. Without a reconciliation, no assurance is provided over the completeness and accuracy of OPI records.

Recommendation: We recommend the Office of Public Instruction:

- A. Establish internal control procedures, including segregating duties, to ensure an annual physical inventory is completed, and the inventory is reconciled to office and warehouse records.
- B. Comply with federal regulations to complete and document a physical inventory and reconciliation to records for donated foods for the Child Nutrition Cluster.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-040: U.S. Department of Agriculture
ALN # 10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant # 193MT306N1099, 203MT306N1099, 213MT306N1099,
213MT306N1199

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Controls over testing the information system used to calculate payments for the Child Nutrition program are not adequate.

Questioned Costs: None.

Context: We asked the Office of Public Instruction (OPI) about internal controls to test the Montana Agreement and Payment System's (MAPS) calculation of the Child Nutrition payments. Staff reported completing testing regularly, but testing is not always documented. The contractor that maintains MAPS received a System and Organization Controls (SOC) 2 report, but OPI did not obtain and review the report until our inquiry.

Effect: Without assurance over the system via an outside audit of the system or internal testing of the system, MAPS can have issues OPI is not aware of, leading to incorrect payments and unallowable federal costs. OPI is responsible for calculating the applicable meals times rates formula and sending the correct payments to subrecipients.

Cause: OPI was not aware they should be requesting and reviewing SOC reports, and they believe the system does not need to be tested unless there are changes to the system. We believe regular system testing is important because the contractor could make changes to the system OPI is not aware of. In addition, staff indicated testing the updated rates was likely a regular part of OPI's process. Still, they did not consider it necessary to document their testing unless there was a major change to the system.

Recommendation: We recommend the Office of Public Instruction document internal control procedures over the Montana Agreement and Payment System's calculation of Child Nutrition payments to schools to ensure payments recorded in the state's accounting records and sent to subrecipients are correctly calculated.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-041: U.S. Department of Education
ALN # 84.027 and 84.173, Special Education Cluster (IDEA)
Grant # H027A200096, H173A200099, H027A190096, H173A19009

Criteria: Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

The Office of Public Instruction (OPI) policies require reviewing allocation increases/decreases greater than 10% as well as written approval via e-mail and a copy of the signed allocation spreadsheet.

Federal regulation, 34 CFR 300.163, says the State must not reduce the amount of State financial support for special education and related services for children with disabilities below the amount of support for the preceding year.

Federal regulation, 2 CFR 200.1, defines period of performance as the total estimated time between the start of an initial Federal award and the planned end date.

Condition: OPI should strengthen internal controls related to IDEA allocations, state maintenance of effort, and period of performance.

Questioned Costs: None

Context: Most of the money spent on the IDEA program is subgranted to Local Education Agencies (LEAs). Therefore, OPI is responsible for calculating and distributing the correct funding to each school. OPI uses an allocation spreadsheet for both the general Grants to States, IDEA Part B grant, and the preschool grant every fiscal year. We reviewed the four spreadsheets for fiscal years 2020 and 2021. OPI did not always follow their own distribution policies during the audit period:

- Review of differences between years greater than 10 percent by LEA and following up on unexpected differences did not occur in fiscal year 2020 and 2021.
- Approval by a secondary reviewer of the allocations was not documented in fiscal year 2021.

OPI did not have a control in place to ensure the maintenance of effort requirement was met. OPI has a spreadsheet it uses to ensure the amount appropriated is sufficient, but they do not compare actual money spent by the state on special education to money spent the previous year.

OPI uses a reconciliation process comparing the state's accounting system to the OPI's grant system to track the period of performance. We completed a sample of the 24 monthly reconciliations and found two instances out of five tested where numbers on the reconciliations were not supported. This was not a statistically valid sample. We completed additional testing and did not identify any instances of spending outside the allowed time period.

Effect: We found no allocation errors, but errors can occur when internal controls aren't followed. Also, noncompliance with federal activities allowed, allowable costs, maintenance of effort, and period of performance requirements could occur if controls are not in place and working as intended.

Cause: OPI staff stated the control issues were a result of staffing changes, lack of documentation, allocations being finalized amid COVID, and not having staff cross-trained to fill in for a staff member on leave. Having a plan on who can cover important controls prior to turnover or emergencies can help prevent this situation from occurring.

Recommendation: We recommend the Office of Public Instruction:

- A. Follow OPI policy related to allocation of grant funds,
- B. Improve controls over period of performance by including cross training for monthly reconciliations, and
- C. Improve controls related to state maintenance of effort by reviewing actual state expenditures to ensure compliance with federal regulations.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-042: U.S. Department of Education
ALN # 84.425D, Education Stabilization Fund Under the Coronavirus
Aid, Relief, and Economic Security Act
Grant # S425D200006 and S425D210006

U.S. Department of Agriculture
ALN # 10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant # 203MT306N1099 and 213MT306N1099

Criteria: Federal regulation, 2 CFR 200.305, requires states follow the treasury state agreement (TSA). The TSA is governed by federal regulation, 31 CFR 205, which requires states use the reimbursement basis.

The Child Nutrition TSA requirement is to “request funds weekly on Wednesday, or as reasonable to address negative cash needs. . . the amount of the request shall be based on the amount of actual program costs incurred during the prior week, Wednesday through Thursday.”

Per the Educational Stabilization Compliance Supplement 2021, ESSER requires limiting draw to as close as administratively feasible to a state’s actual cash outlay for direct program costs and proportionate share of any allowable indirect costs.

Federal regulation, 2 CFR 200.303, requires the non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Internal controls were ineffective for ensuring the Office of Public Instruction (OPI) did not have excess cash for the Child Nutrition Cluster and ESSER programs.

Questioned Costs: None.

Context: We completed a sample of draws for the Child Nutrition and ESSER programs. One of 17 Child Nutrition Cluster and one of seven ESSER cash draws tested did not have expenditures supporting revenues drawn. There were 24 total months for both of these samples, and the sample was not statistically valid. The Child Nutrition Cluster error was a typo where the expenditures amount was \$317 but \$31,700 was requested. The error was corrected in the next draw. The other mistake (for ESSER) was drawing for the same \$1.7 million expenditure twice. OPI noted the error at fiscal year-end and reversed the revenue but did not fix the cash draw. There were not ESSER expenses to support the cash on hand for over a month.

Effect: Per federal regulation, OPI could owe interest on excess cash. With the current interest rates, this is likely immaterial, but larger errors could occur in the future if the control deficiency is not corrected.

Cause: The overdrafts were due to human error. All cash draws were reviewed by a second person, so OPI's controls should have caught these errors before requesting reimbursement from the federal program. The cash draw process at OPI is complex, because there are many federal programs. Management should consider adding cash management controls to their monitoring process in order to determine a way to improve the current control process, so human error is less likely to occur.

Recommendation: We recommend the Office of Public Instruction:

- A. Enhance cash management internal controls and monitor their effectiveness to ensure OPI only requests federal cash for incurred expenditures.
- B. Comply with cash management requirements.

Views of Responsible Officials: OPI does not concur with this recommendation. While management acknowledges there were instances during the audit period where cash was ordered in excess of expenditures and the secondary reviewer did not identify the error, they believe compensating controls did identify the excess cash resulting in correcting journals for the excess funds. For additional information regarding OPI's planned corrective action, see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We considered OPI's nonconurrence with the recommendation. The correcting entry for ESSER processed by OPI did not mitigate its noncompliance with cash management requirements, because the entry did not affect cash. As noted in the finding, there were not ESSER expenses to support the cash on hand for over a month. In addition, if internal controls are not working as intended, further noncompliance can occur. As such, our recommendation stands.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-043: U.S. Department of Education
ALN # 84.010, Title I Grants to Local Educational Agencies
Grant # S010A190026-19A, S010A200026-20A

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Section 1003 (b) of the Elementary and Secondary Education Act (ESEA) requires the Office of Public Instruction (OPI) to earmark seven percent of the Title I amount granted to Montana to serve schools implementing comprehensive support and improvement activities or targeted support and improvement activities. Not less than 95 percent of the earmarked funds must be spent on the schools identified.

Condition: OPI does not have controls in place to ensure compliance with Title I earmarking requirements.

Questioned Costs: We question \$40,692 charged to the Title I program. Since we only reviewed a portion of the costs, more questioned costs may exist. Additional questioned costs may also exist in salary charges.

Context: The total Title I award to OPI was \$50 million. The amount of Title I funding earmarked for school improvement activities in fiscal years 2020 and 2021 was approximately \$3.5 million. Schools identified for improvement can give OPI permission to spend the money on serving them, otherwise, OPI would have to send 95 percent of the earmarked funds directly to the schools identified for improvement.

OPI budgets 40 percent of the \$3.5 million to OPI activities, and 60 percent as grants to schools. OPI spent \$729,496 in fiscal year 2020 and \$925,453 in fiscal year 2021. We reviewed OPI salary charges to the Title I grant but OPI did not track whose time was administrative costs and whose time benefited identified schools. Therefore, we could not confirm administration costs did not exceed the approximately \$175,000 cap, because the 40 percent budgeted to OPI activities included both admin and school improvement activities in one accounting code.

In addition, we tested 17 non-personnel services Title I expenditure transactions and determined eight, totaling \$40,692 were unsupported. Unsupported costs included costs charged to supporting all schools in Montana instead of those schools identified for improvement, costs with unclear documentation, or costs for overall Title I administration charged to school improvement activities. This was not a statistically valid sample.

Effect: Without proper controls, OPI is at risk of spending money allocated for school improvement on administration.

Cause: OPI does not monitor the amounts they spend on administration as compared to school improvement activities, so cannot demonstrate compliance with federal earmarking regulations.

Recommendation: We recommend the Office of Public Instruction:

- A. Develop internal controls to ensure earmarked funds are spent on allowable activities and improve documentation to support cost allowability.
- B. Comply with Title I earmarking requirements.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-044: U.S. Department of Education
ALN # 84.010, Title I Grants to Local Educational Agencies
Grant # S010A190026-19A, S010A200026-20A

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Elementary and Secondary Education Act (ESEA), Section 8101 (25) B requires local education agencies (LEAs) to obtain documentation to confirm that a student has transferred out, emigrated to another country, or transferred to a prison or juvenile facility, or is deceased in order to remove a student from a cohort.

Condition: The Office of Public Instruction (OPI) requires each LEA to certify the number of graduates and dropouts by the LEA. However, OPI's certification policy does not include the federal requirement that LEAs maintain documentation to confirm the appropriate removal of a student from the cohort. In addition, OPI does not have a procedure to monitor LEAs compliance with retaining this documentation.

Questioned Costs: None.

Context: Federal guidance allows the state's data system to be official documentation when a student transfers schools within the state. We agree, but OPI must communicate to schools when they can use the state's system as documentation and when they cannot. For example, the guidance cited by OPI would not apply if the student transferred out of state, moved to home school or a juvenile corrections facility, or died. OPI also does not monitor LEAs' compliance with retaining appropriate documentation for removing students from the cohort.

Effect: Without the required policies and procedures, OPI is not compliant with federal regulations related to the Title I program. If LEAs do not know the requirements for removing a student from a cohort, they may provide OPI with an inaccurate graduation rate, which makes the state's overall graduation rate inaccurate.

Cause: As we worked with staff to understand their policies and procedures related to this Title I requirement, there was confusion about who was responsible for this federal regulation. Staff noted districts remove students from the cohort, not OPI.

Recommendation: We recommend the Office of Public Instruction:

- A. Develop internal controls that address LEAs responsibilities for documenting the removal of a student from the adjusted cohort, and
- B. Monitor the LEA's adherence to the federal requirements.

Views of Responsible Officials: OPI concurs with this recommendation. For additional information regarding OPI's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-045: U.S. Department of Agriculture
ALN # 10.551 and 10.561, SNAP Cluster
Grant # 202020S251443, 202121S251443

U.S. Department of Health and Human Services
ALN # 93.558 Temporary Assistance for Needy Families (TANF)
Grant # 1901MTTANF, 2001MTTANF, 2101MTTANF

Criteria: Federal regulation, 7 CFR 274.1(i)(2), requires a yearly examination of the State electronic benefit transfer (EBT) service provider for the SNAP Cluster.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) obtained an examination by an independent auditor of the EBT service provider. The report only covered three months of the two-year audit period, which is not sufficient for the department to demonstrate adequate internal control or compliance with certain SNAP and TANF program requirements.

Questioned Costs: None.

Repeat Finding: Montana's Single Audit for the two fiscal years ended June 30, 2019, included a recommendation (#2019-008) to obtain an annual SOC-1 Type 2 report over the EBT service provider for SNAP and establish and maintain internal controls to ensure SNAP and TANF benefit transactions achieve applicable compliance requirements.

Context: The department uses an EBT provider for its SNAP federal program. The EBT service provider is responsible for settlement, or payment, to retailers that have agreed to accept EBT cards for food purchases. The same EBT service provider is involved in delivery of benefits for the TANF program.

The following table depicts benefit distributions processed by the EBT service provider:

Benefits Processed by EBT Service Provider		
Federal Program	Fiscal Year 2020	Fiscal Year 2021
SNAP	\$161.8 million	\$229.3 million
TANF	\$16.2 million	\$11.5 million

Effect: Without assurance over the operating effectiveness and appropriate design and operation of controls at the service organization, the department cannot demonstrate adequate internal control over EBT payments for the audit period. Because the examination does not cover the entire period, the department did not comply with federal SNAP requirements.

Cause: Historically, as noted by our prior audit, the department did not obtain a SOC-1 Type 2 report for the EBT service provider. On January 21, 2020, the department instructed the EBT service provider to provide a SOC-1 Type 2 report. While the report for July 1, 2020 through September 30, 2020 was completed as quickly as possible, it does not provide any assurance over processing for fiscal year 2020 and provides limited assurances over fiscal year 2021 activity.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and maintain internal controls to receive and review assurances over the EBT service provider for the Supplemental Nutrition Services Program and Temporary Assistance for Needy Families program.
- B. Comply with federal regulations for the Supplemental Nutrition Services Program by requiring a yearly examination of EBT service provider transaction processing regarding the issuance, redemption, and settlement of program benefits and review the results.

Views of Responsible Officials: Based on the department's inability to fully comply with the prior audit recommendation due to timing of when the issue was identified by our prior audit, the department conditionally concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-046: U.S. Department of Health and Human Services
ALN # 93.775, 93.777, and 93.778, Medicaid Cluster
Grant # 1805MT5MAP, 1905MT5MAP, 2005MT5MAP, 2105MT5MAP

ALN # 93.767, Children’s Health Insurance Program (CHIP)
Grant # 1905MT5021, 2005MT5021, 2105MT5021

Criteria: Federal regulations, 42 CFR 435.914(a) and 42 CFR 457.965, require the Department of Public Health and Human Services (department) to include facts to support its eligibility decision in each applicant’s case record for Medicaid and CHIP, respectively.

Federal regulations, 42 CFR 435.603, 42 CFR 457.310 and 457.315, require the use of multiple criteria, including household income, when determining eligibility for Medicaid and CHIP.

As described in the department’s verification plan, if inconsistencies are noted between self-attested information and electronic data sources, follow up is necessary in certain situations. For income discrepancies, if self-attested income is below the applicable income standard and the electronic data source indicates income is above the applicable income standard, and the difference between the two is greater than 10 percent, the state is required to request documentation to resolve the discrepancy.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department administers the Medicaid and CHIP programs to provide medical coverage to eligible individuals. Department personnel enter the necessary data for eligibility determinations into an individual’s case file in the department’s eligibility system, the Combined Healthcare Information and Montana Eligibility System (CHIMES). This data is used to determine the client’s eligibility for the department’s various eligibility categories based on factors including age, household composition, residency, and income. The department’s verification plan details how and when each piece of eligibility criteria needs to be verified. CHIMES interfaces with various electronic data sources to verify information. CHIMES flags discrepancies between the interfaces and self-attested information, and the state’s verification plan requires follow-up on the discrepancies.

As part of our testing, we identified instances where the department did not consistently verify eligibility factors per the state’s verification plan, fully document and support eligibility decisions in case files, or place individuals in the correct eligibility categories. We determined

the department's internal controls were insufficient to comply with federal regulations for both the Medicaid and CHIP programs. In addition, we also identified instances where eligibility related processes were inconsistently applied across applications.

Questioned Costs: Known questioned costs for the cases in which the eligibility determination or eligibility category was incorrect totaled \$34,517 and \$10,019 for Medicaid and CHIP, respectively. Known questioned costs for the case where the individual was not eligible for any CHIP or Medicaid eligibility category totaled \$1,483 in federal CHIP funds. Overall, federal questioned costs for the full population of both Medicaid and CHIP programs are likely to exceed the known costs discussed above. For all issues identified in both programs, known or likely questioned costs exceed the \$25,000 threshold for federal reporting.

Context:

Eligibility Issues

We performed a sample of Medicaid and CHIP eligibility determinations for individuals for fiscal years 2020 and 2021, which consisted of control and compliance testing. The total population of Medicaid and CHIP cases for the audit period totaled 472,447. For control testing, the populations for Medicaid and CHIP were combined. We selected a sample of 64 to test internal controls (48 Medicaid and 16 CHIP). For compliance testing, the Medicaid and CHIP programs were separately analyzed, so 60 sample items were selected from each Medicaid and CHIP for 120 total sample items. This was not a statistically valid sample.

From the sample, we identified 19 cases with control issues, compliance issues, or both. The types of issues we identified in our testing are described below followed by tables summarizing the issues by case.

- Instances where eligibility information was not verified or discrepancies were not followed up on timely as required by the verification plan.
- Income used in eligibility determinations was not fully supported in the case file. Evidence in the case file was not sufficient to support the income used in the eligibility determination. As a result, we could not verify whether the income was correct.
- Income used in determining eligibility was incorrect per support in the case file.
- Residency and/or household composition is not supported in the case file.
- Eligibility criteria used in the determination was incorrect, but the eligibility category was correct.
- Eligibility criteria used in the determination was incorrect and as a result, the eligibility category was incorrect.
- The case file was fully supported, but the department's eligibility determination was incorrect.
- The case file was not fully supported and as a result the department's eligibility determination was incorrect.

Medicaid Eligibility Issues in Tested Cases

Medicaid Eligibility Issues							
Types of Issues as described above							
	Case #1	#2	#3	#4	#5	#6	#7
Eligibility information was not verified or discrepancies were not followed up on promptly					X	X	X
Income used in eligibility determinations was not fully supported	X	X				X	X
Income used in determining eligibility was incorrect			X				
Residency and/or household composition is not supported							
Eligibility criteria used was incorrect, but eligibility category was correct							
Eligibility criteria used was incorrect making the eligibility category incorrect			X				
Case file was fully supported, but department's eligibility determination was incorrect				X			
Case file was not fully supported making department's eligibility determination incorrect							X

CHIP Eligibility Issues in Tested Cases

CHIP Eligibility Issues												
Type of Issues as described above												
	Case #1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12
Eligibility information was not verified or discrepancies were not followed up on promptly						X						
Income used in eligibility determinations was not fully supported		X		X			X	X	X			
Income used in determining eligibility was incorrect	X		X			X					X	X
Residency and/or household composition is not supported	X		X								X	
Eligibility criteria used was incorrect, but eligibility category was correct												X
Eligibility criteria used was incorrect making the eligibility category incorrect	X		X		X	X					X	
Case file was fully supported, but department's eligibility determination was incorrect										X		
Case file was not fully supported making department's eligibility determination incorrect							X					

Based on the issues identified above, there were ten cases (three Medicaid and seven CHIP) in which the eligibility determination or eligibility category was incorrect. In some cases, while the individual was placed in the wrong category, both categories were in the same federal program, so there are no related questioned costs. There were two cases identified where the individuals were eligible but placed into a category in the wrong federal program, resulting in the application of the wrong federal match percentage. There was one CHIP case identified where the individual was not eligible for any CHIP or Medicaid eligibility category.

Inconsistencies

We identified the following types of inconsistencies:

- Income
 - Income support can be provided by applications in a weekly or biweekly form, this income is then multiplied by a factor to estimate monthly income per the department's manual. While the department manual discusses the need to factor income, it does not specify how this should be done. We noted several instances where different factors were used to determine monthly income. For example, when projecting biweekly pay period incomes for a month, some calculations used a factor of 2.0 and others used 2.15.
 - In some cases, applicants provide multiple pay stubs to support their income. The department's manual is not clear in how many pay stubs should be used. We identified calculations in which the case workers used all provided pay stubs in determining income, while others used only the most recent pay stub.
 - Reported overtime or weekend wages were not treated consistently. In some cases, the amounts were included with normal wages, while in others they were considered separately.
- Transitional coverage
 - In certain situations, the department may provide transitional coverage to parents and children for up to six months following an Affordable Care Act Medicaid case closure. We identified instances involving similar circumstances where the application of transitional coverage for children in CHIP categories was used differently. For example, in one case while the adult moved to transitional coverage, the children were reauthorized in a CHIP category. In a similar case, the entire household was moved to transitional coverage even though the children were still eligible for a CHIP category.

Repeat Finding: Montana's Single audit for the two fiscal years ended June 30, 2019, included a recommendation (#2019-001) to the department to establish and maintain internal controls to timely verify client eligibility factors and comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.

Effect: The department is not in compliance with federal requirements and is at risk of not making uniform eligibility decisions and potentially placing individuals in wrong eligibility categories without consistent application of the eligibility determination process. For the inconsistencies noted, we did not identify errors in eligibility determinations. However, cases

with income close to a category income threshold could result in income calculations that result in different eligibility determinations.

Cause: We discussed each of the case files, and the results of our testing with the department during the audit. Based on those discussions, the department agrees there are issues with 11 of the cases summarized above. For these cases, our audit procedures and conversations with department personnel indicate the errors resulted from human error in the determination process. For the other cases, including those where we determined verification did not occur or case files did not contain appropriate support, the department does not agree. In some cases, the department was able to find support or explain why an eligibility decision was made. While we considered this additional information, if the information was not sufficiently documented or supported in the case at the time of determination, we concluded the case file was not supported. For the inconsistencies noted, the department believes the specific facts of individual cases explain different treatments between cases and different treatments would not cause errors in eligibility determinations.

Recommendation: We recommend the Department of Public Health and Human Services revise its policies and procedures for Medicaid and Children's Health Insurance Program and provide training to case workers to:

- A. Ensure eligibility elements and decisions are documented and supported by the case file.
- B. Follow up on differences and make changes to case files as required by the department's verification plan.
- C. Comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.
- D. Improve guidance to ensure consistent calculation of the household income used to determine eligibility.
- E. Consistently apply the transitional period for children enrolled in the Children's Health Insurance Program.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-047: U.S. Department of Health and Human Services
 ALN # 93.775, 93.777, and 93.778, Medicaid Cluster
 Grant # 1805MT5MAP, 1905MT5MAP, 2005MT5MAP, 2105MT5MAP

ALN # 93.767, Children’s Health Insurance Program (CHIP)
 Grant # 1905MT5021, 2005MT5021, 2105MT5021

Criteria: Federal regulation, 42 CFR 435.914(a), requires the Department of Public Health and Human Services (department) to include facts to support its eligibility decision in each applicant’s case record for Medicaid and CHIP.

Federal regulation, 42 CFR 435.916(a)(1), states the eligibility of Medicaid beneficiaries whose financial eligibility is determined using MAGI-based income must be renewed once every 12 months, and no more frequently than once every 12 months.

Federal regulation, 42 CFR 457.343, requires the department to apply the renewal procedures described in 42 CFR 435.916 in administering a separate CHIP.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department’s eligibility redetermination processes for Medicaid and CHIP can be improved. While we did not identify any timeliness issues related to redeterminations during the audit period, we did identify some overall system issues with the eligibility redetermination process.

Questioned Costs: None.

Context: The department administers the Medicaid and CHIP programs to provide medical coverage to eligible individuals. Once individuals are enrolled, they have a 12-month continuous eligibility period, a renewal process is completed at the end of the period, and eligibility is redetermined. For eligibility categories under the Affordable Care Act (ACA), the redetermination is an automated process within the department’s eligibility system, the Combined Healthcare Information and Montana Eligibility System (CHIMES). During the COVID-19 public health emergency, the department suspended the renewal process under multiple waivers.

As part of reviewing eligibility determinations, we evaluated whether required eligibility renewals and redeterminations occurred during the audit period. We considered the effects of the changes in process under the COVID-19 public health emergency in evaluating whether redeterminations were done timely. Overall system issues with the eligibility redetermination process are discussed in more detail below:

- For the automatic renewal process in CHIMES, we identified instances where the eligibility redetermination did not include all income types. Overall, the CHIMES renewal process includes data matches for state wage information and unemployment benefits but does not consider other income types including self-employment income or unearned income, such as pension or rental income. We also identified instances where only the individual's income was used in redetermination instead of the household's income, which should be used for eligibility determinations. The department represented this issue has since been fixed in the CHIMES system.
- For automatic renewals, we identified instances where the system indicated the automatic renewal failed or there were incompatibilities identified with electronic data matches, yet the case was renewed without explanation or documentation in the case file.
- The manual renewal process allows renewals to be completed without the system recalculating eligibility based on updated income unless a case worker manually selects the option to recalculate in the system. The income information is pulled forward from previous eligibility determinations in this situation.

Effect: For automatic renewals, the design of the renewal process in CHIMES creates a risk that the incorrect income amount is used in determining eligibility at renewal. Without proper documentation of decisions made during the renewal process, the department is at risk of noncompliance with federal regulations requiring case files to include facts to support eligibility determinations. For manual renewals, there is a risk income will not be recalculated as part of the renewal process, resulting in incorrect eligibility determinations.

Cause: The department agrees with the manual renewal income recalculation issue. They represented they will implement improvements to the renewal process, ensuring recalculation of income does not rely on case workers selection in CHIMES. While the department does not agree with the auto renewal issues resulting in errors in eligibility determinations, they made some changes to the renewal process in CHIMES and indicated more improvements will be made following the public health emergency.

Recommendation: We recommend the Department of Public Health and Human Services enhance internal controls for Medicaid and Children's Health Insurance Program to ensure annual redeterminations are completed accurately using up-to-date information and cases are fully supported as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-048: U.S. Department of Health and Human Services
 ALN # 93.767, Children’s Health Insurance Program (CHIP)
 Grant # 1905MT5021, 2005MT5021, 2105MT5021

Criteria: Federal regulation, 42 CFR 457.320(a)(2), sets the age limit for CHIP eligibility at up to age 19.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) administers CHIP to provide medical coverage to eligible children under the age of 19. Our testing determined the department does not consistently ensure individuals are removed from CHIP once they turn 19 and age out of the program.

Questioned Costs: None.

Context: From our sample of 60 individuals enrolled in CHIP, we identified two instances where individuals aged out, but they were not properly removed from the program when they turned 19. For these instances, the individuals aged out in 2017, but remained in the CHIP program during the audit period. This sample was not statistically valid.

Additionally, through our testing, we identified four additional individuals who aged out of the program during the COVID-19 public health emergency. These individuals were enrolled in Healthy Montana Kids (HMK) Plus Expansion, which is a CHIP-funded category that receives Medicaid Benefits coverage. During the public health emergency, the department accepted an enhanced federal match for benefits payments. In order to receive the enhanced federal match, the federal government prohibited removing Medicaid coverage from individuals who had coverage at the start of the public health emergency. Since these cases were receiving Medicaid coverage, the department was prohibited from removing the individuals from the program.

Under the public health emergency requirements, the department could evaluate aged out individuals for a Medicaid program and transition them to continue coverage, but they were not required to transition individuals. Since the end of the audit period, the department has completed some administrative reviews of specific cases and moved eligible individuals to adult Medicaid programs. As a result of the public health emergency requirements, we did not take issue with these four cases.

Effect: The department is not in compliance with federal regulations for CHIP. Department personnel represented the benefits claims processing system for CHIP also has additional controls in place to ensure claims are not paid under these eligibility categories if the individual is aged out. We confirmed there were no benefits paid out for these two cases during the audit period. However, for one case, claims were paid for the individual prior to the audit period, but after the individual aged out.

Cause: The department's eligibility system, the Combined Healthcare Information and Montana Eligibility System (CHIMES), is designed to auto-close CHIP cases at the end of the month the individual turns 19. The system creates a task for a case worker to complete a review to determine if the individual is eligible for Medicaid programs. However, if the case has another open task in CHIMES, the auto-close process cannot be completed. In these situations, a separate task is created for a case worker to manually close the case. For the two cases identified, the department acknowledges CHIMES had open tasks requiring a manual closeout. Per department personnel, the department had a significant backlog of case tasks to complete, so the close outs did not happen timely.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to ensure compliance with federal regulations related to individuals who have aged out of Children's Health Insurance Program funded program.
- B. Comply with federal regulations by removing individuals from Children's Health Insurance Program funded programs who have turned 19.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-049: U.S. Department of Health and Human Services
 ALN # 93.775, 93.777, and 93.778, Medicaid Cluster
 Grant # 1805MT5MAP, 1905MT5MAP, 2005MT5MAP, 2105MT5MAP

Criteria: NCCI Technical Guidance Manual paragraphs 7.1.2 and 7.1.3 states the department may share quarterly Medicaid NCCI edit file with any entity assisting with implementation of the state’s Medicaid NCCI program in processing of claims, only when appropriate confidentiality agreements are in place. The manual requires, at a minimum, that certain elements are included in the confidentiality agreements.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) does not have confidentiality agreements with contracted parties prior to sharing Medicaid National Correct Coding Initiative (NCCI) edit files as required by the NCCI Technical Guidance Manual.

Questioned Costs: None.

Context: The department is required to incorporate NCCI methodologies into the state Medicaid program. The NCCI methodologies are a set of claim edits created by the federal government to promote correct coding, prevent coding errors, and reduce improper payments related to Medicaid claims. The state contracts with an entity to perform claims processing for the Medicaid program. This contractor has a subcontractor responsible for implementing a portion of the NCCI edit check methodologies for the state’s Medicaid claims. The department downloads the quarterly edit files from the federal government through a secure portal. The edit files are then sent directly to the subcontractor for use in implementing the NCCI edits.

The requirements established in the NCCI manual apply to all subcontractors with whom the department shares edit files. Since the department shares the confidential edit files with the subcontractor, a confidentiality agreement should be in place. While the department has some confidentiality agreements in place through its contractor, the specific elements required by the manual are not included.

Effect: The department is not in compliance with federal requirements. Additionally, without the required confidentiality agreements, there is increased risk edit files may be used inappropriately by entities outside the department.

Cause: The department was unaware of the requirement to have a confidentiality agreement. Additionally, the department believes its already existing confidentiality agreement with its contractor was sufficient to cover the NCCI processing.

Recommendation: We recommend the Department of Public Health and Human Services

- A. Enhance internal controls to ensure compliance with Medicaid NCCI confidentiality agreement requirements.
- B. Obtain a confidentiality agreement with any contracted party and their subcontractors prior to sharing Medicaid NCCI edit files per federal requirements.

Views of Responsible Officials: The department conditionally concurs with this recommendation. The department disagrees that without the required confidentiality agreement, there is increased risk the edit files may be used inappropriately as they have general confidentiality provisions in place. However, since the end of the audit, the department has obtained a confidentiality agreement with the Medicaid NCCI subcontractor. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-050: U.S. Department of Health and Human Services
 ALN # 93.767, Children’s Health Insurance Program (CHIP)
 Grant # 1905MT5021, 2005MT5021, 2105MT5021

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) does not review the System and Organization Controls (SOC) report for the CHIP claims processing vendor. It is the department’s responsibility to review the SOC report to confirm no additional work is necessary to ensure proper claims processing.

Questioned Costs: None.

Context: The department contracts with an entity for claims processing for provider payments on CHIP claims. The department obtains a SOC report for the contractor which provides assurance over data processing and internal controls. The SOC reports obtained during the audit period did not identify significant issues over the vendor’s processing of claims.

Effect: By not reviewing the SOC report, the department risks being unaware of system issues affecting the services it receives from the claims processor. Additionally, the department is at risk of not implementing all of the necessary compensating user entity controls.

Cause: Department staff indicated they do not review the SOC reports for the claims processing vendor as they are not considered part of the standard reporting requirement of its contract with the vendor. However, department staff represented they are very involved with the vendor and receive and review multiple other reports from the vendor that provide assurance as to whether the claims processing system is working properly.

Recommendation: We recommend the Department of Public Health and Human Services review the SOC report for the Children’s Health Insurance Program claims processor, and document this review, to ensure there are no issues with the services received from the vendor and to ensure all necessary compensating controls are implemented.

Views of Responsible Officials: 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 2021-051: U.S. Department of Health and Human Services
ALN # 93.658, Foster Care – Title IV-E
Grant # 2107MTFOST, 2007MTFOST, 1907MTFOST

Criteria: Federal regulation, 45 CFR 75.352, requires the Department of Public Health and Human Services (department) to ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes, but is not limited to:

- Subrecipient name and subrecipient’s unique entity identifier,
- Federal award identification number,
- Date the state’s federal award was signed by the federal awarding agency,
- Subaward start and end dates,
- Amount of federal funds obligated to the subrecipient with the current agreement,
- Total amount of federal funds obligated to the subrecipient including the current agreement,
- Applicable indirect cost rates for the federal award,
- Assistance Listings Number (formerly known as Catalog for Federal Domestic Assistance number) and title,
- Federal awarding agency,
- Department name and contact information,
- Federal award project description, as required to be responsive to Federal Funding Accountability and Transparency Act (FFATA),
- Permission for department officials and auditors to have access to the subrecipient’s records, and
- Terms and conditions concerning the closeout of the award.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Subrecipients for the department’s Foster Care program include tribal governments and institutions of higher education. In response to our prior audit recommendations, in the fall

of 2019 the department sent memos to tribes disclosing what is required by the federal government, and subsequently signed amended contracts containing what the department believed to be the required subrecipient disclosures. The department also renewed or amended agreements with two institutions of higher education. However, required items were still omitted, and the department's controls did not detect or correct omissions in subrecipient agreements for the Foster Care program, resulting in noncompliance with federal regulations.

Questioned Costs: None.

Context: Amended tribal agreements included a list of disclosures, but not all the disclosures were included correctly. We identified inaccuracies or omissions including the federal award date, the name of the federal awarding agency, the assistance listing number, the amount of federal funds obligated by the current agreement, and the cumulative amount of federal funds obligated to the subrecipient.

The department executed a new contract with a university in June 2020 and included most contract disclosures. However, the department omitted the federal award identification number, name of the federal awarding agency, and amount made available under the federal award from the university agreement. Additionally, the department omitted nearly all contract disclosures from its September 2020 contract amendment with a college. The original college contract was also missing the disclosures, as reported in our prior audit.

While we agree certain specific information may be unavailable at the time of the award, the department can improve the accuracy and content of its subrecipient contract disclosures. Additionally, the department can use subsequent subaward modifications to notify the subrecipient when data elements change.

Repeat Finding: In Montana's Single Audit for the two fiscal years ended June 30, 2015, we recommended (#2015-014) the department properly classify its agreements with the state's tribal organizations as subrecipients and comply with all federal regulations regarding subrecipients. Because the department had incorrectly classified the tribal organizations as vendors rather than subrecipients, the related agreements with the tribal organizations were missing required subrecipient disclosures. In Montana's Single Audit for the two fiscal years ended June 30, 2017, we concluded the recommendation was partially implemented and made no further recommendation because the department represented it intended to include the subrecipient language in the next tribal agreements which were due in fiscal year 2018. In Montana's Single Audit for the two fiscal years ended June 30, 2019, we recommended (#2019-016) the department establish and document internal controls to ensure required subrecipient disclosures are included in Foster Care contract agreements prior to signature and ensure required subrecipient disclosures are included in Foster Care contract agreements, as required by federal regulations.

Effect: The department has not complied with federal regulations regarding required subrecipient disclosures. Because contract information is used to complete Federal Funding Accountability and Transparency Act (FFATA) reporting, omitted, incomplete, and inaccurate contract disclosures put the department at risk for inaccurate federal reporting. Additionally,

failure to provide subrecipients with the required federal award information increases the risk of subrecipient noncompliance with federal requirements.

Cause: Department staff indicated they included vague information in the contract disclosures because certain information was not available at the time of the subaward. Additionally, department staff indicated the Foster Care program is an entitlement program, and as such, the department does not always know the actual grant number from which they will compensate the subrecipient.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls to ensure required subrecipient disclosures are included in Foster Care contract agreements prior to signature.
- B. Ensure the required subrecipient disclosures are included correctly in Foster Care subrecipient agreements, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-052: U.S. Department of Health and Human Services
 ALN # 93.323, Epidemiology and Laboratory Capacity for Infectious
 Diseases (ELC)
 Grant # NU50CK000500

Criteria: Federal regulation, 45 CFR 75.352(a), requires the Department of Public Health and Human Services (department) to ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes, but is not limited to:

- Subrecipient name and subrecipient’s unique entity identifier,
- Federal award identification number,
- Date the state’s federal award was signed by the federal awarding agency,
- Subaward start and end dates,
- Amount of federal funds obligated to the subrecipient with the current agreement,
- Total amount of federal funds obligated to the subrecipient including the current agreement,
- Applicable indirect cost rates for the federal award,
- Assistance Listings Number (formerly known as Catalog for Federal Domestic Assistance Number) and title,
- Federal awarding agency,
- Department name and contact information,
- Federal award project description, as required to be responsive to Federal Funding Accountability and Transparency Act (FFATA),
- Permission for department officials and auditors to have access to the subrecipient’s records, and
- Terms and conditions concerning the closeout of the award.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The department did not establish internal controls to ensure subrecipient agreements include required disclosures, resulting in omissions in ELC subrecipient agreements.

Questioned Costs: None.

Context: Before the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the department incurred less than \$3 million in federal expenditures annually for the ELC award. When federal funding increased exponentially in response to the COVID-19 public health emergency, the department amended existing subaward agreements with various county governments to better position the state in responding to the pandemic. We conducted a sample of six of the department's 27 subrecipient agreements for the ELC award and identified missing subrecipient contract disclosures in all six agreements. The sample was not statistically valid. Based on information from department staff, this noncompliance is pervasive to all subrecipient agreements for the ELC award.

Effect: The department has not complied with federal regulations regarding required subrecipient disclosures. Additionally, failure to provide subrecipients with the required federal award information increases the risk of subrecipient noncompliance with federal requirements.

Cause: Per our review of the department's county master contract agreement and task order amendment templates, the required contract disclosure prompt is included in the master contract agreement template. However, the templates are not clear as to when the disclosures are required. Additionally, based on discussion with the department, training is needed to ensure program and fiscal staff are aware of subrecipient contract disclosure requirements.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Provide training to staff regarding federal requirements for agreements with subrecipients.
- B. Establish and document internal controls to ensure required subrecipient disclosures are included in Epidemiology and Laboratory Capacity for Infectious Diseases subrecipient agreements prior to signature.
- C. Ensure the required subrecipient disclosures are included correctly in Epidemiology and Laboratory Capacity for Infectious Diseases subrecipient agreements and contract amendments, as required by federal regulations.
- D. Modify its Master Agreement and Task Order Contract Amendment templates for county government agreements to make it clear the federal contract disclosures are required for Epidemiology and Laboratory Capacity for Infectious Diseases subrecipient agreements.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-053: U.S. Department of Health and Human Services
 ALN # 93.558, Temporary Assistance for Needy Families (TANF)
 Grant # 19001MTTANF, 2001MTTANF, 2101MTTANF

Criteria: Federal regulation, 45 CFR 75.352(a), requires the Department of Public Health and Human Services (department) to ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes, but is not limited to:

- Subrecipient name and subrecipient’s unique entity identifier,
- Federal award identification number,
- Date the state’s federal award was signed by the federal awarding agency,
- Subaward start and end dates,
- Amount of federal funds obligated to the subrecipient with the current agreement,
- Total amount of federal funds obligated to the subrecipient including the current agreement,
- Applicable indirect cost rates for the federal award,
- Assistance Listings Number (formerly known as Catalog for Federal Domestic Assistance number) and title,
- Federal awarding agency,
- Department name and contact information,
- Federal award project description, as required to be responsive to Federal Funding Accountability and Transparency Act (FFATA),
- Permission for department officials and auditors to have access to the subrecipient’s records, and
- Terms and conditions concerning the closeout of the award.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Department controls did not prevent or detect and correct the missing required subaward disclosures for the 24 subaward agreements for the TANF program during the audit period.

Questioned Costs: None.

Context: The department contracts with 12 subrecipient entities, called Pathways Providers, to manage the cases of the clients who are eligible for TANF and who need assistance to achieve household stability of their finances. We reviewed the 24 agreements in place during the audit period and identified all subrecipient agreements contained incorrect or missing information. Specific errors included incorrect funding source, federal award date, and subaward period of performance start and end dates. Agreements also omitted the name of the federal awarding agency.

Effect: The department has not complied with federal regulations regarding required subrecipient disclosures. Because contract information is used to complete Federal Funding Accountability and Transparency Act (FFATA) reporting, omitted, incomplete and inaccurate contract disclosures put the department at risk for inaccurate federal reporting. Additionally, failure to provide subrecipients with the required federal award information increases the risk of subrecipient noncompliance with federal requirements.

Cause: Department internal controls were insufficient to identify the omitted or inaccurate information. Although the department's contract template includes a placeholder for the required contract disclosures, this section was improperly modified in the signed contract agreements.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls to ensure required subrecipient disclosures are included in Temporary Assistance for Needy Families contract agreements prior to signature.
- B. Ensure the required subrecipient disclosures are included correctly in Temporary Assistance for Needy Families subrecipient contract agreements, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-054: U.S. Department of Health and Human Services
 ALN # 93.323, Epidemiology and Laboratory Capacity for Infectious
 Diseases (ELC)
 Grant # NU50CK000500

Criteria: Federal regulation, 45 CFR 75.352(d) through (e), requires the Department of Public Health and Human Services (department) monitor the activities of the subrecipient as necessary to ensure the subaward is used for authorized purposes, in compliance with federal statutes, regulation, and terms and conditions of the subaward, and subaward performance goals are achieved.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Department procedures did not include post-award monitoring of subrecipients for the federal ELC award, and the department has not complied with the requirements.

Questioned Costs: None.

Context: The department amended existing subaward agreements with various county governments to better position the state in responding to the pandemic, resulting in subaward agreements with 27 county governments. The department did not provide evidence of post-award monitoring for any of the six county subaward agreements included in our sample. This was not a statistically valid sample. This applies to all county subaward agreements based on discussion with the department.

Effect: The department has not complied with federal regulations requiring post-award monitoring of its subrecipients, which means risk exists that federal funds were not expended in accordance with federal award requirements.

Cause: Based on discussion with department staff, they were unaware of the degree of subrecipient monitoring required for the subaward agreements.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls for the federal Epidemiology and Laboratory Capacity for Infectious Diseases to ensure subrecipients use funds for authorized purposes, comply with federal statutes, regulations, and terms and conditions of the

subaward agreement, and performance goals are achieved, as required by federal regulations.

- B. Conduct monitoring of subrecipients of the federal Epidemiology and Laboratory Capacity for Infectious Diseases award, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-055: U.S. Department of Health and Human Services
 ALN # 93.323, Epidemiology and Laboratory Capacity for Infectious
 Diseases (ELC)
 Grant # NU50CK000500

Criteria: Federal regulation, 2 CFR 200.331, describes the characteristics for subrecipients and contractors. Subrecipient characteristics include the use of federal funds to carry out the federal program for a public purpose, as opposed to contractor characteristics of providing goods or services for the benefit of the pass-through entity. This federal regulation was renumbered to 2 CFR 200.332 during the audit period.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) misclassified certain agreements as contractor, rather than subrecipient, agreements and has therefore not complied with federal subrecipient monitoring requirements.

Questioned Costs: None.

Context: As part of our audit, we reviewed payments from the ELC program to entities the department classified as subrecipients and contractors. In reviewing the underlying agreements, we identified the following situations where entities were misclassified as contractors rather than as subrecipients.

- The department contracts with a university to maintain full-time equivalent (FTE) positions to assist the department in increasing public health system ability to respond to antibiotic resistant threats.
- The department entered into agreements with three Montana hospitals. The agreements were to dedicate FTE positions to increasing the statewide laboratory capacity in response to the COVID-19 public health emergency.

Both the university and the hospital agreements are established to help position the state to better respond to infectious disease and not to provide services directly to the department. As such, these should be classified as subrecipient rather than contractor agreements.

Effect: By misclassifying the agreements with the university and the three hospitals, the department has not complied with federal requirements for subrecipients, such as providing

federal award information to the entity, assessing risk for the entity, and conducting post-award monitoring of the entity. Misclassification also increases the risk that use of funds will not fully align with the purpose of the federal program.

Cause: Department procedures did not include formal consideration of subrecipient or contractor classification for university and hospital agreements at the time the agreements were established.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Establish internal control review procedures to document consideration of contractor or subrecipient classification at the time of entering into contract agreements for the Epidemiology and Laboratory Capacity for Infectious Diseases federal award.
- B. Properly classify agreements as subrecipient or contractor relationships for the Epidemiology and Laboratory Capacity for Infectious Diseases federal award, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-056: U.S. Department of Health and Human Services
 ALN # 93.558, Temporary Assistance for Needy Families (TANF)
 Grant # 1901MTTANF, 2001MTTANF, 2101MTTANF

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: There are no Department of Public Health and Human Services (department) level controls over the accuracy and completeness of the ACF-199 TANF Data Report prior to its submission to the federal government.

Questioned Costs: None.

Context: The department uses its Combined Healthcare Information and Montana Eligibility System-Enterprise Architecture (CHIMES) system to determine TANF eligibility and benefit amounts. A contractor for the department uses the CHIMES system to submit the TANF ACF-199 report on behalf of the department. While the department represents it tested ACF-199 report functionality with CHIMES implementation in approximately 2012 and retests and validates with system enhancements, the department did not provide this evidence for our consideration. As such, there is no current system assurance available for report accuracy and completeness. Our audit did not identify material noncompliance in the department's ACF-199 reports.

Effect: Without department-level controls to review the file for accuracy and completeness prior to submission and in the absence of documentation of initial and ongoing testing of the CHIMES-EA, the department is unable to demonstrate adequate internal control over its ACF-199 reports.

Cause: The department believes its up-front data collection procedures within the eligibility system as well as validation of the data file in the state/federal exchange are controls sufficient for its ACF-199 reports.

Recommendation: We recommend the Department of Public Health and Human Services document department-level internal controls to ensure complete and accurate reporting for the Temporary Assistance for Needy Families ACF-199 reports.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-057: U.S. Department of Health and Human Services
 ALN # 93.568, Low-Income Home Energy Assistance
 Grant # 18B1MTLIEA, 19B1MTLIEA, 2001MTLIEA, 2101MTLIEA,
 2001MTE5C3

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: There are no documented Department of Public Health and Human Services (department) level controls to confirm accuracy and completeness of information system generated extracts used to populate two required annual reports of the Low-Income Home Energy Program (LIHEAP) prior to submission to the federal government.

Questioned Costs: None.

Context: As part of our audit, we reviewed four different reports the department is required to submit to the federal government for LIHEAP. Of the four types of reports, two are generated using extracts ran out of the department’s case management information system. The case management system is used for intake of client data and eligibility data as well as other uses for the federal program.

Department staff also communicated that the information entered into the case management system is reviewed and monitored. Although the department does review and monitor this activity, these types of reviews do not address whether the system extracts are complete and accurate for reporting purposes. While we identified a lack of controls, we did not identify errors in our testing of the reports submitted to the federal government.

Effect: The department cannot demonstrate compliance with federal regulation requirements to maintain effective internal controls. Without effective internal controls, there is risk the required federal reports are not complete or accurate.

Cause: The department communicated they have controls in place to review the extracts out of the case management system as staff reviews reports for anomalies, comparing to prior year data. However, this process is not documented, and we were not able to test it. Staff acknowledge this process could be better documented. While the department has controls over the data entered into the system, the department lacks controls to ensure that data is being compiled completely and accurately in the system extracts.

Recommendation: We recommend the Department of Public Health and Human Services document internal controls over federal reporting data pulled out of the department's case management system to ensure complete and accurate reporting for the Low-Income Home Energy Program.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

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Section III – Federal Award Findings and Questioned Costs

Finding 2021-058: U.S. Department of Health and Human Services
 ALN # 93.575 and 93.596, CCDF Cluster
 Grant # 1801MTCCDF, 1901MTCCDM, 1901MTCCDF, 1901MTCCDD,
 2001MTCCDF, 2101MTCCDF

Criteria: Federal regulation, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) did not have sufficient controls in place to ensure matching funds and maintenance of effort requirements were met, or to track remaining funds to ensure period of performance requirements would be met for grants, for the Child Care Development Fund (CCDF).

Questioned Costs: None.

Context: The CCDF Cluster has multiple federal requirements related to fiscal management of grant funds, including the matching federal funds, maintenance of effort, earmarking of administrative funds, and the period in which the grant must be spent. The department lacked controls for the entire audit period to track matching funds, maintenance of effort, and period of performance requirements. For earmarking requirements, the department relied on a tool provided by the federal government. The federal government compiled this tool using quarterly financial reports from the department. Without verifying the information used in the tool is correct, the department cannot rely on this tool as an internal control.

We completed additional testing over each of these requirements and concluded the department met each of the matching funds, maintenance of effort, earmarking, and period of performance federal requirements.

Repeat Finding: Montana's Single Audit for the two fiscal years ended June 30, 2019, included a recommendation (#2019-019) to the department to develop internal controls to document the obligation of all funding types for the CCDF federal program.

Effect: The department is not in compliance with federal regulations as they did not establish and maintain internal controls to ensure compliance with multiple federal requirements. Without proper internal controls to track these requirements, the department is at risk of unknowingly not complying with federal regulations governing the CCDF program.

Cause: For the majority of the requirements, the department agrees that they did not have a control in place to track the requirements. Staff indicated the program had been through some turnover and changes because of reorganization. While we were made aware of a tracking tool developed late in fiscal year 2021 for matching funds, maintenance of effort, and period of performance requirements, we did not see evidence of the tool consistently being used. For the earmarking requirements, the department relied on the tool completed by the federal government to ensure the requirements were met. The federal government stopped providing this tool in fiscal year 2021, so the department recreated the tool for its own tracking purposes.

Recommendation: We recommend the Department of Public Health and Human Services establish and maintain internal controls to ensure compliance with federal matching funds, earmarking, maintenance of effort, and period of performance requirements for the Child Care Development Fund program.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-059: U.S. Department of Health and Human Services
 ALN # 93.575 and 93.596, CCDF Cluster
 Grant # 1801MTCCDF, 1901MTCCDM, 1901MTCCDF, 1901MTCCDD,
 2001MTCCDF, 2101MTCCDF

Criteria: Federal regulation, 45 CFR 98.42(b)(2), requires the Department of Public Health and Human Services (department) to complete at least annual inspections of childcare providers and facilities to ensure compliance with health and safety standards.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Department internal controls were not effective in ensuring childcare providers or facilities received inspections annually as required by federal regulations.

Questioned Costs: None.

Context: We completed a sample of invoices reimbursing childcare costs for participant families receiving Child Care Development Fund (CCDF) assistance during the audit period. The sample was not a statistically valid sample. We also completed testing over the corresponding childcare providers as part of this sample. Out of total 55,075 childcare centers, 40 were tested, and we identified four providers without a current inspection completed within 12 months. Under the COVID-19 public health emergency, the state obtained a waiver that temporarily suspended on-site monitoring and inspections. The four instances identified were not related to this waiver.

Effect: The department has not complied with federal regulations regarding annual inspection of childcare providers. As a result, the department is at risk of providing payment for childcare at a provider who has not met all health and safety requirements.

Cause: While the department has a process in place to track inspections of childcare providers, department internal controls were not sufficient to identify and prompt inspections to be completely timely.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to complete annual inspections of childcare providers per federal requirements for the Child Care Development Fund program.
- B. Comply with federal regulations by completing annual inspections of childcare providers.

Views of Responsible Officials: 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 2021-060: U.S. Department of Health and Human Services
 ALN # 93.575 and 93.596, CCDF Cluster
 Grant # 1801MTCCDF, 1901MTCCDM, 1901MTCCDF, 1901MTCCDD,
 2001MTCCDF, 2101MTCCDF

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) did not maintain records of some approved grant applications for the Child Care Development Fund (CCDF).

Questioned Costs: None.

Context: We completed a sample of subrecipients for the CCDF. This sample was not statistically valid. Of the 45 grantees we tested, the department could not provide the grant application for five grantees in fiscal year 2020. We completed additional testing over the corresponding payments and do not question the validity of payments made to the grantees. All of the payment amounts were consistent with other grantees and all grantees were licensed providers and had completed the necessary certification. However, we were unable to determine whether the grant application was approved.

Effect: Since the department could not provide grant applications, we are unable to see evidence of approval prior to payment. The department could not demonstrate compliance with federal regulations to maintain effective internal controls.

Cause: Per department staff, the files were misplaced during the department's move to a new location.

Recommendation: We recommend the Department of Public Health and Human Services enhance internal controls to ensure records of grant applications are tracked and maintained.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-061: U.S. Department of Health and Human Services
ALN # 93.658, Foster Care- Title IV-E
Grant # 1901MTFOST, 2007MTFOST, 2107MTFOST

Criteria: Federal regulation, 2 CFR 200.403 (g), specifies costs must be adequately documented to be allowable under the award.

Federal regulation, 45 CFR 1356.60(b)(2), requires all training activities and costs funded under title IV-E be included in the department's training plan for title IV-B.

Regarding training plans for the Foster Care program, Federal regulation, 45 CFR 235.63(c), specifies, in part, that federal financial participation in costs is available when certain conditions are met. These conditions include that grants to educational institutions are made for the purpose of developing, expanding, or improving training for personnel employed by the state or individuals preparing for employment by the state and for an educational program that is directly related to the department's training program.

Federal regulation, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) continued to make payments to subrecipients without first obtaining and reviewing detailed supporting documentation.

Questioned Costs: Based on our sample results, we question costs for the amount of \$2,002,503 for costs associated with the Foster Care program. Based on overall level of activity, we estimate likely questioned costs are \$5.1 million, which represents projected errors in payments to Foster Care subrecipients.

Repeat Finding: Montana's prior Single Audit report for the two fiscal years ended June 30, 2019, included a recommendation (#2019-017) that the department reimburse college and tribes only for activities allowed by federal regulations and to design and implement internal control to ensure detailed support for invoices is obtained, reviewed, and approved prior to payment.

Context: The department maintains subrecipient agreements with the seven tribes located within the state and two colleges/universities (colleges). Federal funds are provided to these entities to either help administer the Foster Care program, provide stipends to college students studying social work, or to provide training to department staff.

In our sample of fourteen invoices submitted by tribes or colleges, we identified nine instances where supporting documentation did not exist or supporting documentation was not detailed enough to determine whether the costs were allowable. Of the fourteen invoices tested, five were related to training costs. This sample was not statistically valid. Due to lack of supporting documentation submitted by the colleges, we were unable to determine whether training costs were specified in the department's training plan. Our observations of inadequate documentation include:

- Support for one college payment for \$59,124 was a budget to actual report by expenditure category which itemized approximately \$13,500 for payroll and fringe benefit costs, \$600 for supplies, \$16,000 for subscriptions, \$20,000 for stipends, and \$8,000 for indirect expenses. We were unable to determine whether payroll costs were for proper individuals or for correct amounts as no timecards or detailed payroll reports were available to compare to the college contract. Additionally, supply, subscription and stipend cost information were not supported with receipts or details to indicate what was purchased or the names of the stipend recipients. As such, we were unable to determine whether costs incurred by the college were authorized under the contract and allowable for reimbursement with federal funds.
- Tribal invoices were often supported only with standardized billing invoices which outline personnel positions under the contract, the individual salaries including fringe benefits of the personnel, and operating expenditures. When no other support was provided by the tribe, we could not verify if the expenditures outlined on the invoice were actually incurred.

The total costs in our sample are as follows:

Subrecipient Type	Wages Unsupported	Operation Expenses Unsupported	Indirect Costs Unsupported	Total
Tribes	\$ 47,657	\$ 828	\$12,464	\$ 60,949
Colleges	\$1,465,513	\$476,041	N/A	\$1,941,554
Total	\$1,513,170	\$476,869	\$12,464	\$2,002,503

Effect: Without adequate supporting documentation, the department is unable to demonstrate compliance with internal control requirements in federal regulation. Additionally, for payments which lack adequate support, the department may have incurred costs for unallowable activities under the federal award.

Cause: For instances where a general ledger expense listing is provided, the department believes its controls for review of the summary by each program and fiscal staff for allowability and sufficiency of evidence are effective controls for subrecipient payment activities. For tribal reimbursements, the department created a standardized billing form on which tribes list positions under the contract, the salary amount and fringe benefits, and total operating costs incurred. The department believes the completed standardized billing form information is sufficient because this information can be compared to the contract. We disagree with the department's position regarding adequate supporting documentation. Reasons for our opinion include instances where:

- Documentation for college invoices included salary, travel costs such as airline and hotel costs, and supply items. Without more detailed documentation, the department can neither be sure the salaries or travel costs were incurred by college staff employed under the contract nor that supplies purchase were reasonable and necessary for administering the program.
- The standardized billing form was incorrectly completed by the tribe which resulted in the department overpaying the tribe. In this case, the tribe did supply the department with detailed wage reports for each employee. Salary amounts for two of the tribal employees were listed as the total gross salary plus the employer and employee payroll deductions. These errors were not identified and corrected in the department's review.
- Salaries on the standardized billing form listed over \$110,000 in salary costs incurred when the tribe's general ledger print out showed approximately \$93,000 in salary costs. The department's review of the invoice did not identify the discrepancy and the tribe was overpaid. In order to properly identify which of the 25 tribal employee salaries was incorrect, the department would need detailed gross salary information provided to them.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Design and implement internal controls for its Foster Care federal awards to ensure adequate documentation for contractor and subrecipient is obtained, reviewed, and approved prior to payment.
- B. Reimburse Foster Care federal award contractors and subrecipients only for activities allowed by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-062: U.S. Department of Health and Human Services
 ALN # 93.323, Epidemiology and Laboratory Capacity for Infectious
 Diseases (ELC)
 Grant # NU50CK000500

Criteria: Federal regulation 2 CFR 200.403(g) specifies costs must be adequately documented in order to be allowable under federal awards.

Federal regulation, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) made payments to ELC subrecipients and contractors without first obtaining and reviewing detailed supporting information.

Questioned Costs: We question \$2,144,872 in costs incurred for the ELC program which includes all payments made to subrecipients and to the university.

Context: As part of our audit, we conducted samples of each subrecipient and contractor payments for the ELC financial assistance program. The subrecipient sample was not a statistically valid sample. The contractor payment testing consisted of a statistically valid sample of 30 journals with an additional 7 journals selected judgmentally. Both samples identified instances where costs were not adequately documented, as further described below.

Subrecipient Payments – The department made payments to 27 county governments, subrecipients of the ELC award, for the purpose of hiring a full-time equivalent (FTE) position for an epidemiologist, county sanitarian, or disease intervention specialist. We sampled one payment to each of six subrecipients. Supporting documentation provided by the department was insufficient to determine whether the subrecipients had incurred costs for purposes under the contract. Auditor observations include:

- Support for each of the payments was an email from the county which simply specified whether the county had hired an FTE and did not contain detailed support such as payroll reports or timesheets.
- Contract payments were established at a set rate and were not based on costs incurred by the counties. For one county where salary and fringe benefit information was provided, we estimate the county was overpaid by \$28,970 from December 2020 to June 2021.

- Of the six payments in our sample, there were one each from December 2020, January 2021, and April 2021, with the remaining three payments taking place in June 2021. Because support provided by the department was in email form dated May or June 2021, we concluded the department made payments to counties without any documentation for the December, January, and April payments.
- One county indicated it was in the process of hiring for an FTE. The department disbursed funds to the county in June 2021. However, the subrecipient agreement was not signed until November 2021.

Contractor Payments – We sampled 37 journals, including 114 expenditure transactions. We identified the following payments to contractors where supporting documentation was not sufficient at the time of payment.

- The department maintains a contract with a university to maintain FTE to assist the department in increasing public health system ability to respond to antibiotic resistant threats. Supporting documentation did not include review of payroll reports or timesheets.
- Agreements with three Montana hospitals were to dedicate FTE to increasing statewide laboratory capacity in response to the COVID-19 public health emergency. While supporting documentation was provided at the end of the contract period, it was not obtained and reviewed prior to monthly contract payments to the hospitals.

Effect: Lack of sufficient documentation for the subrecipient and contractor payments renders the costs unallowable under federal regulations, and has resulted in significant questioned costs for the audit period.

Cause: Department procedures for subrecipient and contractor payments did not include evaluation of adequacy of supporting documentation for federal awards.

Recommendation: We Recommend the Department of Public Health and Human Services:

- A. Design and implement internal controls for its Epidemiology and Laboratory Capacity for Infectious Diseases federal awards to ensure adequate documentation for contractor and subrecipient payments is obtained, reviewed, and approved prior to payment.
- B. Reimburse Epidemiology and Laboratory Capacity for Infectious Diseases federal award contractors and subrecipients only for activities allowed by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

- Finding 2021-063:** U.S. Department of Health and Human Services
 ALN # 93.558, Temporary Assistance for Needy Families (TANF)
 Grant # 19001MTTANF, 2001MTTANF, 2101MTTANF
- ALN # 93.658, Foster Care – Title IV-E
 Grant # 2107MTFOST, 2007MTFOST, 1907MTFOST
- ALN # 93.767, Children’s Health Insurance Program (CHIP)
 Grant # 1905MT5021, 2005MT5021, 2105MT5021
- ALN # 93.775, 93.777, 93.778, Medicaid Cluster
 Grant # 1905MT5ADM, 2005MT5ADM, 2105MT5ADM,
 11905MTIMPL, 1905MTINCT, 2005MTIMPL, 2005MTINCT,
 2105MTIMPL, 2105MTINCT, 2005MT50C3, 2105MT50C3

Criteria: Federal regulation, 2 CFR Appendix VI, in part, requires the state public assistance agency to develop, document, and implement a public assistance cost allocation plan in accordance with federal regulations.

Federal regulation, 2 CFR 200.416(a), in part, requires there to be a process whereby central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) did not follow its federally approved plan to allocate costs among state and federal programs. Additionally, department internal controls did not identify these inconsistencies. We noted the following exceptions to compliance with the applicable cost allocation plan:

- The allocation method specified for the *Economic Section Branch Manager Indirect Cost Pool* lists the allocation method as full-time equivalent (FTE) directly supervised by the Economic Services Branch Manager. The department erroneously allocated a portion of the pool costs using FTE which directly report to the Director’s Office.
- We were unable to locate the *DET Contract Specialist Indirect Cost Pool* or the *MHPMP Maint and Operations 75 Indirect Cost Pool* in the department’s Cost Allocation Plan (CAP), yet the department allocated costs associated with these pools during the audit period.

- We reviewed three allocations to the *Director's Office Indirect Cost Pool (DO Pool)*. Per the CAP, the department director supervises Chief Legal, Chief Personnel Officer, branch managers, and the Public Health and Safety Division Administrator. The allocation method for the *DO Pool* is to benefit other indirect cost pools. During the audit, we noted the department did not allocate costs to the Public Health and Safety Division as required, which also resulted in over-allocations to the other benefiting cost pools.
- We reviewed two allocations for the *Operations Services Branch Manager Indirect Cost Pool*. Per the CAP, costs for this pool allocate to the Technology Services Division, Business and Financial Services Division, and Quality Assurance Division administrator pools. During the audit, we noted one instance where costs were not allocated to the Chief Information Officer pool and one instance where costs were allocated to the Project Management Bureau, bypassing the Chief Information Officer pool. The department's organizational chart also lists the Chief Information Officer, Strategic Planning, Research and Analysis, Internal Audit Bureau, Medical Marijuana Bureau, and Office of Budget and Finance as direct reports to the Operations Services Branch Manager. The department allocated costs to each of these functions even though the CAP does not specify them as receiving allocations.
- We reviewed three allocations to the *MPQHF QUI LOC Indirect Cost Pool*. While costs were allocated, the department did not provide supporting documentation for the review of the allocation method and the pool was not included in the CAP.

Questioned Costs: Based on the amount of costs allocated to these programs, we project questioned costs for errors identified in our sample as well as other unidentified errors could accumulate to more than \$25,000 for each of the CHIP, Foster Care, Medicaid and TANF programs.

Context: During the period under audit, the department allocated costs under two different cost allocation plans. In total, the department allocated approximately \$164.8 million and \$172.6 million in costs for fiscal years 2020 and 2021, respectively. Monthly, there are approximately 130 cost pools for which the department allocates costs. We conducted a nonstatistical sample of 61 cost pool allocations.

The table below depicts total indirect costs allocated to each of the 4 federal programs where we identified material noncompliance.

Total Costs Allocated to Select Federal Programs for Fiscal Years 2020 and 2021			
Federal Special Revenue Fund			
Federal Program	FY2020	FY2021	Total
CHIP	\$4,162,131	\$3,317,393	\$7,479,524
Foster Care	\$4,454,339	\$3,894,529	\$8,348,868
Medicaid	\$53,114,531	\$55,539,639	\$108,654,170
TANF	\$5,764,828	\$5,908,191	\$11,673,019

Repeat Finding: Montana's Single Audit report for the two fiscal years ended June 30, 2017, included a recommendation (#2017-014) to the department regarding the internal controls over and administration of its cost allocation plan. Montana's Single Audit report for the two fiscal

years ended June 30, 2019, included a recommendation (#2019-022) to the department to conduct and document a review of all cost pools to ensure alignment with the approved cost allocation plan, to implement changes to the cost allocation process only after receiving approval from, or submitting a plan revision to, the federal government, to develop and implement internal controls to detect variances in cost pools allocated using a full-time equivalent staff statistic, and to allocate costs in accordance with its cost allocation plan.

Effect: In combination, the errors identified by our audit resulted in both over-allocations and under-allocations of indirect costs. Due to inherent complexities in stepping costs through each indirect cost pool, we did not quantify the errors for individual major federal programs. However, we project questioned costs exceeding \$25,000 could exist for those programs.

Cause: The department's CAP is a 33 page text document. When updated, the department must submit a red-line strike out version along with a clean version of the proposed CAP. During each of the last two updates, the department's review of the changes did not identify and correct cost pools inadvertently deleted or were otherwise overlooked for inclusion.

Recommendation:

We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls over cost allocation, including consideration of an in-depth review of its cost allocation procedures and plan.
- B. Allocate costs as specified in the cost allocation plan, as required by federal regulations.
- C. Implement changes to the cost allocation process only after receiving approval from, or submitting a plan revision, to the federal government.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-064: U.S. Department of Health and Human Services
ALN # 93.558, Temporary Assistance for Needy Families (TANF)
Grant # 1901MTTANF, 2001MTTANF, 2101MTTANF

Criteria: Federal regulation, 2 CFR 200.170, Appendix A, requires the Department of Public Health and Human Services (department) report under the Federal Funding Accountability and Transparency Act (FFATA) each action on subaward agreements that equals or exceeds \$30,000 in federal funds. Reports must be submitted to the FFATA Subaward Reporting System (FSRS) no later than the end of the month following the month in which the obligation was made and reports must include specific information about the obligating action, as outlined on the FSRS website.

In addition, federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility determinations are performed in accordance with program requirements.

Condition: Department of Public Health and Human Services (department) internal controls did not identify a change in contracting system information which caused necessary FFATA reports to be overlooked for the TANF program.

Questioned Costs: None.

Context: Department staff query for changes in its contracting system by comparing the current month vendor obligation data to prior month vendor obligation data. The initial time the obligation accumulates to an amount exceeding \$30,000, or any increase in obligation amount thereafter, should be identified and reported as part of the department's procedures.

In total for six major programs, we identified 269 instances where changes in the federal obligation in the department's contracting system prompted, or should have prompted, the department to submit a FFATA report. For TANF, we reviewed four instances; this sample was not statistically valid. We reviewed the underlying agreements which were for Pathways Program providers who are considered subrecipients of federal TANF funds. Their subrecipient status supports the FFATA reports being necessary. However, the department did not complete and submit FFATA reports for these four TANF obligations.

The required FFATA summary information is included below.

Summary of FFATA Report Testing by Number of Reports and Associated Dollar Amounts				
Number of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
4	4	0	0	0
Dollar Amount of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$403,503	\$403,503	\$0	\$0	\$0

Effect: By not submitting required FFATA reports, the department did not comply with federal reporting requirements for the TANF program.

Cause: Based on information provided by the department, personnel did not identify when one of the data fields in its contracting system was repurposed to account for federal expenditure activity rather than state general fund activity. When this change occurred, department internal controls were not updated to fully consider the implications for FFATA reporting. Because the department did not update the data field to indicate federal funds were involved, the department did not identify the need to prepare and submit FFATA reports for Pathways Provider obligations.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to identify when changes in data fields in the contracting system impact its ability to properly identify changes in contract obligations for FFATA reporting for the TANF program.
- B. Submit accurate and complete FFATA reports for the TANF program, as required by federal regulations

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department’s planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-065: U.S. Department of Health and Human Services
ALN # 93.658, Foster Care- Title IV-E
Grant # 1907MTFOST, 2007MTFOST, 2107MTFOST

Criteria: Federal regulation, 2 CFR 200.170, Appendix A, requires the Department of Public Health and Human Services (department) report under the Federal Funding Accountability and Transparency Act (FFATA) each action on subaward agreements that equals or exceeds \$30,000 in federal funds. Reports must be submitted to the FFATA Subaward Reporting System (FSRS) no later than the end of the month following the month in which the obligation was made and reports must specify information about the obligating action, as outlined on the FSRS website.

Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Foster Care contracts contained unsupported dollar amounts and inaccurate federal award identification numbers, resulting in errors in FFATA reporting.

Questioned Costs: None.

Context: Department staff query for changes in its contracting system by comparing the current month data to prior month data. The initial time the obligation accumulates to an amount exceeding \$30,000, or any increase in obligation amount thereafter, should be identified and reported as part of the department's procedures.

In total for six major federal programs, we identified 269 instances where changes in the federal obligation in the department's contracting system prompted, or should have prompted, the department to submit a FFATA report. For Foster Care, we reviewed 6 instances; this sample was not statistically valid. While the reports were submitted timely, we could not determine the accuracy of the obligation information and the federal award identification number included on the FFATA reports, as the underlying contracts did not contain accurate disclosure information.

The required FFATA summary information is included below.

Summary of FFATA Report Testing by Number of Reports and Associated Dollar Amounts				
Number of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
6	0	0	6	6
Dollar Amount of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$511,509	\$0	\$0	\$511,509	\$511,509

Effect: The department did not comply with federal FFATA reporting requirements.

Cause: The department's contracts with subrecipients for the Foster Care program did not include complete and accurate information, as discussed in Finding 2021-051. Because the contracts were incomplete and inaccurate, the contracting system that drives FFATA reporting also contained incomplete or inaccurate data.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. In conjunction with enhancements to Foster Care subrecipient award agreements discussed in Finding 2021-051, enhance internal controls to ensure contracting system information is complete and accurate for Foster Care subawards.
- B. Submit accurate and complete FFATA reports for the Foster Care program, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2021-066: U.S. Department of Health and Human Services
ALN # 93.323, Epidemiology and Laboratory Capacity for Infectious
Diseases (ELC)
Grant # NU50CK000500

Criteria: Federal regulation, 2 CFR 200.170, Appendix A, requires the Department of Public Health and Human Services (department) report under the Federal Funding Accountability and Transparency Act (FFATA) each action on subaward agreements that equals or exceeds \$30,000 in federal funds. Reports must be submitted to the FFATA Subaward Reporting System (FSRS) no later than the end of the month following the month in which the obligation was made and reports must specify information about the obligating action, as outlined on the FSRS website.

In addition, federal regulation, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: Our sample testing for the ELC award identified multiple internal control and compliance issues related to FFATA reporting.

Questioned Costs: None.

Context: Department staff query for changes in its contracting system by comparing the current month data to prior month data. The initial time the obligation accumulates to an amount exceeding \$30,000, or any increase in obligation amount thereafter, should be identified and reported as part of the department's procedures.

For the ELC program, we identified 144 instances where changes in the federal obligation in the department's contracting system prompted, or should have prompted, the department to submit a FFATA report, and we reviewed 19 instances. This sample was not statistically valid. We identified eight instances where reports were not submitted and 11 instances where reports were not submitted timely. For all reports submitted, we identified subaward data was missing key elements as the federal award identification number was omitted and did not properly describe the purpose of the award in relation to the underlying subrecipient agreements. The required FFATA summary information is included below.

Summary of FFATA Report Testing by Number of Reports and Associated Dollar Amounts				
Number of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
19	8	11	0	19
Dollar Amount of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$22,544,689	\$21,557,612	\$987,077	\$0	\$22,544,689

Effect: By not submitting required FFATA reports, the department did not comply with federal reporting requirements for the ELC program. Without clear communication between department functions, the department risks continued FFATA reporting errors.

Cause: For three of the required reports not submitted, there was a breakdown in communication between the department's Business and Financial Services Division (BFSD) and the program staff involved in the contracting processes. For these instances, BFSD staff indicated there was no Data Universal Numbering System (DUNS) number, yet program staff were able to quickly locate the DUNS number at our request.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to ensure the Business and Financial Services Division staff receives unique entity identification number information for Epidemiology and Laboratory Capacity for Infectious Diseases contracts to allow for proper FFATA reporting.
- B. Submit accurate and complete FFATA reports for the Epidemiology and Laboratory Capacity for Infectious Diseases program, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-067: U.S. Department of Health and Human Services
ALN # 93.658, Foster Care – Title IV-E
Grant # 1901MTFOST, 2001MTFOST, 2101MTFOST

Criteria: Instructions for completion of the CB-496 report indicate Federal Share of Child Support Collections related to Title IV-E be included on line 3 of the CB-496 report. Additionally, instructions for line 17 of the CB-496 report require an estimate for Foster Care expenditures for the next quarter.

Federal regulation, 2 CFR 200.303 requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: The Department of Public Health and Human Services (department) did not properly correct misreported information in its Foster Care CB-496 reports submitted during the audit period.

Questioned Costs: None.

Context: We reviewed four CB-496 reports, out of eight submitted for the audit period. This was not a statistically valid sample. We identified incorrect amounts were included in reports submitted for quarters ended September 2020 and December 2020. On those reports, the department incorrectly reported Temporary Assistance for Needy Families cost recoveries rather than Foster Care cost recoveries. While the department identified the errors and made adjustments on its report for the quarter ended March 2021, the adjustments were not made correctly.

Additionally, for reports reviewed, the department reported estimated federal expenditures ranging from \$1.3 million to \$2.9 million. In contrast, for these same reports the department incurred between \$1.5 million and \$4.4 million in federal expenditures. On average, the department under-estimated upcoming federal expenditures by over \$1 million on each report.

Effect: Without effective internal control, the department continues to risk submitting incorrect CB-496 Foster Care reports. Due to the department's under-estimation of upcoming quarterly expenditures, the department exhausts its federal grant allocation early each quarter.

Cause: Department internal control procedures include identification and investigation of variances greater than 10% from the prior report for individual line items in the CB-496 reports. For the errors identified in our audit, the department's controls did not flag the variances for

follow-up even though the percentage of change ranged from 32% to 1192%. Additionally, the department input adjustments backwards on subsequent reports and these errors were not identified in the department's review of the reports.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Enhance internal control to review Foster Care CB-496 reports for accuracy prior to submission.
- B. Submit accurate information for cost recoveries and adjustments from prior periods on Foster Care CB-496 reports, as required by federal regulations.

Views of Responsible Officials: The department concurs with this recommendation. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-068: U.S. Department of Interior
ALN # 15.605, 15.611, 16.626, Fish and Wildlife Cluster
Grant # F15AF00528

Criteria: Federal regulation, 2 CFR 200.303, requires non-Federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Federal regulation, 2 CFR 200.405, states costs must be “allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.” Per the standard, “this standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.”

Federal regulation, 2 CFR 200.403 states costs must “be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles” and “be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.” It also states costs must be “adequately documented.”

Condition: The Department of Fish, Wildlife & Parks (department) obtained an administrative grant from the U.S. Fish and Wildlife Service related to the Wildlife Restoration and Basic Hunter Education grant that included 100% of the internal auditor’s position salary. The grant agreement indicates that the internal auditor position is responsible for assessing agency functions to ensure the department complies with all requirements necessary to maintain ongoing eligibility relative to the grant programs. While the internal auditor performed two audits directly related to the grant, the internal auditor also performed duties that are not directly related to the grant. The employee did not track time in a way that would allow a determination of what portion of time benefited the grant and was allowable to be charged to the grant. We question the entire amount of the internal auditor’s salary and benefit expenditures charged to the grant in state fiscal year 2020.

Questioned Costs: We identified \$28,105 in questioned costs.

Context: The department charged approximately 40% of its internal auditor’s salary to the Wildlife Restoration and Basic Hunter Education grant in state fiscal year 2020. While there

were two internal audits conducted related to the grant, most of the pay periods charged do not line up with the timeline of when the audits were in progress.

Effect: Because the department did not have internal control procedures to ensure the portion of the internal auditor's salary and benefits costs charged to the Wildlife Restoration and Basic Hunter Education grant program benefitted the program, the department cannot demonstrate compliance with federal regulations, resulting in questioned costs.

Cause: The internal auditor's position responsibilities include assessing fiscal and programmatic functions to ensure that the department complies with all requirements necessary to maintain ongoing eligibility relative to the Wildlife Restoration and Basic Hunter Education grant program. The internal auditor performs duties, such as internal audits for other department activities, that are not associated with the grant. While department personnel stated their internal auditor's time was used to complete eligible activities, they neglected to document activities performed for time worked to support the costs charged to the grant.

Repeat Finding: This is a repeat finding and was reported as Single Audit finding 2019-036 in the audit for the two fiscal years ended June 30, 2019.

Recommendation: We recommend the Department of Fish, Wildlife & Parks:

- A. Implement procedures to ensure the internal auditor's time is allocated to the Wildlife Restoration and Basic Hunter Education grant according to the proportionate benefit received.
- B. Charge internal audit salary costs to the grant for time that is necessary, reasonable, and allocable.

Views of Responsible Officials: The department partially concurs with this recommendation. Management believes that given the employee's time was used on specific eligible activities or other activities that benefitted the grant as a whole, time allocation was not necessary. For additional information regarding the department's planned corrective action see the Corrective Action Plan starting on page D-1.

Rebuttal of Views of Responsible Officials: We considered the department's partial concurrence. As noted above, the internal auditor performs duties, such as internal audits for other department activities, that are not associated with the grant. Due to a lack of documentation, the department cannot demonstrate the portion of the internal auditor's salary and benefits costs charged to the grant directly benefitted the program.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

Finding 2021-069: U.S. Institute of Museum and Library Services
ALN # 45.310, Grants to States
Grant # LS-246178-OLS-20, LS-249973-OLS-21

Criteria: Federal regulation, 2 CFR 200.430 (f), indicates “Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the non-Federal entity and the employees before the services were rendered, or pursuant to an established plan followed by the non-Federal entity so consistently as to imply, in effect, an agreement to make such payment.”

Federal regulation, 2 CFR 200.403(c), indicates costs must be consistent with policies and procedures that apply uniformly to both Federally-financed and other activities of the non-Federal entity to be allowable uses of Federal funds.

State of Montana Operations Manual (MOM) Broadband Pay Policy allows for lump-sum payments for reasons established in an agency’s pay policy, including an employee incentive award, housing allowances, temporary assignment pay, or a performance award for completing pre-set conditions of a project.

Condition: The Montana Library (Library) paid employee incentive bonuses in fiscal years 2020 and 2021. The Library’s pay plan policy dated August 10, 2018, in effect during the audit period, did not provide for these types of incentives or lump-sum payments. Contrary to federal regulations, the bonus costs were not paid as part of an established plan during the audit period. Therefore, the costs are unallowable and constitute noncompliance with federal regulations. A pay plan including incentive pay was effective October 13, 2021, subsequent to our audit period.

Questioned Costs: We question \$45,777 in bonus payments charged to the federal grant.

Context: In fiscal years 2020 and 2021, the Library used unspent personal services budget to fund bonuses for library staff. The Montana State Library Commission approved the bonuses based on Library successes throughout the year. The library paid the bonuses to all staff based on position. In fiscal year 2020, Helena Supervisors received 6 percent and remaining staff received 5 percent while Remote Supervisors received 4 percent and the remaining remote staff received 3 percent. In 2021 supervisors received \$3,500 and staff received \$2,500. The Library split the costs between funds in the same manner as employee salaries. Bonuses charged to the grants were \$18,877 in fiscal year 2020 and \$26,900 in fiscal year 2021. Total personal service costs for the bonuses were \$112,818 and \$132,000, respectively.

Effect: The bonus practice is noncompliance with federal regulations and state policy, and results in questioned costs.

Cause: Under MOM policy, the Library is required to update its pay plan policy every two years. While the pay plan in effect during fiscal years 2020 and 2021 did not have language allowing for lump-sum or incentive payments, prior policies did contain such language. Management indicated the language was accidentally removed from the policy in effect during the audit period and they have added the language back into current policy. In addition, Library personnel indicated they cannot implement expectations at the beginning of the period because they may not have sufficient resources to pay the bonus.

Recommendation: We recommend the Montana Library comply with federal regulations and state policy regarding employee incentive pay.

Views of Responsible Officials: The Library does not concur with this recommendation. While management acknowledges the Library did not include the required language to govern the application of their pay incentive strategy in their adopted pay plan policy, they disagree the bonus costs charged to the federal funds were not consistent with federal regulations. Management's position is based, in part, on e-mail correspondence with a federal Institute of Museum and Library Services Program Officer, occurring after the audit period.

Rebuttal of Views of Responsible Officials: Federal grantor agencies are responsible for issuing management decisions on federal findings after, not before, receipt of the Single Audit report. However, as part of our audit procedures, we considered the e-mail correspondence with the Program Officer. In that correspondence, management indicated the payments were made in accordance with the state's pay plan policy. We have determined, and management has acknowledged, that the language required to be included in the pay plan policy to govern bonus payments, was not included in the policy in place during the audit period. As such, we do not consider the bonus payments to have been made in accordance with the state's pay plan policy. Additionally, we do not consider the fact that similar payments were made eight times in the last twelve years to imply, in effect, an agreement to make payment.

Research and Development Cluster Activity by ALN # and Location

Federal Agency and ALN Information		Location	
ALN #	Title	UM - Missoula	MSU - Bozeman
U.S Department of Agriculture			
10.001	Agricultural Research Basic and Applied Research	X	X
10.025	Plan and Animal Disease, Pest Control, and Animal Care	X	X
10.200	Grants for Agricultural Research, Special Research Grants		X
10.202	Cooperative Forestry Research	X	
10.215	Sustainable Agriculture Research and Education		X
10.217	Higher Education - Institution Challenge Grants Program		X
10.226	Secondary And Two-Year Postsecondary Agriculture Education Challenge Grants		X
10.227	1994 Institutions Research Program	X	X
10.250	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		X
10.290	Agricultural Market and Economic Research		X
10.303	Integrated Programs		X
10.304	Homeland Security Agricultural		X
10.307	Organic Agriculture Research and Extension Initiative		X
10.309	Specialty Crop Research Initiative		X
10.310	Agriculture and Food Research Initiative (AFRI)	X	X
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	X	
10.318	Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		X
10.329	Crop Protection and Pest Management Competitive Grants Program		X
10.330	Alfalfa and Forage Research Program		X
10.350	Technical Assistance to Cooperatives		X
10.460	Risk Management Education Partnerships		X
10.500	Cooperative Extension Service		X
10.525	Farm And Ranch Stress Assistance Network Competitive Grants Program		X
10.610	Export Guarantee Program	X	
10.652	Forestry Research	X	X
10.664	Cooperative Forestry Assistance	X	X
10.672	Rural Development, Forestry, and Communities		X
10.680	Forest Health Protection	X	X
10.682	National Forest Foundation		X
10.684	International Forestry Programs	X	
10.699	Partnership Agreements	X	X
10.707	Research Joint Venture And Cost Reimbursable Agreements	X	
10.902	Soil and Water Conservation	X	X
10.903	Soil Survey	X	
10.912	Environmental Quality Incentives Program	X	X
10.960	Technical Agricultural Assistance		X

U.S Department of Commerce			
11.020	Cluster Grants		X
11.431	Climate and Atmospheric Research	X	
11.438	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	X	
11.440	Environmental Sciences, Applications, Data, and Education		X
11.459	Weather And Air Quality Research		X
11.467	Meteorologic And Hydrologic Modernization Development		X
11.472	Unallied Science Program		X
11.609	Measurement And Engineering Research And Standards		X
U.S Department of Defense			
12.002	Procurement Technical Assistance for Business Firms		X
12.005	Conservation And Rehabilitation Of Natural Resources On Military Installations	X	
12.114	Collaborative Research and Development		X
12.300	Basic and Applied Scientific Research	X	X
12.420	Military Medical Research and Development	X	X
12.431	Basic Scientific Research		X
12.630	Basic, Applied, And Advanced Research In Science And Engineering		X
12.632	Legacy Resource Management Program	X	
12.800	Air Force Defense Research Sciences Program	X	X
12.910	Research and Technology Development		X
U.S Department of the Interior			
15.035	Forestry On Indian Lands	X	
15.224	Cultural and Paleontological Resources Management	X	X
15.225	Recreation and Visitor Services	X	
15.228	BLM Fuels Management and Community Fire Assistance Program Activities	X	
15.230	Invasive and Noxious Plant Management	X	X
15.231	Fish, Wildlife and Plant Conservation Resource Management	X	X
15.232	Joint Fire Science Program	X	X
15.236	Environmental Quality and Protection	X	
15.238	Challenge Cost Share	X	X
15.247	Wildlife Resource Management	X	X
15.248	National Landscape Conservation System	X	
15.517	Fish and Wildlife Coordination Act	X	
15.605	Sport Fish Restoration		X
15.608	Fish and Wildlife Management Assistance	X	X
15.611	Wildlife Restoration and Basic Hunter Education	X	
15.615	Cooperative Endangered Species Conservation Fund	X	
15.631	Partners for Fish and Wildlife	X	X
15.634	State Wildlife Grants	X	X
15.637	Migratory Bird Joint Ventures	X	
15.650	Research Grants (Generic)		X
15.654	National Wildlife Refuge System Enhancements		X
15.655	Migratory Bird Monitoring, Assessment and Conservation	X	X
15.657	Endangered Species Conservation - Recovery Implementation Funds	X	
15.660	Endangered Species - Candidate Conservation Action Funds		X

15.663	NFWF - USFWS Conservation Partnership	X	
15.664	Fish And Wildlife Coordination And Assistance		X
15.665	National Wetlands Inventory	X	
15.670	Adaptive Science	X	
15.678	Cooperative Ecosystem Studies Units	X	X
15.805	Assistance to State Water Resources Research Institutes		X
15.808	U.S. Geological Survey Research and Data Collection	X	X
15.810	National Cooperative Geologic Mapping	X	X
15.812	Cooperative Research Units	X	X
15.815	National Land Remote Sensing Education Outreach and Research		X
15.820	National and Regional Climate Adaptation Science Centers	X	
15.926	American Battlefield Protection	X	
15.945	Cooperative Research and Training Programs - Resources of the National Park System	X	X
U.S Department of Justice			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		X
U.S Department of State			
19.408	Academic Exchange Programs - Teachers		X
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges		X
19.600	Bureau of Near Eastern Affairs		X
U.S Department of Transportation			
20.109	Air Transportation Centers of Excellence		X
20.200	Highway Research and Development Program		X
20.205	Highway Planning and Construction	X	X
20.215	Highway Training And Education		X
20.514	Public Transportation Research, Technical Assistance, and Training		X
20.600	State and Community Highway Safety		X
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		X
20.616	National Priority Safety Programs		X
20.701	University Transportation Centers Program		X
U.S Department of Treasury			
21.020	Community Development Financial Institutions Program		X
U.S National Aeronautics and Space Administration			
43.001	Science	X	X
43.008	Office of Stem Engagement (OSTEM)		X
43.009	Cross Agency Support		X
43.012	Space Technology		X
U.S National Endowment for the Humanities			
45.129	Promotion of the Humanities Federal/State Partnership		X
45.312	National Leadership Grants		X
45.313	Laura Bush 21st Century Librarian Program		X

U.S National Science Foundation			
47.041	Engineering	X	X
47.049	Mathematical and Physical Sciences	X	X
47.050	Geosciences	X	X
47.070	Computer and Information Science and Engineering	X	X
47.074	Biological Sciences	X	X
47.075	Social, Behavioral, and Economic Sciences	X	X
47.076	Education and Human Resources	X	X
47.078	Polar Program	X	X
47.079	Office of International Science and Engineering	X	
47.083	Integrative Activities	X	X
U.S Department of Veterans Affairs			
64.054	Research and Development		X
U.S Environmental Protection Agency			
66.202	Congressionally Mandated Projects	X	
66.461	Regional Wetland Program Development Grants	X	
66.509	Science to Achieve Results (STAR) Research Program		X
66.510	Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development		X
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		X
66.808	Solid Waste Management Assistance Grants		X
66.951	Environmental Education Grants	X	
66.962	Columbia River Basin Restoration (CRBR) Program	X	
U.S Department of Energy			
81.049	Office of Science Financial Assistance Program	X	X
81.086	Conservation Research And Development		X
81.087	Renewable Energy Research and Development		X
81.089	Fossil Energy Research and Development		X
81.121	Nuclear Energy Research, Development and Demonstration	X	
81.135	Advanced Research Projects Agency - Energy		X
U.S Department of Education			
84.217	TRIO McNair Post-Baccalaureate Achievement		X
84.299	Indian Education - Special Programs for Indian Children		X
84.305	Education Research, Development and Dissemination	X	
84.336	Teacher Quality Partnership Grants		X
U.S Department of Health and Human Services			
93.001	Civil Rights and Privacy Rule Compliance Activities		X
93.103	Food And Drug Administration Research	X	
93.107	Area Health Education Centers		X
93.113	Environmental Health	X	X
93.121	Oral Diseases And Disorders Research	X	
93.155	Rural Health Research Centers		X
93.172	Human Genome Research	X	
93.173	Research Related to Deafness and Communication Disorders	X	

93.213	Research and Training in Complementary and Integrative Health		X
93.233	National Center On Sleep Disorders Research		X
93.242	Mental Health Research Grants	X	X
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	X	
93.247	Advanced Nursing Education Workforce Grant Program		X
93.262	Occupational Safety and Health Program	X	X
93.273	Alcohol Research Programs		X
93.276	Drug-Free Communities Support Program Grants		X
93.279	Drug Abuse and Addiction Research Programs		X
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health		X
93.300	National Center For Health Workforce Analysis		X
93.301	Small Rural Hospital Improvement Grant Program		X
93.307	Minority Health and Health Disparities Research		X
93.310	Trans-NIH Research Support	X	X
93.350	National Center for Advancing Translational Sciences	X	
93.351	Research Infrastructure Programs	X	X
93.359	Nurse Education, Practice Quality and Retention Grants		X
93.361	Nursing Research		X
93.393	Cancer Cause and Prevention Research	X	X
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	X	
93.670	Child Abuse and Neglect Discretionary Activities		X
93.772	Tribal Public Health Capacity Building And Quality Improvement Umbrella Cooperative Agreement	X	
93.837	Cardiovascular Diseases Research	X	
93.838	Lung Diseases Research	X	X
93.846	Arthritis, Musculoskeletal and Skin Diseases Research		X
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	X	X
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	X	X
93.855	Allergy and Infectious Diseases Research	X	X
93.859	Biomedical Research and Research Training	X	X
93.865	Child Health and Human Development Extramural Research	X	X
93.866	Aging Research	X	X
93.867	Vision Research		X
93.879	Medical Library Assistance	X	X
93.913	Grants To States For Operation Of State Offices Of Rural Health		X
93.933	Demonstration Projects for Indian Health		X
93.969	PPHF Geriatric Education Centers	X	
93.970	Health Professions Recruitment Program for Indians		X
U.S Social Security Administration			
96.007	Social Security Research and Demonstration		X
U.S Agency for International Development			
98.001	USAID Foreign Assistance for Programs Overseas		X

CORRECTIVE ACTION PLAN

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OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

GREG GIANFORTE
GOVERNOR



CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

June 9, 2022

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

RECEIVED
JUN 09 2022
LEGISLATIVE AUDIT DIV.

Re: Corrective Action Plan
Montana Single Audit Report #20-02
For the Two Fiscal Years Ended June 30, 2021

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, 2021. 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.

Sincerely,

/s/ Ryan Osmundson

Ryan Osmundson
Budget Director

cc: Sonia Powell, Single Audit Coordinator

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-1	Various	<p>Retirement System Soundness - As constitutionally required by Article VIII § 15 of the Montana Constitution, the Public Employees' Retirement Board (PERB) confronts all defined benefit plan funding shortfalls, and recommends funding increases, when plans do not amortize within 30 years. In line with previous audit recommendations regarding the funding status of specific defined benefit plans administered by Montana Public Employees' Retirement Administration (MPERA), the PERB and MPERA have taken the following actions to address the funding shortfall for the defined benefit plan listed below.</p> <p>Game Wardens' and Peace Officers' Retirement System (GWPPORS) - MPERA introduced House Bill 44 during the 67th Legislative Session to increase the funding status and overall actuarial soundness of the Game Wardens' and Peace Officers' Retirement System (GWPPORS). This bill was tabled. As required by law, MPERA will continue to monitor the funding of GWPPORS, and based on the fiscal year 2022 valuation, if the system does not amortize under 30 years, the PERB and MPERA will propose a separate funding bill for GWPPORS during the 68th Legislature's 2023 Session.</p>	Hollie Resler, Bureau Chief Montana Public Employees' Retirement System	Ongoing
2021-2	Various	<p>Controls Over Financial Reporting - The Department of Labor and Industry implemented additional training with staff over fiscal year end procedures to ensure staff understood the accounting entries necessary at the end of each year, as well as how those entries are made. It is also implementing additional deadlines and review processes for fiscal year end accounting entries and additional processes for reconciling Unemployment Insurance deposits in the Trust Fund to the cash accounts in the accounting system. In March of 2022, the department restructured division fiscal staff to report to the Centralized Services Division to ensure proper training and accountability for complex accounting processes and entries. Finally, the department is currently undergoing a review of all Unemployment Insurance fiscal processes and procedures.</p>	Erin Weisgerber, Administrator, Centralized Services Division, Department of Labor and Industry	11/30/2022
2021-3	Various	<p>Preparation of the Basic Financial Statements - The Department of Administration's State Financial Services Division has enhanced procedures for the Unemployment Insurance enterprise fund activity to identify unusual activity. Procedures will also be updated to take additional steps to ensure journals provided by agencies are not duplicated.</p>	Cheryl Grey, Administrator, State Financial Services Division, Montana Department of Administration	6/30/2022
2021-4	Various	<p>Pandemic Electronic Benefit Transfer Activity Comingled with Supplemental Nutrition Assistance Program - The Department of Public Health and Human Services updated and implemented procedures to require an Assistance Listing Number before an accounting system chartfield can be created or updated, which will prevent the comingling of new programs with existing programs. The updates were communicated to staff, and the Schedule of Expenditures of Federal Awards was corrected.</p>	Corinne Kyle, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021**

Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-5	Various	<p>Capital Asset Management - Montana State University will strengthen compensating controls surrounding capital asset activity to ensure that the calculations and financial information provided by financial software are accurate and complete when vendor supplied Service Organization Controls reports are not available.</p>	<p>Aaron Mitchell, Associate Vice President for Financial Services Montana State University</p>	6/30/2022
2021-6	Various	<p>Capital Asset Management - Management of the University of Montana concurs that enhancing internal controls and updating documentation is important in a dynamic and changing operational environment. Management believes its documentation and internal controls over capital assets are adequate to ensure that capital assets and related disclosures in its consolidated financial statements are completed and accurate in all material respects. In accordance with the auditor's recommendations, management has implemented a plan to enhance communications between Business Services and Facilities Services personnel involved with capital projects. Management will ensure that key personnel are adequately informed about state capital asset accounting policy by November 1, 2022. These enhancements will help ensure that capital assets are properly accounted for and adhere to accounting standards and applicable state capitalization policy.</p> <p>Management concurs that applying state policy appropriately helps ensure the completeness and accuracy of capital assets and related disclosures in its financial statements. Management has made its determination based on U.S. Generally Accepted Accounting Principles and its understanding of state capital asset policy in preparation of the university's financial statements. State capital asset policy does not explicitly address accounting for capital projects completed in phases, such as the multi-phase renovation project on the Missoula campus referenced in the finding. In this specific situation, management actively and intentionally evaluated and used its best judgment based on relevant facts and circumstances, further informed by collaboration with appropriate university personnel, in determining the classification of capital assets. While the university believes the finding does not constitute a material weakness in internal controls, we recognize the Legislative Audit Division's perspective regarding the treatment of asset improvements in a phased approach. The university will amend its practices by November 1, 2022 and will continue to make every effort to ensure that it adheres to state policy regarding building improvements and capital assets.</p>	<p>Paul Lasiter, Vice President of Operations and Finance, University of Montana</p>	11/1/2022
2021-7	Various	<p>Children's Health Insurance Program and Medicaid Eligibility - The Department of Public Health and Human Services will improve policies and procedures related to documentation of eligibility determinations, case changes, income eligibility determinations, and transitional coverage.</p>	<p>Gene Hermanson, Administrator, Human and Community Services Division, Department of Public Health and Human Services</p>	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-001	12.401	Noncompliance with Federal Allowable Cost Requirements - The Department of Military Affairs updated standard operating procedures to include additional calendar reminders and approvals for proper post engineer allocations.	Leslie White, Deputy Construction Facilities Management Officer, Department of Military Affairs	Completed
2021-002	20.205, 20.219, 20.224	Noncompliance with Federal Certified Payroll Requirements - It is the responsibility of the contractors to submit certified weekly payrolls to the Montana Department of Transportation when working on an Montana Department of Transportation construction project. The Engineering Project Managers ensure certified payrolls are received each week for their contracts. The Engineering Project Managers then submit the payrolls to the Contract Administration Section for compliance testing. The Contract Administration Section performs compliance testing and has increased education of this requirement to the contractors as well as enhanced training to Engineering Project Managers and their crews. The Montana Department of Transportation has also increased training to ensure that Engineering Project Managers and construction field offices understand the labor compliance requirements. Through the increase in training for the contractors and Montana Department of Transportation field staff, the projects managed both outside of the new electronic payroll submission module (AASHTOWare) and within it will have increased monitoring for all certified payrolls. AASHTOWare, completed in October 2019, has assisted in improving compliance and will continue to do so as projects with the paper payroll method close and all new ones are managed within the system. The Montana Department of Transportation has updated its project management software to report when certified payrolls are required and developed a process to ensure all payrolls are received. It has also distributed a Labor Compliance Manual containing the certified payroll requirements and has provided training and guides on the contract monthly estimate and finalization processes.	Dustin Rouse, Chief Engineer, Engineering Division, Montana Department of Transportation	Completed
2021-003	20.509	Noncompliance with Federal Procurement Requirements - The Montana Department of Transportation has policies and controls in place to ensure all procurement follows state and federal policies and requirements. The policies will be reviewed and updated to confirm that compliance is maintained on an annual basis. Post-delivery certifications will be completed and sent to the purchasing section for filing upon the final vehicle delivery for each contract and updated on the file vehicle contract tracking spreadsheet. The transit supervisor will review the tracking spreadsheet when approving payment for vehicle purchases.	Rob Stapley, Administrator, Rail, Transit and Planning Division, Montana Department of Transportation	9/30/2022

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-004	20.509	<p>Noncompliance with Subrecipient Monitoring Requirements - The Montana Department of Transportation will complete a risk assessment for each subrecipient during the application review process. Assessments will be uploaded to each corresponding subrecipient folder in the grant management system. Assessments must be complete and filed prior to the grant application approval. The department will include all known awarded funds to the subrecipient in each agreement. This includes the capital project federal obligation, the operating federal obligation, and all other known capital project federal obligations. The department has filled the fiscal planner position and is positioned to ensure that all detailed fiscal reviews of quarterly reports are completed and tracked. The department will annually reconcile the tracking sheet with the reviews as part of a closeout process, ensuring completeness.</p>	<p>Rob Stapley, Administrator, Rail, Transit and Planning Division, Montana Department of Transportation</p>	12/31/2022
2021-005	20.509	<p>Untimely Recovery of Questioned Costs - The Montana Department of Transportation Transit Section will ensure that it timely follows its processes when identifying unallowable costs. Once costs are identified, payment processing occurs through the Accounting Systems Operations Section.</p>	<p>Rob Stapley, Administrator, Rail, Transit and Planning Division, Montana Department of Transportation</p>	Completed
2021-006	21.019	<p>Ineligible Grant Recipients - The Department of Commerce notified the businesses and is working with them to recover the funds. The department followed up with the six businesses identified as sole proprietors and found that all of them had other allowable expenses. The department reviewed expenses for the four organizations that received funding from both of the awards and determined that none of the expenses were duplicated.</p>	<p>Ingrid Mallo, Accounting and Finance Manager, Montana Department of Commerce</p>	12/31/2022
2021-007	21.019	<p>Noncompliant Subrecipient Communications - The Department of Commerce identified each nonprofit that received an award that may be subject to Single Audit requirements and has communicated to them the information required in 2 CFR 200.332. The department will ensure all required information is provided to subrecipients through multiple communication channels. Additionally, the department is evaluating the use of compliance checklists to ensure all requirements for any grant proposal are met or exceeded.</p>	<p>Ingrid Mallo, Accounting and Finance Manager, Montana Department of Commerce</p>	Completed
2021-008	21.019	<p>Noncompliant Subrecipient Monitoring - The Department of Commerce has communicated to the subrecipients the Single Audit requirements and plans to review the audits as they become available to follow-up on any matters that may relate to the tourism safety grants.</p>	<p>Ingrid Mallo, Accounting and Finance Manager, Montana Department of Commerce</p>	12/31/2022

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-009	21.019	Noncompliant Subrecipient Monitoring - The Montana Department of Transportation audited an additional 18 grantees and did not identify any questioned costs or findings in these reviews. Of the two recipients the Legislative Audit Division identified as having questioned costs, we completed an audit of the recipients and found costs were allowable. The eight grantees Audit Services audited in August 2021 were identified by the department as high-risk. Of these eight, we identified three with questioned costs but received additional documentation and found costs were allowable.	Rob Stapley, Administrator, Rail, Transit and Planning Division, Montana Department of Transportation	Completed
2021-010	21.019	Noncompliant Subrecipient Monitoring - The Department of Administration has completed the reimbursement process for the Coronavirus Relief Fund program and worked with local government entities to provide information needed to complete their audits. The department will ensure future federal grant programs communicate the required information.	Cheryl Grey, Administrator, State Financial Services Division, Montana Department of Administration	6/30/2022
2021-011	21.019	Noncompliant Subrecipient Monitoring - The Department of Public Health and Human Services has designed training for relevant staff on federal requirements for agreements with subrecipients. Internal controls have been updated and a set of subrecipient frequently asked questions has been developed to aid in ensuring subrecipient disclosures are included in agreements prior to signature. Letters have been sent out to subrecipients that were missing federal contract disclosures and future contracts have been modified to include relevant federal contract disclosures for future agreements.	Corinne Kyle, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	7/1/2022
2021-012	21.019	Duplicate Payments for Quarantine Isolation Program - The Department of Public Health and Human Services instituted detective controls to identify duplicate payments. The duplicate payments were communicated to program staff, who are working to collect them. Controls have been enhanced to include a quality control check prior to issuing payments.	Corinne Kyle, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	Completed
2021-013	21.023	Potentially Fraudulent Activity - The Department of Commerce will continue its diligent efforts to detect fraudulent applications and prevent ineligible disbursements. The department also plans to move to a single grant management system, which will further enhance fraud detection capabilities.	Ingrid Mallo, Accounting and Finance Manager, Montana Department of Commerce	12/31/2022
2021-014	97.036	Deficient Federal Funding Accountability and Transparency Act Controls - The Montana Disaster and Emergency Services has submitted Federal Funding Accountability and Transparency Act reports and is current with reporting requirements. The department will clarify in its Public Assistance Administrative Plan the Federal Funding Accountability and Transparency Act requirements.	Deilia Bruno, Administrator, Montana Disaster and Emergency Services Department of Military Affairs	12/31/2022

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-015	97.042	Deficient Reimbursement Controls - The Montana Disaster and Emergency Services implemented modified procedures as soon as possible, given the timing of the prior audit report.	Delilia Bruno, Administrator, Montana Disaster and Emergency Services	Completed
2021-016	97.050	Noncompliant Federal Emergency Management Agency Reporting - The Department of Labor and Industry is documenting internal controls to ensure all federal reports for new federal programs are reviewed by someone other than the preparer prior to submission and that the review and approval is documented in writing.	Department of Military Affairs Erin Weisgerber, Administrator, Centralized Services Division, Department of Labor and Industry	Completed
2021-017	17.225	Benefit Accuracy Measurement Reviews - The Unemployment Insurance Division has hired a new Benefit Accuracy Measurement (BAM) auditor who began training on May 16, 2022. This will remove audit duties from the BAM supervisor so the supervisor can take on the review process for all BAM audits to meet the federal regulations of the program.	Paul Martin, Administrator, Unemployment Insurance Division, Department of Labor and Industry	Completed
2021-018	17.225	Miscalculated Pandemic Unemployment Assistance - The Department of Labor and Industry is currently developing processes and procedures that will outline steps staff can take when required to calculate benefits utilizing both wage information and self-employment earnings for future potential federal unemployment insurance programs. In addition, the department is drafting documentation on lessons learned through the pandemic to improve on the response to any future programs that may be developed in response to a large economic crisis. Finally, the department is documenting training needs to be used in the future if temporary staff is relied on for temporary federal programs, such as Pandemic Unemployment Assistance.	Paul Martin, Administrator, Unemployment Insurance Division, Department of Labor and Industry	2/28/2023
2021-019	17.225	Unemployment Insurance Overpayment Recovery - The Unemployment Insurance Division is sending a notification to any claimant with a potential double payment due to claims in both the regular Unemployment insurance program and the Pandemic Unemployment Assistance program. The claimant must sign the notice and return it to the department, acknowledging the debt and agreeing to pay back the overpayment upon receipt of the funds. No funds will be released to the claimant until this agreement is provided to the department. In addition, the department has enhanced the fraud unit and is actively working each potential fraudulent claim to recover overpayments. While this process has been implemented, it may take up to three (3) years to recover payments once the overpayment is established.	Paul Martin, Administrator, Unemployment Insurance Division, Department of Labor and Industry	Ongoing
2021-020	17.225	Inadequate Data Security for Pandemic Unemployment Assistance - The Department of Labor and Industry will ensure a Service Organization Controls report is obtained prior to implementing new information technology systems.	Kim Warren, Administrator, Technology Services Division, Department of Labor and Industry	Completed

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Finding	CFDA/AIN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-021	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.342, 93.364, 93.925	Inadequate Data Security - The Office of Commissioner of Higher Education will establish a workgroup comprised of the commissioner's staff and university system stakeholders to further develop and inform board policy and information technology governance practices across the Montana University System. This process, and its outcome, will ensure the office has an active role in improving the security posture of the Montana University System, and that clear lines of security responsibility and authority are established. Additionally, the collaboration with university partners will enable the office to better align existing Montana University System security practices with statutory and federal requirements, as well as with a more deliberate security framework. Formalized communication in this risk area is already planned as part of the Montana University System Enterprise Risk Management (ERM) process initiated by the Board of Regents. Information security has been identified as a system-wide risk, and as part of the ERM process, the workgroup will have a reporting line to the Board of Regents through our Montana University System Risk and Compliance Leadership Council. Lastly, the process will help the office determine what resources are needed across the system and/or at the Office of Commissioner of Higher Education to support information technology governance and information security across the Montana University System. The office will identify any additional resources needed by April 2023.	Tyler Trevor, Deputy Commissioner for Budget & Planning and Chief of Staff, Office of Commissioner of Higher Education	4/1/2023
2021-022	84.007, 84.033, 84.038, 84.063, 84.268, 93.264, 93.364, 93.925	Inadequate Data Security - Montana State University will conduct a comprehensive information technology risk assessment of controls, including those surrounding the Student Financial Assistance program.	Justin van Almelo, Chief Information Security Officer, Montana State University	5/31/2023
2021-023	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Inadequate Data Security - The University of Montana will ensure that role descriptions are updated and formatted consistently. The university will complete a comprehensive information technology risk assessment and implement strategic initiatives with an eye toward maturing the security program and increasing security awareness.	Zach Rossmiller, Associate Vice President and Chief Information Officer, University of Montana	6/30/2023
2021-024	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.364, 93.925	Missing Direct Loan Reconciliations - Montana State University Great Falls College and Montana State University Northern added preparer and reviewer signature lines to the loan reconciliation spreadsheets in effect for the 2021-2022 aid year. The campuses will continue to perform and retain supporting documentation for the reconciliations.	Leah Habel, Financial Aid Director, Great Falls College Cindy Small, Director of Financial Aid, Montana State University Northern	Completed

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-025	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.364, 93.925	Missing Cost of Attendance Documentation - Cost of Attendance preparation internal controls, including a review by an individual other than the preparer, were documented by Montana State University Bozeman and Montana State University Great Falls College in effect for the 2022-2023 aid year and will be documented by Montana State University Billings and Montana State University Northern in effect for the 2023-2024 aid year.	James Broscheit, Director of Financial Aid, Montana State University Bozeman Leah Habel, Financial Aid Director, Great Falls College Thomas Valles, Director of Financial Aid and Scholarships, Montana State University Billings Cindy Small, Director of Financial Aid Montana State University Northern	3/31/2023
2021-026	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.364, 93.925	Perkins Loan Borrowers Paid In Full Letters - Montana State University Northern will enhance internal controls regarding the Perkins Loan Paid In Full letters to ensure compliance with federal regulation. Paid In Full letters and original promissory notes have been mailed to all borrowers starting October 2018 to present. Copies were made of the letters and promissory notes for the borrowers' files. Montana State University Northern will continue to monitor the internal controls when completing the monthly reconciliations of the Perkins Loan program.	Sue Ost, Interim Vice Chancellor for Finance and Administration, Montana State University Northern	Completed
2021-027	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Cost of Attendance - University of Montana Missoula, University of Montana Western, and Helena College will ensure that individuals not involved in the Cost of Attendance process review all calculations for accuracy and completeness. University of Montana Western will create a template including amounts listed under each eligible Cost of Attendance category. The template will be used to support Cost of Attendance calculations.	Valerie Curtin, Financial Aid Director, Helena College Shauna Savage, Financial Aid Director, Montana Tech Emily Williamson, Financial Aid Director, University of Montana Missoula Louise Driver, Financial Aid Director, University of Montana Western	12/30/2022

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-028	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Return of Title IV - University of Montana Missoula will automate the process in Banner, revise its policy and procedures manual, and ensure that staff is adequately trained. University of Montana Western will ensure that an individual not directly involved in the process reviews all Title IV returns calculations for completeness and accuracy. The Financial Aid Office will work with the Office of the Registrar to ensure that student withdrawal lists are run consistently and documented appropriately.	Emily Williamson, Financial Aid Director, University of Montana Missoula Louise Driver, Financial Aid Director, University of Montana Western	12/30/2022
2021-029	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Enrollment Reporting - The Office of the Registrar will work with the Chief Information Officer to ensure that all students are reported to the National Student Loan Data System.	Maria Managold, Registrar, University of Montana Missoula	06/30/2022
2021-030	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Direct Loan Reconciliation - University of Montana Missoula, University of Montana Western, Helena College, and Montana Tech will ensure that reconciliations are completed monthly and reviewed by individuals not involved in the process. University of Montana Missoula, University of Montana Western, Helena College, and Montana Tech will comply with federal requirements governing the Direct Loan Program by reconciling the School Account Statement data files monthly.	Valerie Curtin, Financial Aid Director, Helena College Shauna Savage, Financial Aid Director, Montana Tech Emily Williamson, Financial Aid Director, University of Montana Missoula Louise Driver, Financial Aid Director, University of Montana Western	12/30/2022
2021-031	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Fiscal Operations Report and Application to Participate Reporting - University of Montana Western and Helena College will create and maintain folders including supporting documentation for each year of Fiscal Operations Report and Application to Participate reporting.	Valerie Curtin, Financial Aid Director, Helena College Louise Driver, Financial Aid Director, University of Montana Western	12/30/2022

**STATE OF MONTANA
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Finding	CFDA/AIN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-032	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Paid in Full Letters - University of Montana Missoula contracted with Educational Computer Systems, Inc (ECSI) to send paid-in-full letters to eligible borrowers. University of Montana Missoula will also create and implement monitoring controls to ensure that ECSI's process operates effectively. University of Montana Western also contracted with ECSI to administer cancellation and deferments requests. University of Montana Western will send paid-in-full notifications to all eligible borrowers. Montana Tech contracted with ECSI to send the exit materials and updated its procedures related to exit counseling. Montana Tech will now confirm that exit counseling was completed by verifying the exit coding and separation date in ECSI's systems. The University will also print all related materials and add them to the student's file.	Valerie Curtin, Financial Aid Director, Helena College Shauna Savage, Financial Aid Director, Montana Tech Emily Williamson, Financial Aid Director, University of Montana Missoula Louise Driver, Financial Aid Director, University of Montana Western	12/30/2022
2021-033	84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342	Perkins Loans - University of Montana Missoula will ensure that formal reviews of service organization controls reports are added to Business Services/Student Accounts year-end procedures. Because the University of Montana affiliation uses the same loan servicer, these annual reviews of service organization controls reports will address the gaps identified at University of Montana Western and Montana Tech.	Lucy Logan, Director of Student Accounts, University of Montana Missoula	12/30/2022
2021-034	Various, R&D Cluster	Equipment Purchases - University of Montana Missoula will implement internal controls to ensure all equipment is tagged and comply with federal requirements governing equipment for the Research and Development Cluster.	Dan Jenko, Controller, University of Montana Missoula	12/30/2022

**STATE OF MONTANA
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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-035	84.010, 84.027, 84.173, 84.425D	<p>Subrecipient Monitoring - The Office of Public Instruction has updated its E-grants system to ensure that the required information is provided to the grant recipients. The Office of Public Instruction is in the process of enhancing the overall assessment of risk for all federal programs which includes deterring risk for non-local-educational agencies. This includes the creation of a more standardized monitoring process. The Office of Public Instruction is also in the final stage of procuring the services of Ernst & Young, who will be completing a gap analysis of the Office of Public Instruction's internal controls over federal programs. After the gap analysis, Ernst & Young will aid the Office of Public Instruction in the development and implementation of a monitoring plan over Elementary and Secondary School Emergency Relief funds. Additionally, the Office of Public Instruction has updated the procedure for issuing management decision letters. The Office of Public Instruction will ensure documentation is available for audit. In addition, the Office of Public Instruction has included a new section in the letter to address the timetable for follow-up.</p>	<p>Deann Wilcut, Centralized Services Senior Manager, Montana Office of Public Instruction</p> <p>Jack O'Connor, Title I, Federal Grants Unit Director and Private School Ombudsman, Montana Office of Public Instruction</p> <p>Jay Phillips, Chief Financial Officer, Montana Office of Public Instruction</p> <p>Barb Quinn, School Finance Senior Manager, Montana Office of Public Instruction</p> <p>Dan Moody, Auditor, Montana Office of Public Instruction</p>	10/1/2022
2021-036	84.425D	<p>Elementary and Secondary School Emergency Relief Sample Errors - The Office of Public Instruction is in the process of initiating a contract with Ernst & Young, who will provide the Office of Public Instruction with an extensive monitoring plan and tool. The Office of Public Instruction agrees the initial documentation was not as detailed as typically required but planned to provide needed assurance over the allowable uses of Elementary and Secondary School Emergency Relief funds via the monitoring process. In addition, the Office of Public Instruction has implemented a new process for the allocation of federal funds. There will be a centralized documentation repository for allocations to ensure the Office of Public Instruction has the ability to support the calculation and distribution of all federal funds.</p>	<p>Jay Phillips, Chief Financial Officer, Montana Office of Public Instruction</p>	10/1/2022
2021-037	84.425D	<p>Elementary and Secondary School Emergency Relief Annual Report - Due to national data reporting issues, the US Department of Education re-opened the Elementary and Secondary School Emergency Relief I report. The Office of Public Instruction has received guidance from the US Department of Education as to which data items need to be amended and is working to amend the initial report.</p>	<p>Chris Noel, Teaching and Learning, Montana Office of Public Instruction</p>	7/30/2022

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Finding	CFDA/AIN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-038	84.425D, 84.010	Title I and Elementary and Secondary School Emergency Relief Federal Funding Accountability and Transparency Act Reports - The Office of Public Instruction has updated the desk manual to include language describing secondary reviews of Federal Funding Accountability and Transparency Act reports for Elementary and Secondary School Emergency Relief funds. As noted in the recommendation, the Office of Public Instruction resubmitted the Elementary and Secondary School Emergency Relief report to properly reflect allocated and expended amounts.	Jay Phillips, Chief Financial Officer, Montana Office of Public Instruction	Completed
2021-039	10.553, 10.555, 10.556, 10.559	Child Nutrition Inventory - The Office of Public Instruction is in the process of preparing for the current inventory cycle. As part of the annual inventory count, the Office of Public Instruction will evaluate needed enhancements to ensure inventory counts are completed in person, documentation is sufficient, and unreconciled items are properly reconciled and documented.	Christine Emerson, School Nutrition Programs Director, Montana Office of Public Instruction	6/30/2022
2021-040	10.553, 10.555, 10.556, 10.559	Child Nutrition System Controls - The Office of Public Instruction is in the process of obtaining a Service Organization Controls report to provide assurance over the Montana Agreement and Payment System. The Office of Public Instruction is also in the process of implementing a periodic review of rates and the corresponding calculation to provide assurance the rates are correctly calculated. The Office of Public Instruction will ensure adequate rate verification documentation is available to support the completed process.	Christine Emerson, School Nutrition Programs Director, Montana Office of Public Instruction	10/1/2022
2021-041	84.027, 84.173	Individuals with Disabilities Education Act Controls - The Office of Public Instruction has educated applicable staff on the importance of retaining adequate documentation for secondary reviews of allocations. The office has educated program staff on the importance of completing 10 percent variance reviews and retaining documentation of the reviews. The office will continue to enhance controls to ensure grant accountants are cross trained to complete accurate and timely reconciliations. The office has implemented a fiscal year end review process to ensure maintenance of effort is monitored to ensure expected levels are met per federal regulations.	Danni McCarthy, Fiscal & Reporting Manager, Montana Office of Public Instruction Deann Wilcut, Centralized Services Senior Manager Montana Office of Public Instruction	12/30/2022
2021-042	84.425D, 10.553, 10.555, 10.556, 10.559	Child Nutrition and Elementary and Secondary School Emergency Relief Cash Management - Although the Office of Public Instruction does not fully concur with the recommendation, the Office of Public Instruction has added a check-figure into its cash draw worksheet to help identify errors.	Heather Zimmer, Accounts Receivable Accountant, Montana Office of Public Instruction	Completed

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-043	84.010	Title I Earmarking - The Office of Public Instruction has established a specific project code in its accounting system to identify grant activities not part of general administrative activities. The US Department of Education provided an extension for the 2019 federal funds to provide the Office of Public Instruction the opportunity to make corrections, which will be completed before the end of the extended grant cycle.	Jasmine Williams, Budget Analyst, Montana Office of Public Instruction	9/30/2022
2021-044	84.010	Title I Special Tests - The Office of Public Instruction is in the process of enhancing guidance to local educational agencies related to retaining documentation at the local level for student transfer activity. The Office of Public Instruction is evaluating the federal regulation and is working to determine if any monitoring activities are needed to ensure compliance with the federal regulation.	Jack O'Connor, Title I, Federal Grants Unit Director and Private School Ombudsman, Montana Office of Public Instruction	10/1/2022
2021-045	10.551, 10.561, 93.558	Service Organization Controls report for Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families - The Department of Public Health and Human Services will document internal controls to receive and review assurances over the Electronic Benefit Transfer (EBT) service provider for the Supplemental Nutrition Assistance Program Cluster and the Temporary Assistance for Needy Families Cluster. The department has required a yearly examination of the service provider transaction processing. During fiscal year 2020, the department instructed its service provider to provide a Service Organization Controls report. The first Service Organization Controls report, however, only covered the state fiscal year 2022 (federal fiscal year 2021). All future Service Organization Controls reports will cover the entire federal fiscal year and will be delivered to the agency every January.	Corinne Kyle, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	12/31/2022
2021-046	93.775, 93.777, 93.778, 93.767	Medicaid and Children's Health Insurance Program Eligibility - The Department of Public Health and Human Services will improve policies and procedures related to documentation of eligibility determinations, case changes, income eligibility determinations, and transitional coverage.	Gene Hermanson, Administrator, Human and Community Services Division, Department of Public Health and Human Services	9/30/2022
2021-047	93.775, 93.777, 93.778, 93.767	Medicaid and Children's Health Insurance Program Renewal Process - The Department of Public Health and Human Services is enhancing its Medicaid redetermination process to ensure annual redeterminations are completed accurately. Some of these changes have already been completed, for example, to ensure the use of household income during redetermination. Others changes will be completed at the conclusion of the public health emergency, for example, checking self-employment and rental income or ensuring income is recalculated at redetermination.	Gene Hermanson, Administrator, Human and Community Services Division, Department of Public Health and Human Services	7/1/2022

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-048	93.767	Children's Health Insurance Program Aged Out Enrollment - The Department of Public Health and Human Services has implemented internal controls to prevent enrollment of Healthy Montana Kids (HMK, Children's Health Insurance Program) individuals beyond the month of their 19th birthday. The Medicaid program manager receives an HMK Turning 19 report from the HMK program officer every month. This report is provided to the health coverage unit to process. This process entails closing the individual's HMK benefits and sending a notice requesting information if the individual is interested in other Medicaid programs that they could be eligible for (known as ex-parte review).	Gene Hermanson, Administrator, Human and Community Services Division, Department of Public Health and Human Services	6/30/2022
2021-049	93.775, 93.777, 93.778	Medicaid Contractor Confidentiality Agreement - The Department of Public Health and Human Services obtained, and will continue to obtain, confidentiality agreements with its Medicaid contractors.	Shellie McCann, Information Technology Manager, Technology Services Division, Department of Public Health and Human Services	Completed
2021-050	93.767	Children's Health Insurance Program Service Organization Controls Report - The Department of Public Health and Human Services will develop a control procedure to document review of the Service Organization Controls report for the Children's Health Insurance Program claims processor.	Darci Wiebe, Administrator, Human Resources Division, Department of Public Health and Human Services	7/15/2022
2021-051	93.658	Foster Care Coronavirus Relief Fund Disclosures - The Department of Public Health and Human Services designed training for relevant staff on disclosure requirements to subrecipients. Training will continue semi-annually. Internal controls are being updated and a set of subrecipient frequently asked questions has been developed to ensure subrecipient disclosures are included in agreements prior to signature.	Corinne Kyle, Administrator, Business and Financial Services Division, Department of Public Health and Human Services Nikki Grossberg, Administrator, Child and Family Services Division, Department of Public Health and Human Services	7/1/2022
2021-052	93.323	Epidemiology and Laboratory Capacity Subrecipient Disclosures - The Department of Public Health and Human Services has established internal controls to ensure subrecipient agreements include required disclosures. Relevant language has been updated in the department's contract template. A training guideline has been created for staff to ensure appropriate subrecipient provisions are included in agreements.	Corinne Kyle, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	Completed

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Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-053	93.558	Temporary Assistance for Needy Families Subrecipient Contract Disclosures - The Department of Public Health and Human Services has established internal controls to ensure subrecipient agreements include required disclosures. Relevant language has been updated in the department's contract template. A training guideline has been created for staff to ensure appropriate subrecipient provisions are included in agreements.	Corinne Kyler, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	Completed
2021-054	93.323	Epidemiology and Laboratory Capacity Subrecipient Risk and Monitoring - The Department of Public Health and Human Services' Public Health and Safety Division is in the process of creating and establishing a procedure to ensure staff are conducting post-award monitoring of subrecipients. This will include ensuring the subrecipients are using the funds for allowable purposes, meeting performance goals, and documenting this information for each subrecipient. Additionally, the Public Health and Safety Division has begun conducting post-award monitoring and is developing additional monitoring procedures when required federal forms are unavailable.	Janae Grotbo, Bureau Chief, Public Health and Safety Division, Department of Public Health and Human Services	7/1/2022
2021-055	93.323	Epidemiology and Laboratory Capacity Subrecipient vs. Vendor - The Department of Public Health and Human Services implemented and conducted a training of staff in subrecipient, beneficiary, and contractor classifications in January 2021. Internal control checklists and guidelines have been provided to aid in the classification of the recipient of federal funds. Documents were provided in the trainings and staff will provide additional review to ensure that proper classification is being completed for programs. Program staff will maintain copies of forms used to determine classification.	Janae Grotbo, Bureau Chief, Public Health and Safety Division, Department of Public Health and Human Services	Completed
2021-056	93.558	Temporary Assistance for Needy Families Reporting Controls - The Department of Public Health and Human Services will document internal controls of federal reporting data pulled out of the department's case management system to ensure complete and accurate reporting for the Temporary Assistance for Needy Families program.	Gene Hermanson, Administrator, Human and Community Services Division, Department of Public Health and Human Services	9/30/2022
2021-057	93.568	Low-Income Home Energy Assistance Program Controls - The Department of Public Health and Human Services will document its existing internal controls of federal reporting data pulled out of the department's case management system to ensure complete and accurate reporting for Low-Income Home Energy Assistance Program.	Gene Hermanson, Administrator, Human and Community Services Division, Department of Public Health and Human Services	9/30/2022

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021**

Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-058	93.575, 93.596	Child Care and Development Fund Period of Performance and Matching - The Department of Public Health and Human Services has adopted tools to assess the federal reporting requirements before making policy/expenditure adjustments. These tools are now used routinely by the Child Care and Development Fund staff. The tools are used for tracking timelines and priority of funding for maintenance of effort and mandatory expenditures. Program fiscal reviews are conducted monthly.	Jamie Palagi, Administrator, Early Childhood and Family Support Division, Department of Public Health and Human Services	Completed
2021-059	93.575, 93.596	Daycare Inspections - The Department of Public Health and Human Services will implement an alert in the Child Care Under the Big Sky System notifying licensors of pending expirations 30 days prior to the expiration date. In addition, licensor processes will be updated to include mandatory monthly review of the Renewal Log. The Child Care Licensing manager will monitor the completion of this activity for each licensor.	Jamie Palagi, Administrator, Early Childhood and Family Support Division, Department of Public Health and Human Services	8/1/2022
2021-060	93.575, 93.596	Child Care and Development Fund Contract Documentation - The Department of Public Health and Human Services has moved to an online tracking process. In the case of the grants identified, the department works with a university partner. The department has included within the contract scope of work expectations related to record retention. The department will establish written internal controls for periodic reviews of record retention requirements and applications.	Jamie Palagi, Administrator, Early Childhood and Family Support Division, Department of Public Health and Human Services	8/1/2022
2021-061	93.658	Foster Care Subrecipient Monitoring - The Department of Public Health and Human Services believes that supporting documentation for the payments included in the audit sample are adequate to support the payments that were made to tribes and colleges and therefore subrecipient payments are allowable. However, the department does agree that increasing the amount of documentation and review related to subrecipient payments is beneficial to federal and state programs and is designing additional controls to address. Control procedures will be designed, trained, and implemented in each program to ensure adequate documentation is collected to ensure costs and activities are reimbursed for allowable activities.	Nikki Grossberg, Administrator, Child and Family Services Division, Department of Public Health and Human Services	7/1/2022
2021-062	93.323	Epidemiology and Laboratory Capacity Payment Support Allowable Costs - The Department of Public Health and Human Services' Public Health and Safety Division is in the process of establishing a procedure to ensure adequate documentation is collected from contractors and subrecipients for programs to review to ensure reimbursed costs and activities are allowable. The Public Health and Safety Division has started communication with programs to start working with subrecipients and contractors to request backup documentation.	Janae Grotho, Bureau Chief, Public Health and Safety Division, Department of Public Health and Human Services	7/1/2022

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021**

Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
2021-063	93.558, 93.658, 93.767, 93.775, 93.777, 93.778	Cost Allocation - The Department of Public Health and Human Services has entered into a contract in March of 2022 and is currently performing an in-depth review of modernizing the cost allocation procedures and plan. The contract scope of work includes activities that will ensure implementation of the recommendations.	Corinne Kyler, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	8/15/2022
2021-064	93.558	Temporary Assistance for Needy Families Federal Funding Accountability and Transparency Act Noncompliance - The Department of Public Health and Human Services is establishing enhanced controls that will ensure the Business and Financial Services Division receives unique identification information and that identification of data field changes in the contracting system are captured for Federal Funding Accountability and Transparency Act and Temporary Assistance for Needy Families reporting requirements.	Corinne Kyler, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	9/1/2022
2021-065	93.658	Foster Care Federal Funding Accountability and Transparency Act - The Department of Public Health and Human Services is establishing enhanced controls to ensure that the Business and Financial Services Division receives unique identification information and that identification of data field changes in the contracting system are captured for Federal Funding Accountability and Transparency Act and Foster Care reporting requirements.	Corinne Kyler, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	9/1/2022
2021-066	93.323	Epidemiology and Laboratory Capacity Federal Funding Accountability and Transparency Act - The Department of Public Health and Human Services is establishing enhanced controls to ensure that the Business and Financial Services Division receives unique identification information and that identification of data field changes in the contracting system are captured for Federal Funding Accountability and Transparency Act Epidemiology and Laboratory Capacity reporting requirements.	Corinne Kyler, Administrator, Business and Financial Services Division, Department of Public Health and Human Services	9/1/2022
2021-067	93.658	Foster Care Reports - The Department of Public Health and Human Services has updated procedures and internal controls have been implemented for review of the Form CB-496 with additional instructions for approval prior to submission of the report. In addition, procedures have been updated requiring the documentation necessary from the Child Support Services program and requiring a copy of reports to serve as backup to the Form CB-496.	Corinne Kyler, Administrator, Business and Financial Services Division, Department of Public Health and Human Services Nikki Grossberg, Administrator, Child and Family Services Division, Department of Public Health and Human Services	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021**

Finding	CFDA/ALN	Corrective Action Plan	Person Responsible for Corrective Measures	Target Date
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2021-068	15.605, 15.611, 15.626	<p>Questioned Costs for Internal Auditor's Salary - Montana Fish, Wildlife and Parks partially concurs with this recommendation. Although the department did not have procedures in place to ensure the portion of the internal auditor's salary and benefits costs charged to the Wildlife Restoration and Basic Hunter Education grant program, the employee's time was used on specific eligible activities, or other activities that benefited the grant as a whole. Time allocation was not necessary. The internal audit costs to the grant were necessary, reasonable, and allocable at 100% as allowed by the grant agreement. The department worked with US Fish and Wildlife Service to determine the most appropriate course of action and formally closed the grant, which expired 6/30/20. Effective for fiscal year 2021, this position is included in the indirect cost pool.</p>	<p>Adam Brooks, Federal Aid and Compliance Bureau Chief, Administration Division, Montana Fish, Wildlife & Parks</p>	Completed
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2021-069	45.310	<p>Disallowed Bonus Payments - The Montana State Library disagrees that the implementation of the pay incentive strategy was not within federal regulations. The Montana State Library acknowledges that, due to an oversight during the audit period, the library did not include the required language to govern the application of the pay incentive strategy in its Broadband Pay Plan Policy. The issue was corrected when the State Library Commission adopted the current Broadband Pay Plan Policy in 2021 in accordance with state requirements. The current policy has been approved by the Department of Administration.</p>	<p>Malissa Briggs, Central Services Manager, Montana State Library</p>	N/A
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The Montana State Library has awarded pay incentives to staff eight times in the last twelve years. The Montana State Library follows a consistent process to consider the circumstances that may warrant pay incentives, such as increased vacancies, which put more requirements on existing staff, adoption of new work plan processes, implementation of agency reorganizations, and most recently, staffs' adaptation to a remote work strategy to maintain operations during the pandemic and the significant added workload that resulted from various Coronavirus grant programs. These pay incentives were made with the explicit approval of the State Library Commission.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA



GREG GIANFORTE
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200
HELENA, MONTANA 59620-0802

June 9, 2022

RECEIVED
JUN 09 2022
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Re: Summary Schedule of Prior Audit Findings
Montana Single Audit Report #20-02
For the Two Fiscal Years Ended June 30, 2021

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, 2021. This summary identifies the implementation status of all prior audit findings, except for those findings that have been fully corrected, are no longer valid, or do not warrant further action on the part of the state.

Sincerely,

/s/ Ryan Osmundson

Ryan Osmundson
Budget Director

cc: Sonia Powell, Single Audit Coordinator

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
Various Federal Agencies - Financial Statement Findings						
Various	Various	2019-1 2017-2	Inaccurate cashflow reporting and credit risk disclosures.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2019.
Various	Various	2019-2 2017-1 2015-2 2013-2 1-2	Actuarial soundness of the Public Employees' Retirement System.	2	2004-05	Discussed as part of Finding 2021-1.
Various	Various	2019-3	Inadequate eligibility determinations - Medicaid and Children's Health Insurance Program.	4	2018-19	The auditors disclosed in finding 2021-7 that, because of changes in state and federal requirements applicable to finding 2019-3, "the department's controls over eligibility no longer correlate to internal controls over financial reporting."
Various	Various	2019-4	Examination of Service Organization Controls not obtained.	2	2018-19	The auditors did not repeat financial statement finding 2019-4 but issued compliance finding 2021-045 because the examination the department obtained only covered three months of the two-year audit period, which did not demonstrate adequate internal control or compliance over program requirements.
Various Federal Agencies - Federal Compliance Findings						
Various	Various	2019-007	Noncompliant suspension or debarred verification.	2	2018-19	The auditor did not repeat the finding, but found during follow up procedures partial implementation of corrective measures.

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, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
U.S Department of Agriculture						
10.551, 10.561, 10.557	Supplemental Nutrition Assistance Program Cluster Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	2019-008	Examination of Service Organization Controls not obtained.	2	2018-19	Discussed as part of Finding 2021-045. This prior audit finding was fully implemented for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) as of June 30, 2021.
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster	2019-009	Supplemental Nutrition Assistance Program reconciliations not adequately completed.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster	2019-010	Noncompliant delegation to service providers for Supplemental Nutrition Assistance Program cash draws and no update to Treasury State Agreement for process changes.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster	2019-011	Inadequate Supplemental Nutrition Assistance Program eligibility controls, eligibility audits, staff training, FNS-209 reporting.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
10.551, 10.561, 10.557	Supplemental Nutrition Assistance Program Cluster Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	2019-022 2017-014	Noncompliance with federal allowable costs and cost principles.	2	2016-17	Although the auditor made no further recommendation related to these earlier findings for the Supplemental Nutrition Assistance Program Cluster and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the auditor continues to monitor other programs included in the agency's federal cost allocations, as discussed in Finding 2021-063.

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, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	2019-024	Excess federal cash.	2	2018-19	The auditor made no further recommendation, but plans to monitor this prior audit finding in future audits.
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	2019-032	Inadequate subrecipient monitoring: audits, risk assessments, management decisions.	2	2018-19	Discussed as part of Finding 2021-035.
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	2019-033	Noncompliant suspension or debarred verification.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
U.S. Department of Defense						
12.401	National Guard Military Operations and Maintenance Projects	2019-029	Noncompliant match percentages - excessive state share.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
U.S. Department of the Interior						
15.605, 15.611	Fish and Wildlife Cluster	2019-034	Vehicle and aircraft costs not reviewed or approved.	2	2018-19	The auditor did not repeat the finding, but found during follow up procedures the auditor's recommendation had not been implemented.
15.605, 15.611	Fish and Wildlife Cluster	2019-035	Inadequate indirect costs: direct/indirect, unallowed costs, mathematical errors, inconsistent between years.	2	2018-19	The auditor did not repeat the finding, but found during follow up procedures the auditor's recommendation had not been implemented.
15.605, 15.611	Fish and Wildlife Cluster	2019-036	Unallocated internal audit costs - 100% charged to Wildlife and Sport Fish Restoration Program.	2	2018-19	Discussed as part of Finding 2021-068.

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, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
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.	1	2014-15	The finding was resolved for the Formula Grants for Rural Areas program as of June 30, 2019.
				2		The auditor continues to monitor the finding for the Highway Planning and Construction program.
20.205, 20.219, 20.224	Highway Planning and Construction Cluster	2019-026 2017-028	Noncompliance with federal certified payroll requirements.	2	2016-17	Discussed as part of Finding 2021-002.
20.205, 20.219, 20.224	Highway Planning and Construction Cluster	2019-027 2017-027	Noncompliance with federal procurement requirements.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.
U.S. Department of Education						
84.007, 84.033, 84.038, 84.063, 84.268, 84.379	Student Financial Assistance Cluster	2017-008	Noncompliance with the university's internal control procedures to annually review Banner system's current users and their security profiles.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2017-025	Noncompliance with federal allowable costs/cost principle requirements.	4	2016-17	The federal grantor agency did not sustain the finding.
84.287	Twenty-First Century Community Learning Centers	2019-030	Noncompliant subrecipient draw requests.	2	2018-19	The auditor did not repeat the finding, but found during follow up procedures partial implementation of corrective measures.
84.010	Title I Grants to Local Educational Agencies	2019-031 2017-006	Noncompliance with federal assessment security requirements.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.

Category of Corrective Action Taken

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

ALIN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
84.010, 84.027, 84.173, 84.287	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Twenty-First Century Community Learning Centers	2019-032	Inadequate subrecipient monitoring: audits, risk assessments, management decisions.	2	2018-19	Discussed as part of Finding 2021-035.
84.010, 84.027, 84.173, 84.287	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Twenty-First Century Community Learning Centers	2019-033	Noncompliant suspension or debarred verification.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
U.S. Department of Health & Human Services						
93.264, 93.342, 93.364	Student Financial Assistance Cluster	2017-008	Noncompliance with the university's internal control procedures to annually review Banner system's current users and their security profiles.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.
93.775, 93.777, 93.778, 93.767	Medicaid Cluster Children's Health Insurance Program	2019-001	Noncompliant eligibility determinations.	2	2018-19	Discussed as part of Finding 2021-046.
93.775, 93.777, 93.778	Medicaid Cluster	2019-002	Noncompliant employment status and third party liability verifications.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.775, 93.777, 93.778	Medicaid Cluster	2019-003	Inadequate documentation of Medicaid provider investigations.	2	2018-19	The auditor made no further recommendation, but plans to monitor this prior audit finding in future audits and to consider any future legislative changes.

Category of Corrective Action Taken

- 1 - Finding has been fully corrected.
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- 4 - Finding is no longer valid.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
93.775, 93.777, 93.778	Medicaid Cluster	2019-004	Inadequately designed fraud investigation policies.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.775, 93.777, 93.778	Medicaid Cluster	2019-005	Noncompliant suspension and debarment verification.	2	2018-19	The auditor made no further recommendation, but plans to monitor this prior audit finding in future audits.
93.767	Children's Health Insurance Program	2019-006	Improper funding source for Health Insurance Premium Payments.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.558	Temporary Assistance for Needy Families Cluster	2019-008	Examination of Service Organization Controls not obtained.	2	2018-19	Discussed as part of Finding 2021-045.
93.558	Temporary Assistance for Needy Families Cluster	2019-012 2017-023	Noncompliance with income comparison requirements.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.
93.558	Temporary Assistance for Needy Families Cluster	2019-013	Inaccurate participant tracking mechanism.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.558	Temporary Assistance for Needy Families Cluster	2019-014	Inaccurate federal expenditure reporting.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.558, 93.658	Temporary Assistance for Needy Families Cluster Foster Care-Title IV-E	2019-015 2017-024	Noncompliance with federal procurement requirements.	2	2016-17	The auditor made no further recommendation but reported that clarification in state law would benefit the department, the audit division, and the federal grantor agency.
93.658	Foster Care - Title IV-E	2019-016 2015-014	Noncompliance with federal subrecipient monitoring requirements.	2	2014-15	Discussed as part of Finding 2021-051.
93.658	Foster Care - Title IV-E	2019-017	Foster Care costs inadequately supported.	2	2018-19	Discussed as part of Finding 2021-061.

Category of Corrective Action Taken

- 1 - Finding has been fully corrected. 2 - Finding has not been corrected or partially corrected.
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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
93.658	Foster Care - Title IV-E	2019-018	Incorrect and incomplete information in Foster Care reports.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.575, 93.596	Child Care and Development Fund Cluster	2019-019	Unconfirmed Child Care and Development Fund obligations.	2	2018-19	Discussed as part of Finding 2021-058.
93.575, 93.596	Child Care and Development Fund Cluster	2019-020	Inadequate day-care monitoring.	1	2018-19	This prior audit finding was fully implemented as of June 30, 2021.
93.575, 93.596	Child Care and Development Fund Cluster	2019-021 2017-022	Noncompliance with federal child care payment recovery requirements.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.
93.558, 93.563, 93.575, 93.596, 93.658, 93.667, 93.767, 93.775, 93.777, 93.778	Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Foster Care - Title IV-E Social Services Block Grant Children's Health Insurance Program Medicaid Cluster	2019-022 2017-014	Noncompliance with federal allowable costs and cost principles.	2	2016-17	Discussed as part of Finding 2021-063.
93.558, 93.568, 93.575, 93.596, 93.658, 93.659	Temporary Assistance for Needy Families Cluster Low Income Housing Energy Assistance Program Child Care and Development Fund Cluster Foster Care - Title IV-E Adoption Assistance	2019-023 2017-015	Noncompliance with federal Cash Management Improvement Act requirements.	1	2016-17	This prior audit finding was fully implemented as of June 30, 2021.

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, 2021

ALN/CFDA	Federal Program	Finding	Prior Audit Finding	Status	Initial Year of Finding	Comments
93.563	Child Support Enforcement	2019-024	Excess federal cash.	2	2018-19	The auditor made no further recommendation, but plans to monitor this prior audit finding in future audits.
93.563, 93.658, 93.659, 93.767, 93.775, 93.777, 93.778	Child Support Enforcement Foster Care-Title IV-E Adoption Assistance Children's Health Insurance Program Medicaid Cluster	2019-025 2017-019 2015-012	Noncompliance with federal risk analyses and Automated Data Processing systems reviews.	1	2014-15	This prior audit finding was fully implemented as of June 30, 2021.
U.S. Department of Homeland & Security						
97.042, 97.067, 97.039	Emergency Management Performance Grants Homeland Security Grant Program Hazard Mitigation Grant	2019-028 2017-011	Noncompliance with allowable costs requirements.	2	2016-17	Discussed as part of Finding 2021-015.

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.