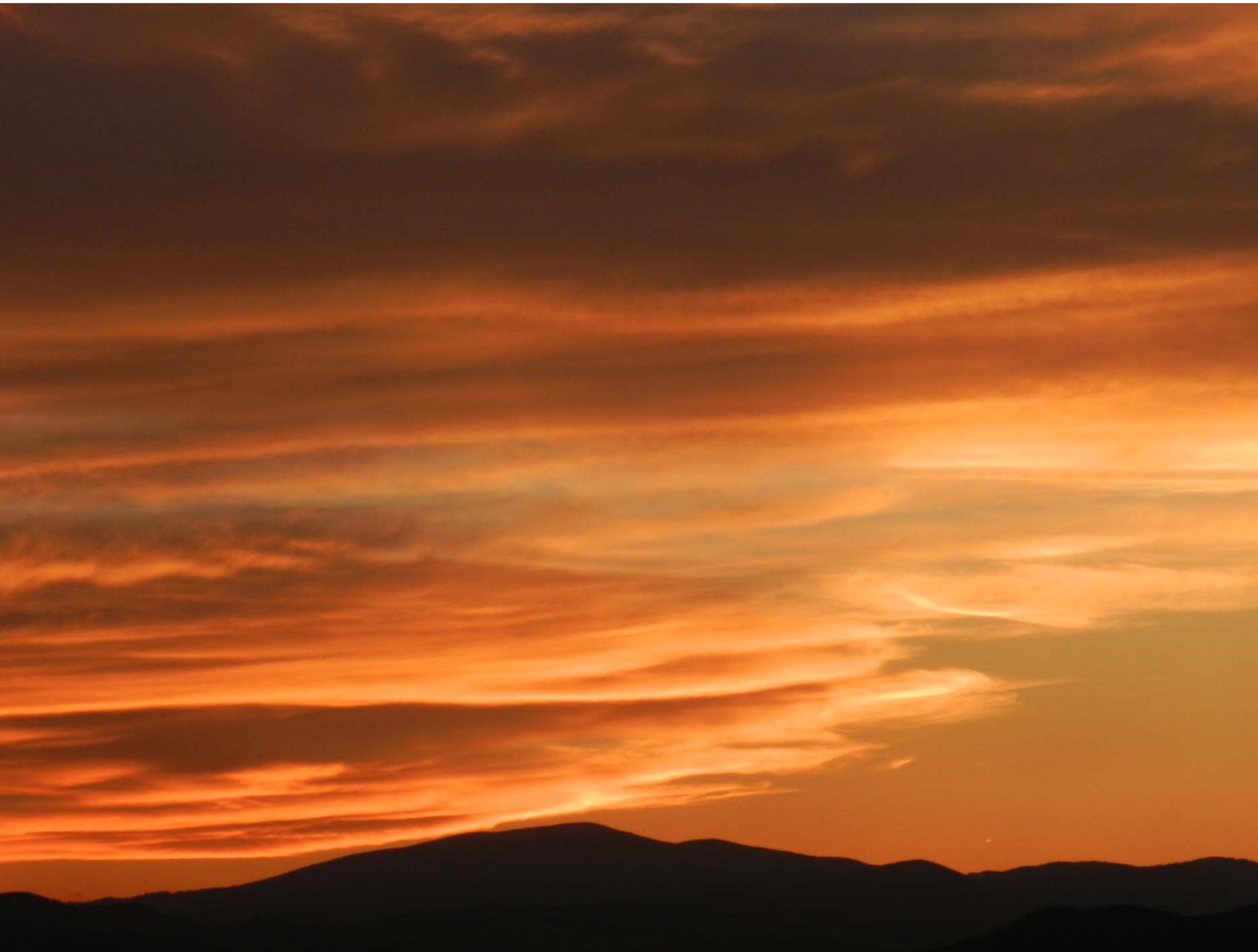
MONTANA

Comprehensive Annual Financial Report

For the year ended June 30, 2017



REPORT LAYOUT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section contains the transmittal letter, State organization chart, and a list of principal State officials. The Financial Section includes the independent auditor's report, the management's discussion and analysis, the basic financial statements and the combining statements and schedules. The Statistical Section includes fiscal, economic, and demographic information about the state.

INTERNET ACCESS

The Comprehensive Annual Financial Report is available at the Department of Administration, State Financial Services Division website at:

http://sfsd.mt.gov/SAB/cafr

Cover photographs courtesy of Donnie Sexton, Montana Office of Tourism

STATE OF MONTANA

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2017

Prepared By:

Department of Administration

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STATE OF MONTANA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

Notes to the Financial Statements *(continued)*

Required Supplementary Information

Supplementary Information

STATISTICAL SECTION

INTRODUCTORY SECTION

DEPARTMENT OF ADMINISTRATION

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MIKE COONEY, LIEUTENANT GOVERNOR

JOHN LEWIS
DIRECTOR

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January 26, 2018

To the Citizens, Governor, and Members of the Legislature of the State of Montana:

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2017. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data is accurate, in all material respects, and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

The State's CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, an organization chart for the State, and a list of principal state officials. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Montana Board of Housing, Facility Finance Authority, Montana State Fund, Montana State University, University of Montana, Public Employees' Retirement Board, and Teachers' Retirement System.

PROFILE OF THE GOVERNMENT

After 25 years as a territory, Montana became the 41st state when it was admitted to the Union in 1889. While Montana has a total area of 147,040 square miles (including water area), and is the nation's fourth largest state, it is also one of the most sparsely populated, with an estimated population of slightly over 1 million. Montana is vast, including rolling plains, the Northern Rocky Mountains, all of Glacier National Park, three of the five entrances to Yellowstone National Park, wheat farms, cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart attached within this report, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its Constitution, and its laws are administered by its executive branch officers and various boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

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

Agriculture

Montana's wheat production decreased in 2017 to 127.4 million bushels, compared to the 2016 production level of 210.9 million bushels, representing a 40% decrease. Winter wheat production decreased to 66.8 million bushels as compared to the 2016 level of 105.4 million bushels. Spring wheat production was 48.1 million bushels, down from 74.2 million bushels in 2016. Durum production was 12.6 million bushels, down 60% from 31.4 million bushels in 2016.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana decreased to an estimated 846.0 thousand bushels in 2017, representing a 36% change from 2016 levels. Barley production is estimated at 28.8 million bushels, which is 38% lower than last year. Montana's cattle herd as of January 1, 2017 was estimated at 2.7 million head. Montana ranks 11th in the US cattle and calf industry. Montana's 2016 receipts from cattle sales were $1.4 billion.

Manufacturing

When using the nonfarm non-adjusted estimates from the Montana Department of Labor and Industry, Montana's manufacturing industry decreased by 300 jobs from August 2016 to August 2017. This is a decrease of 1.5% from 19,500 in 2016 to 19,200 in 2017.

Montana's timber sales production volume in 2016 decreased to 506 million board feet, down from the revised 516 million board feet in 2015, a decrease of 2%. Total sales value of the state's primary wood and paper products in 2016 was estimated to be less than $560 million. The total wood products industry estimated employment of 7,300 workers for 2016, down approximately 5% from the 2015 level. The 2016 timber harvest was 298 million board feet, about a 22% decline from 2015.

Nonresident Travel

Nonresident travel to Montana in 2016 was approximately 12.4 million visitors, up 5% from 2015. Overall visitor numbers for the national parks were higher in 2016 than in 2015. The visitor numbers for Yellowstone Park increased an estimated 5% from 4.1 million to 4.3 million visitors. Visits to Glacier Park were estimated at 2.9 million visitors, with a 21% increase from the previous year's total of 2.4 million visitors. Nonresident travelers contribute to the tax base by paying the lodging tax; excise taxes, such as those on gasoline; and indirectly, by supporting employment in industries that pay corporate taxes and whose employees pay income, property, and other taxes. Estimated nonresident direct travel expenditures in Montana totaled $3.0 billion in 2016, representing a decrease of $621.8 million. The estimated total economic benefit of nonresident travel in Montana decreased from $5.2 billion for calendar year 2015 to $4.2 billion for 2016, representing a decrease of 19%.

Natural Resources/Mining

Montana's mining sector of the economy employed 6,900 workers in August 2017. That represented a 6% increase from the 6,500 workers employed in August 2016. The various sectors included in this category are discussed in more detail below.

As of the end of calendar year 2015 an estimated 326 million barrels of proven oil reserves existed under Montana's land. These numbers do not reflect the projected additional reserves existing in the Bakken and Tyler formations that Montana shares with North and South Dakota. In 2016, the state saw a decrease in production and exploration activity, with estimated crude oil production for the state at 23.2 million barrels. This represents a 19% decrease from the 2015 production level of 28.6 million barrels. Production through June 2017 is 14% lower than the 2016 information for the same period.

Montana's total coal reserves were estimated at 118.7 billion short tons with recoverable reserves of 74.5 billion short tons in 2015 (most recently released data). This represents 25% of the total, and 29% of the recoverable reserves in the U.S. Of these reserves, 817 million short tons of coal, 4% of the US total, are located at producing mine sites. During 2015, Montana's coal production decreased 6% from 44.6 to 41.9 million short tons.

Historically, minerals mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana's mines continue to produce copper, molybdenum, lead, zinc, palladium, gold, silver, cobalt, nickel, chromate, platinum, and other metals. Montana also produces non-metal minerals such as talc, limestone, bentonite, garnets and sapphires. The "rare earth" metals, now in demand in many new products, are also known to exist within the state.

MAJOR INITIATIVES AND LONG TERM OUTLOOK

The 2017 Legislature completed work and adjourned in late April 2017. Upon adjournment, it was anticipated that 2019 biennium General Fund revenue collections would be approximately $4.9 billion while General Fund expenditures would be approximately $4.8 billion. At the end of fiscal year 2019, the estimated General Fund balance will be approximately $200 million.

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

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

2. The 2017 Legislature adopted a series of bills aimed at rebalancing the correctional and judicial systems. Specifics of the bills include increased funding to community programs to divert inmates from county jail holds, revising criminal justice laws, and investing in additional district court judges in the State of Montana.

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

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

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

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

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

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

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

In fiscal year 2017, the General Fund unassigned ending fund balance was $47.9 million. The 2017 legislative session projected approximately $112.0 million of unassigned fund balance for fiscal year 2017. The difference was primarily the result of lower than anticipated revenues in fiscal year 2017.

FINANCIAL INFORMATION

Montana's Statewide Accounting, Budgeting and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are system edited and budget checked before being posted.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance

For fiscal year 2017, the total fund balance of the General Fund was reported at approximately $67.0 million. Of this balance $7.7 million is non-spendable. The remaining $59.3 million is spendable with $11.4 million assigned and $47.9 million unassigned. The assigned fund balance of $11.4 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund can be found in Note 14 – Major Purpose Presentation of this report.

For fiscal year 2016, the total fund balance of the General Fund was reported at approximately $271.3 million. Of this balance $4.5 million is non-spendable. The remaining $266.8 million is spendable with $140.3 million assigned and $126.5 million unassigned. Of the assigned fund balance, $130.0 million pertains to the projected General Fund spend down of fund balance in fiscal year 2017 and $10.3 million relates to outstanding encumbrances at the end of the fiscal year.

Other Post Employment Benefits - Implied Rate Subsidy Liability

The State of Montana reported the "implied rate subsidy" liability, required under the Governmental Accounting Standards Board (GASB) Statement No. 45, in this financial report and the related financial statements. Although the State reported this liability, and related expenses and expenditures, the State does not agree that this represents a legal liability and further believes that the presentation of this activity in the financial statements will eventually be misleading to the users of the statements.

The State plans to continue funding the employee health insurance plan on a "pay as you go" basis, and does not intend to fund this liability. Because the State is not funding this liability, it may increase in 1/30th increments, plus interest, and within a few years, the financial statements may reflect the impact of a very large "implied rate subsidy" liability that does not have legal substance. The total actuarially accrued liability, which, absent a change in position by GASB or a change in the funding level the State provides for retirees, will be recorded on the State accounting system over the next 30 years, is estimated at $300.7 and $122.1 million for the State and MUS systems, respectively. Accrued interest will further inflate this over time.

We submitted a request to have GASB reconsider the requirement to report the implied rate subsidy. GASB refused to revisit this issue. A copy of the letter to GASB providing our concerns with the implied rate subsidy reporting, required under GASB Statement No. 45, is available upon request.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the State Accounting Bureau – Accounting Principal and Financial Reporting Section (APFRS), the cooperation of accounting personnel at the individual state agencies and staff in the Governor's Office of Budget and Program Planning. We would like to express our appreciation to the State Accounting Bureau and other personnel

who participated in the preparation of this document. We would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of the State in a professional, responsible, and progressive manner.

Respectfully submitted,

/s/ Cody Pearce

Cody Pearce, CPA
State Accountant
State Financial Services Division
Department of Administration

STATE OF MONTANA
ORGANIZATION CHART

CITIZENS OF MONTANA

LEGISLATIVE

- Senate
- House of Representatives
- Legislative Audit Division
- Legislative Fiscal Division
- Legislative Services Division
- Montana Consumer Counsel

EXECUTIVE

- Governor
- Lieutenant Governor

- Attorney General
- Public Service Commissioners
- Secretary of State
- State Auditor
- Superintendent of Public Instruction

JUDICIAL

- Supreme Court
- District Courts
- Water Courts
- Workers Compensation Court
- Justice of the Peace Courts
- City or Municipal Courts
- State Law Library
- Supreme Court Administrator
- Clerk of Supreme Court

STATE AGENCIES

- Administration
- Agriculture
- Arts Council
- Board of Public Education
- Commerce
- Commissioner of Political Practices
- Commissioner of Higher Education
- Corrections
- Environmental Quality
- Fish, Wildlife and Parks
- Historical Society
- Labor and Industry
- Livestock
- Military Affairs
- Natural Resources & Conservation
- Public Employee Retirement
- Public Health & Human Services
- Revenue
- School for the Deaf and Blind
- State Fund
- State Library
- State Public Defender
- Teachers Retirement System
- Transportation
- University System

STATE OF MONTANA

SELECTED STATE OFFICIALS

Executive Branch

Steve Bullock, Governor

Michael Cooney, Lieutenant Governor

Judicial Branch

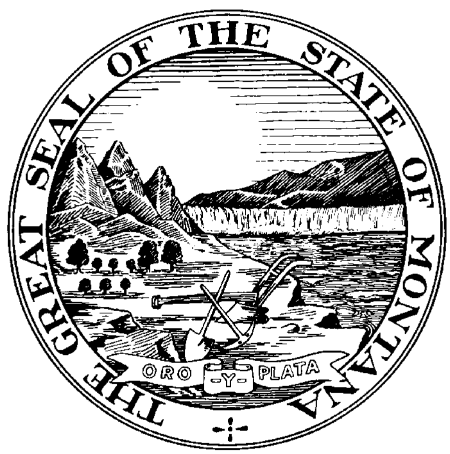
Mike McGrath, Chief Justice

Legislative Branch

Scott Sales, President of the Senate

Austin Knudsen, Speaker of the House

FINANCIAL SECTION



LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Summary of Opinions

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

Unmodified Opinions

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

Emphasis of Matters

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

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

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

Other Matters

Required Supplementary Information

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

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements as a whole. The introductory section, combining statements, and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards
In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2018, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (17-01A).

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

FINANCIAL HIGHLIGHTS

Government-wide

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

Fund Level

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

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

Long-term Debt

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

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

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

Net Position
June 30,
(expressed in thousands)

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

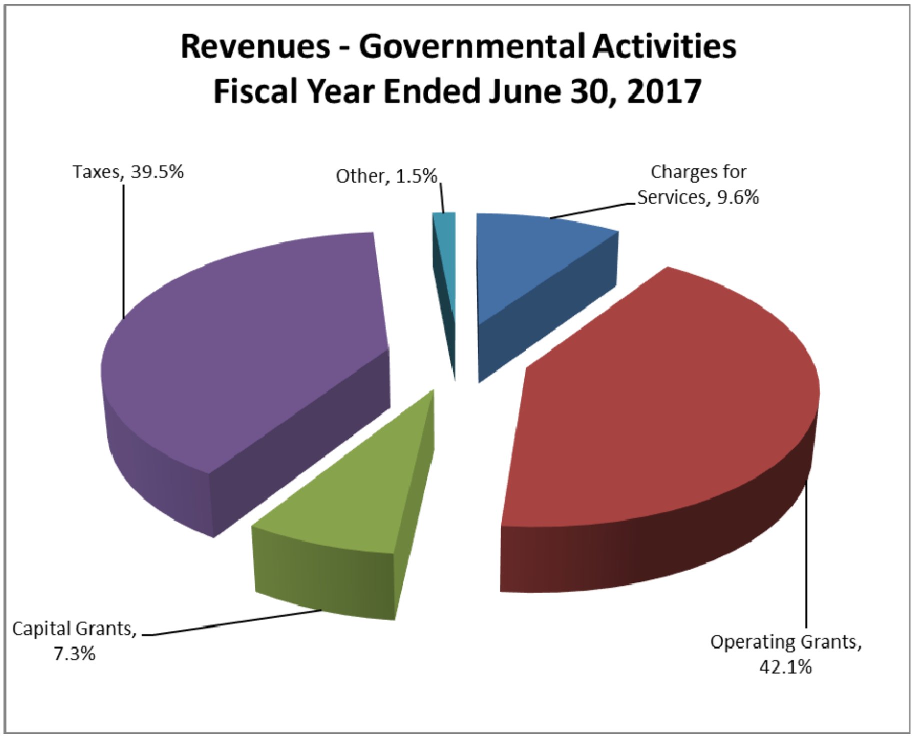
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

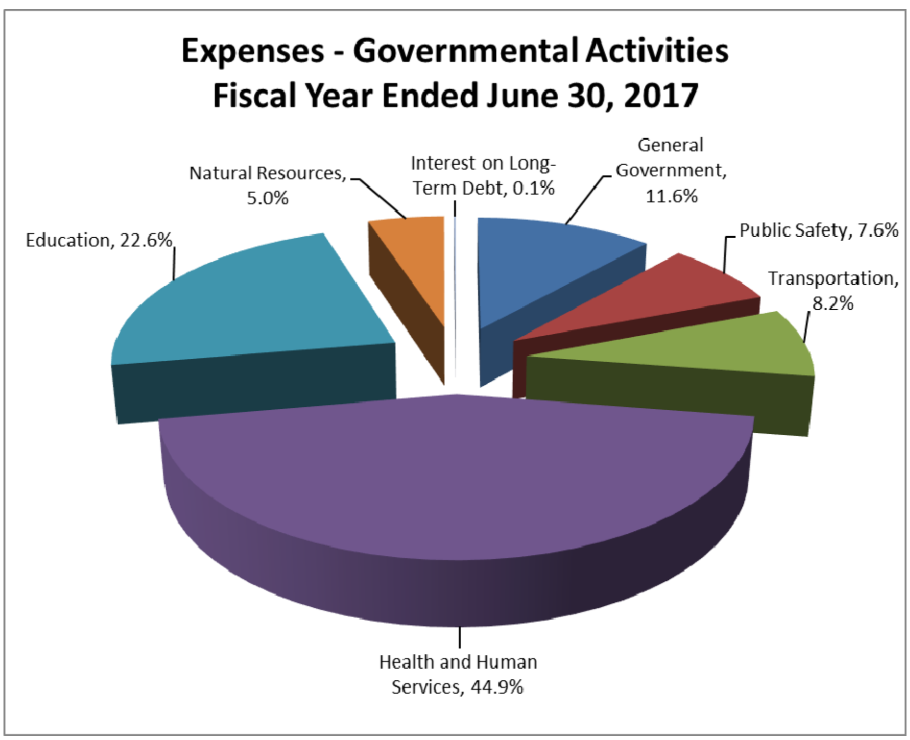
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program revenues						
Charges for services	$ 577,679	$ 571,927	$397,793	$389,279	$ 975,472	$ 961,206
Operating grants	2,093,817	2,506,711	56,565	60,219	2,150,382	2,566,930
Capital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

Governmental Activities

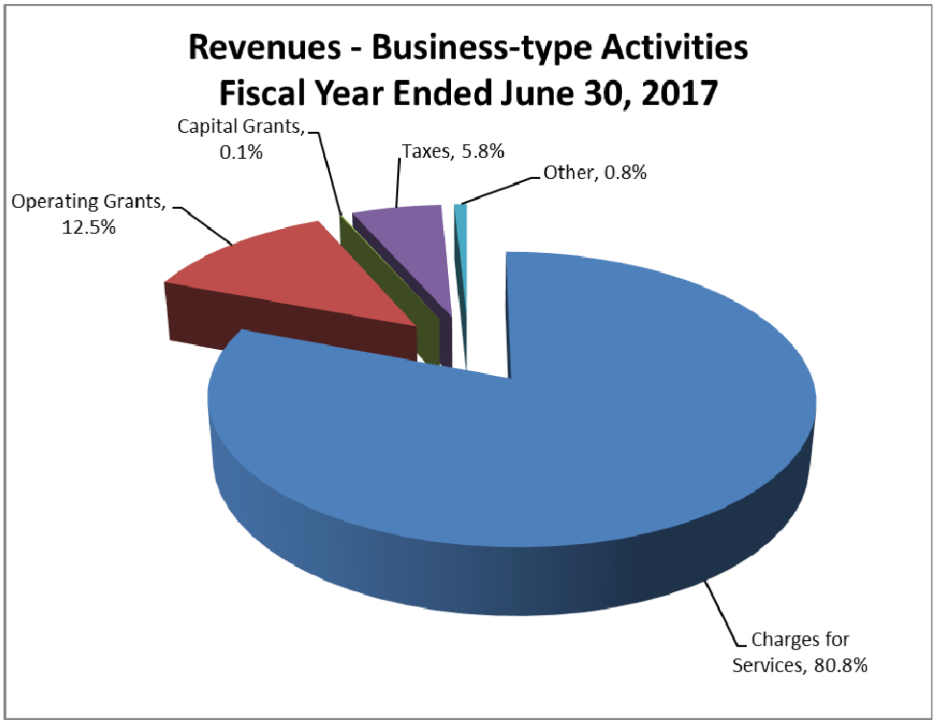
The following chart depicts revenues of the governmental activities for the fiscal year:



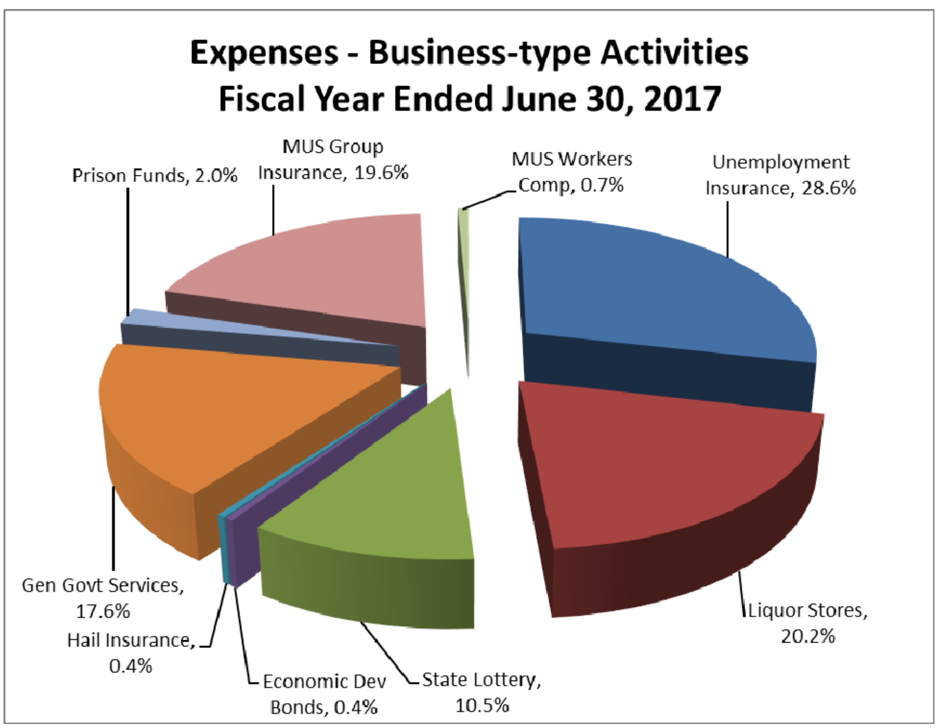
The following chart depicts expenses of the governmental activities for the fiscal year:



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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

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

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

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

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

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

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

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

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

ECONOMIC CONDITION AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

[1] Montana University System

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

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

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

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

Nonmajor Funds
Nonmajor governmental funds are presented in more detail, by fund type, within the Supplementary Information section.

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

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

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

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

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

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

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

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

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

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

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(amounts expressed in thousands)

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

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

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

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

Economic Development Bonds

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

Nonmajor Funds

Enterprise funds are used to account for operations that provide goods or services to the general public in a manner similar to private business enterprises. These funds are presented in more detail within the Supplementary Information section.

Governmental Activities – Internal Service Funds

Internal Service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail within the Supplementary Information section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds
These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

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

Investment Trust Fund
This fund accounts for the receipt of monies by the Montana Board of Investments for investment in external investment pools, and the distribution of related investment earnings to local government agencies.

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

Individual funds are presented in more detail, by fund type, within the Supplementary Information section.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Teachers' Retirement System
1500 East Sixth Avenue
PO Box 200139
Helena, MT 59620-0139

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

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Restricted Net Position

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Outflows, Deferred Inflows, and Unearned Revenue

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

M. Long-term Obligations

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

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

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

Q. Nonexchange Financial Guarantee

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

R. Fund Balance/Net Position

Fund Balance

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

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

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

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

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

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

Minimum General Fund - Fund Balance

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

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

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

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $ 3.3 billion.

S. Property Taxes

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

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

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

T. Other Taxes

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

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

U. Tax Abatements

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

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

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

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

Infrastructure Credit Claimed

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

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

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

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

B. Adjustments to Beginning Net Position

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

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. General

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

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

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

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

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

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

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

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

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

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

(1) Not funded as of June 30, 2017

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

Custodial Credit Risk

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

Cash

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

Investments

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

Concentration of Credit Risk

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

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

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

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

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

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

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

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

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

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

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

Other

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

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

Derivative Instruments

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

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

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

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

Counterparty Credit Risk

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

STIP Reserve

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

STIP Reserve
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

B. Cash/Cash Equivalents

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

Table 1 – Cash Deposit Amounts
(in thousands)

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

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

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

Table 2 - Cash Equivalents
(in thousands)

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

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

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

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAPP Investments Measured at Fair Value
(in thousands)

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

CAPP Investments Measured at Fair Value
(in thousands)

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

TFIP Investments Measured at Fair Value
(in thousands)

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

STIP Investments Measured at Fair Value
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency Exposure by Country
(in thousands)

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

Foreign Currency Exposure by Country
(in thousands)

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

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

Commitments to Fund Managers
(in thousands)

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

D. Investments

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

Long-term Investments

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

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

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

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

Table 4 – Investments
(in thousands)

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

Table 4 – Investments
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

A. Accounts Receivables

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

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

B. Accounts Payables

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

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

C. Deferred Outflows of Resources

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

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

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

D. Deferred Inflows of Resources

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

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

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

NOTE 5. CAPITAL ASSETS

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

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

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

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

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

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

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

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

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

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

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

Public Employees' Retirement Board

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

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

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

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at https://trs.mt.gov/.

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

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

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

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

B. Summary of Significant Accounting Policies

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

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

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

C. Public Employee Defined Benefit Retirement Plan

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

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

[1]Includes DROP in the Active count.

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

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

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

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

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

(1) State as the Single Employer

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

Summary of Benefits

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

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

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

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

Eligibility for benefit

Age 60, 5 years of membership service;

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

Vesting

5 years of membership service.

Monthly benefit formula

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum benefit adjustment (non-GABA)

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

Contributions to the Plan

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

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

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

Actuarial Assumptions

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

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

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
    - 3% for members electing GABA or hired on or after July 1, 1997
    - Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the JRS's target asset allocation as of June 30, 2016, is summarized in the table that follows:

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

Sensitivity Analysis

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

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

Net Pension Asset

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

(dollars presented in thousands)

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

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

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

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

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

Other Items Related to and Changes in Net Pension Asset

(in thousands)

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

Pension Expense

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

Deferred Outflows and Inflows

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

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

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

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

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

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

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

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

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2017, was approximately $680.0 thousand.

Summary of Benefits

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

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

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

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

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

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

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

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

Contributions to the Plan

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

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

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

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

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.23%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - If electing GABA or hired on or after July 1, 1997 – 3.00%
    - Hired on or after July 1, 2013 – 1.50%
    - Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the HPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the HPORS's target asset allocation as of June 30, 2016, is summarized in the table that follows:

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

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

Sensitivity Analysis

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

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

Net Pension Liability

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

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

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

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

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

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

Other Items Related to and Changes in Net Pension Liability

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

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

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

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

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

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

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

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

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

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

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

Summary of Benefits

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

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

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

Vesting
5 years of membership service.

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

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

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

Contributions to the Plan

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

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

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

Actuarial Assumptions

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

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - 3.00% for members hired prior to July 1, 2007
  - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

Sensitivity Analysis

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

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

Net Pension Liability

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

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

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

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

Changes in benefit terms:

2015 Legislative Changes

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

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

Other Items Related to and Changes in Net Pension Liability

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

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

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

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

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

Pension Expense

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

Deferred Outflows and Inflows

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Benefits

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

Eligibility for benefit
Service retirement:
Hired prior to July 1, 2011 –
Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

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

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

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

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

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

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

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

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

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

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

Vesting
5 years of membership service

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

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

Members hired on or after July 1, 2011 –

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

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

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

Contributions to the Plan

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

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

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

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

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

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

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

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

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

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.27%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 6.00%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member's benefit:
  - 3.00% for members hired prior to July 1, 2007
  - 1.50% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.50% for each year PERS is funded at or above 90%
    - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

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

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS-DBRP's target asset allocation as of June 30, 2016, is summarized in the table below:

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

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

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

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

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

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

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

(dollars presented in thousands)

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

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

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

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

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

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

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

Support Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Benefits

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

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

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

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

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

Contributions to the Plan

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

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

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

Actuarial Assumptions

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

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - 3.00% for members hired prior to July 1, 2007
  - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the SRS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

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

Sensitivity Analysis

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

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

Net Pension Liability

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

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

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

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

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

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

Pension Expense

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

Deferred Outflows and Inflows

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

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

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

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

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

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

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

Deferred Retirement Option Plan (DROP)

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

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

Summary of Benefits

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

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

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

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

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

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

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

Contributions to the Plan

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

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

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

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

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

Actuarial Assumptions

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

- Investment Return 7.75%
- Admin expense as a % of Payroll 0.20%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases
    - GABA
      Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit
    - Minimum benefit adjustment (non-GABA)
      If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

Sensitivity Analysis

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

(in thousands)

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

Net Pension Liability

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

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

(dollars presented in thousands)

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

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

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

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

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

Grant Expense Related to Special Funding

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

Deferred Outflows and Inflows

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

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

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

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

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

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

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

Summary of Benefits

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

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

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

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

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

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

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

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

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

Contributions to the Plan

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

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

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

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

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

Actuarial Assumptions

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

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.19%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0.00% to 7.30%
- Postretirement Benefit Increases
    - GABA
      Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
    - Minimum Benefit Adjustment (non-GABA)
      Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term expected rate of return assumption. These factors include historical rates of return, rate of return assumptions adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the FURS's target asset allocation as of June 30, 2016, is summarized in the table below:

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

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

(in thousands)

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

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

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

(dollars presented in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Benefits

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

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

Vesting
10 years of credited service.

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

Contributions to the Plan

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

Actuarial Assumptions

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

- Investment Return 7.75%
- Inflation at 3.00%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

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

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the VFCA. The most recent analysis, performed for the period covering fiscal years 2004 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2016, is summarized in the table below:

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

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

Sensitivity Analysis

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

(in thousands)

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

Net Pension Liability

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

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

(dollars presented in thousands)

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

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

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

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

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

Grant Expense Related to Special Funding

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

Deferred Outflows and Inflows

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

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

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

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

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

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

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

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

Summary of Benefits

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

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

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

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

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

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

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

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

Actuarial Assumptions
The total pension liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016, valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

• Total wage increases (includes 4% general wage increase assumption)	4.00% to 8.51% for non-university members 5.00% for university members
• Investment Return	7.75%
• Price Inflation	3.25%

- Postretirement Benefit Increases (starting three years after retirement)
  - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.
  - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.

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

Discount Rate

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

Target Allocations

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

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

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

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

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

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

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

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

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

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

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

Deferred Outflows and Inflows

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

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

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

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

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

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

At June 30, 2017, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2016 contributions of $42.4 million.

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

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,783	$ 1,504

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	45,561	-
Changes of assumptions	4,503	4,447
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,529	32,074
Contributions paid to TRS subsequent to the measurement date – FY 2017 Contributions	43,028	-
Totals	$103,404	$38,025

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

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2018	$(5,756)
2019	(7,726)
2020	19,478
2021	16,355
2022	-
Thereafter	-

D. Legal Actuarial Status of Plans

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

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2017, the Game Warden & Peace Officers' Retirement System (GWPORS) and the Highway Patrol Officers' Retirement System (HPORS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2017, is $6.3 million and contribution forfeitures were $230.7 thousand.

Local government entities contribute 8.37% of member compensation. School district employers contributed 8.10% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.47% of member compensation.

The total contribution rate of 8.47%, referenced in the preceding paragraph, is allocated as follows: 8.13% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. See Note 7 for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 43 non-state entity employers participate in the 457-Plan.

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

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.47% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA-CREF. Total contributions made to the plan by the employer were $15.8 million and the total employee contributions were $18.7 million for the fiscal year ended June 30, 2017.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of direct real estate investments is based on appraised value. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of “1-for-5” additional service. In fiscal year 2017, there were 245 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2017 totaled $70.3 thousand. The outstanding balance at June 30, 2017, totaled $25.6 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson & Williams PC, in Great Falls, Montana and MPERA legal counsel. The State responded and filed an amended answer to the complaint before filing a motion and brief to change venue and/or to dismiss the matter for lack of subject matter jurisdiction. Following a hearing on June 1, 2017, the State’s motions were denied. Discovery requests and responses have been served by both parties. The plaintiff’s motion for class certification was filed October 31, 2017.

J. Subsequent Events

The PERB approved a reduction in the assumed rate of return, effective July 1, 2017, from 7.75% to 7.65%.

During the Legislative Special Session, held November 13 through 16, 2017, Senate Bill 1 was passed and signed into law. The change in statute terminated employer contributions to the Judges’ Retirement System as of the first full pay period which begins after January 1, 2018. On the first full pay period commencing after June 30, 2019, employer contributions will return to their prior amount. The dollar effect is included in the total amount of reduced spending disclosed in Note 17.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan. Further detail on Retirement Plans is provided in Note 6.

In accordance with Section 2-18-704, MCA, the MUS provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System (TRS), the Public Employees' Retirement System (PERS), or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

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

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

B. Plan Descriptions

Both healthcare OPEB plans for the State of Montana and MUS are agent multiple employer plans. In addition to the primary government, the participating employers under the State Plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Office of Commissioner on Higher Education (OCHE), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Helena College UM, University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and note disclosures. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

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

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

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

Further details on the funding policies are provided in Section D of this note.

C. Basis of Accounting

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

The healthcare OPEB plan document states "an employee enrolled in the State Plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the State Plan on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2017.

The number of State Plan participants as of December 31, 2016, follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Montana Board of Housing	Public Employee Retirement Board	Montana State Fund	Teachers Retirement System	Total
Active employees	11,393	3	32	41	297	16	11,782
Retired employees, spouses, and surviving spouses (1)	3,100	-	3	1	17	7	3,128
Total	14,493	3	35	42	314	23	14,910

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retires are listed as State regardless of their last place of employment. Since we are unable to account for all retired employees last place of employment cumulatively, an allocation method was used based on the accrued liability and ARC for active employees by entity for the determination of the inactive liability by entity.

The number of MUS Plan participants as of June 30, 2017, follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-UM	UM-Missoula	UM-MT Tech	UM-Western	Other	Total
Active employees	454	2,964	121	120	72	98	2,425	448	193	345	7,240
Retired employees, spouses, and surviving spouses	102	381	7	30	15	10	385	69	47	47	1,093
Total	556	3,345	128	150	87	108	2,810	517	240	392	8,333

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Section 19-3-2141, MCA. There have been no significant changes in the number of participants or the type of coverage as of June 30, 2017.

The number of PERS-DCRP Disability Plan participants as of June 30, 2017, follows:

PERS-DCRP Disability Plan Participants

Enrollment	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total
Participant counts used for valuation	2,541	3	-	-	-	2,544

D. Funding Policies

The State of Montana and MUS pay for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan.

As of June 2017, the State Plan's administratively established retiree medical contributions vary between $439 and $1,633 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $41.10 and $70 and vision hardware contributions vary between $7.64 and $22.26 depending on the coverage selected.

As of June 2017, the MUS plan's administratively established retiree medical premiums vary between $394 and $2,244 per month. Retiree dental premiums vary between $52 and $156 per month while vision premiums vary from $8.05 to $23.45 depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

The PERS-DCRP Disability plan is funded through a portion of the statutorily required employer contributions in Section 19-3-2117, MCA. An amount equal to 0.3% of a PERS-DCRP members' compensation is contributed to this trust fund by each participating employer.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of $34.1 million is 5.46% of annual covered payroll. The State's annual covered payroll is $624.4

million. The current MUS's ARC of $9.7 million is 2.26% of annual covered payroll. The MUS's annual covered payroll is $429.5 million.

There are no long-term contracts for contributions to either plan. Contributions refer to payments made in relation to the ARC. Since the State and MUS do not fund their plans, contributions disclosed as being made herein are an implicit rate subsidy provided through the difference of retiree payments provided to the healthcare plan and claims paid by the plan on a retiree's behalf.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2017 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	$ 34,107	$ 9,526
Interest on net OPEB obligation	11,605	4,892
Amortization factor	(9,102)	(3,837)
Annual OPEB cost	36,610	10,581
Retiree claims paid	(9,007)	(3,532)
Increase in net OPEB obligation	27,603	7,049
Net OPEB obligation – beginning of year	273,047	115,096
Net OPEB obligation – end of year	$300,650	$122,145

Note that the amounts in the State and MUS Annual OPEB Cost table above include component unit and community college portions and therefore, they will not match the Statement of Net Position.

The State and MUS annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2017 through 2014 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2017	$36,610	24.6%	$300,650
	6/30/2016	36,221	24.8%	273,047
	6/30/2015	37,205	28.2%	246,643
	6/30/2014	36,823	19.1%	219,109
MUS	6/30/2017	$10,581	33.4%	$122,145
	6/30/2016	10,654	28.7%	115,096
	6/30/2015	10,624	31.3%	107,498
	6/30/2014	10,671	15.9%	99,891

The disability OPEB plan administered for defined contribution pension plan participants has an annual covered payroll, statutorily required contribution amount, and percentage of required contributions paid into the plan for fiscal years 2017 through 2014 as follows for the State and University system plan participants (in thousands):

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2017	$70,896	$213	100%
	6/30/2016	66,224	199	100%
	6/30/2015	55,339	166	100%
	6/30/2014	50,083	150	100%
MUS	6/30/2017	$4,801	$14	100%
	6/30/2016	4,612	14	100%
	6/30/2015	4,057	12	100%
	6/30/2014	4,115	12	100%

F. Actuarial Methods and Assumptions

As of January 1, 2015, the State's actuarially accrued liability (AAL) for benefits was $347.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $347.9 million, and the ratio of the UAAL to the covered payroll was 53.87%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2015, actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 3.4% for medical and 10.8% for prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years.

As of July 1, 2015, the MUS actuarially accrued liability (AAL) for benefits was $110.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $110.5 million, and the ratio of the UAAL to the covered payroll was 26.5%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2016, actuarial valuation, the projected unit cost funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 20.6% for both medical and prescription drugs, initially. The increase to medical and prescriptions drug cost trend rates in plan year 2015 is based on groups cumulative rate increase instead of estimate trend rates. Both medical costs and prescriptions drugs are reduced by decrements to a rate of 4.5% after eight years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (*the plan as understood by the employer and the plan members*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Additional information as of the latest actuarial valuation for the State Plan follows:

Other Postemployment Benefits
State Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$11,172	$4,267
After Medicare eligibility	4,454	3,545
Actuarial valuation date	1/1/2015 (ARC calculated through December 31, 2015)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

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

Other Postemployment Benefits
MUS Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$8,392	$3,866
After Medicare eligibility	3,624	2,753
Actuarial valuation date	7/1/2015 (ARC Calculated through June 30, 2016)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	50.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

G. Termination Benefits

During the year ended June 30, 2017, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for seven employees provided for up to twelve months, one-time lump-sum incentive payments for thirty-two employees, and paid administrative leave for four employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2017, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for twenty employees.

During the year ended June 30, 2017, the cost of termination benefits for the fiscal year was $533.4 thousand and $637.2 thousand for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 654 policies during the 2017 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2017 growing season, with a 90% share of premiums and losses allotted to the Reinsurer and a 10% share of each allotted to the State Hail Insurance. The fund recorded a liability of $2.3 thousand which is 10% of the estimated claims ($19.1 thousand) plus adjustment expenses through June 30, 2017. The amount deducted from the estimated claims as of June 30, 2017, for reinsurance was $17.2 thousand (90% of estimated claims). The premiums ceded to the reinsurer through June 30, 2017, were $1.1 million which was 90% of total premiums of $1.2 million.

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

(2) Montana University System (MUS) Group Insurance Plan –This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be $10.0 million as of June 30, 2017, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750.0 thousand per occurrence ($500.0 thousand for claims occurring prior to July 1, 2013) and $1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1.0 million above the self-insured amount of $750.0 thousand ($500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2017, the program ceded $314.3 thousand in premiums to reinsurers.

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

The fund recorded a liability of $7.3 million for estimated claims at June 30, 2017. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

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

The assessment and surcharge rates are set by the Employment Relations Division of the Department of Labor and Industry annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Employers covered by Plans 1, 2 and 3 share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers in the preceding calendar year.

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

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2017, the amount of this liability was estimated to be $2.9 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2017	2016	2017	2016	2017	2016
Unpaid claims and claim adjustment expenses at beginning of year	$ 134	$ 17	$ 9,100	$ 7,300	$ 7,764	$ 8,289
Incurred claims and claim adjustment expenses: provision for insured events of the current year	819	324	84,186	90,131	3,096	3,157
Less excess insurance reimbursement	-	-	-	-	-	(62)
Increase (decrease) in provision for insured events of prior years	434	79	-	-	(1,368)	(1,655)
Total incurred claims and claim adjustment expenses	1,253	403	84,186	90,131	1,728	1,440
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(817)	(189)	(83,286)	(88,331)	(940)	(598)
Claims and claim adjustment expenses attributable to insured events of prior years	(568)	(97)	-	-	(1,254)	(1,367)
Total payments	(1,385)	(286)	(83,286)	(88,331)	(2,194)	(1,965)
Total unpaid claims and claim adjustment expenses at end of year	$ 2	$ 134	$ 10,000	$ 9,100	$ 7,298	$ 7,764

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below $2.0 million of value, with state agencies paying the first $1.0 thousand. Commercial property insurance protects approximately $5.4 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2.0 million for earthquake and $2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2007, through June 30, 2017, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2017, estimated claims liability was $16.1 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. MedImpact was the administrator for the pharmacy program for the first six months of the fiscal year. The plan operates on a calendar year and the contract expired on December 31, 2016. Navitus replaced MedImpact as the administrator on January 1, 2017. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2017, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $17.7 million as provided by

Actuaries Northwest, a consulting actuarial firm. In fiscal year 2018, $17.5 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Towers Watson, as of June 30, 2017, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2017, $32.2 million of unpaid claims and claim adjustment expenses were reported at face value.

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

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2017	2016	2017	2016	2017	2016
Amount of claims liabilities at the beginning of each fiscal year	$ 15,444	$ 16,953	$ 17,873	$ 18,028	$ 38,410	$ 41,597
Incurred claims:						
Provision for insured events of the current year	4,786	5,343	159,835	163,115	-	-
Increase (decrease) in provision for insured events of prior years	17,592	(167)	518	(4,035)	1,554	5,707
Total incurred claims	22,378	5,176	160,353	159,080	1,554	5,707
Payments:						
Claims attributable to insured events of the current year	(1,681)	(1,737)	(142,173)	(145,572)	-	-
Claims attributable to insured events of prior years	(20,087)	(4,948)	(18,357)	(13,663)	(7,752)	(8,894)
Total payments	(21,768)	(6,685)	(160,530)	(159,235)	(7,752)	(8,894)
Total claims liability at end of each fiscal year	$ 16,054	$ 15,444	$ 17,696	$ 17,873	$ 32,212	$ 38,410

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2017, the Department of Transportation had contractual commitments of approximately $204.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2017, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $45.3 million for capital projects construction. The primary government will fund $9.9 million of these projects, with the remaining $35.4 million funding coming from the Montana University System.

At June 30, 2017, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately $1.8 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2017, BOI had committed, but not yet purchased, $33.2 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $828.0 thousand for loans as of June 30, 2017. As of June 30, 2017, $656.0 thousand represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2017, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). MBOH does not differentiate between a mortgage reservation and a funding commitment.

BOI makes firm commitments to fund loans from the INTERCAP loan program. BOI's outstanding commitments to eligible Montana governments, as of June 30, 2017, totaled $30.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2017, the outstanding tax-exempt bonds issued by the Facility Finance Authority were issued in the amount of $17.5 million of which $2.3 million in principal payments are scheduled to be paid by June 30, 2018. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds.

E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

Enterprise Funds	Amount
Liquor Warehouse	$ 99
Prison Industries	58
West Yellowstone Air	144
Subtotal – Enterprise funds	$301

Internal Service Funds	
Buildings & Grounds	$ 2
Information Technology Services	50
Labor Central Services	228
Prison Industries	274
Subtotal – Internal Service funds	$554

F. Encumbrances

As of June 30, 2017, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	Federal Special Revenue Fund	General Fund	Nonmajor Governmental Funds	State Special Revenue Fund	Total
Encumbrances	$28,579	$11,355	$272	$59,635	$99,841

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2017, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2018	$1,901	$209
2019	1,622	208
2020	1,382	18
2021	1,019	-
2022	512	-
2023-2027	446	-
Total minimum payments	6,882	435
Less: interest	(345)	(20)
Present value of minimum payments	$6,537	$415

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

Asset Class	
Buildings	$ 1,596
Equipment	11,524
Less: Accum Depreciation	(4,771)
Net Book Value	$ 8,349

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2017 totaled $28.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2018	$ 26,428	$ 936
2019	22,763	937
2020	18,049	588
2021	13,208	338
2022	12,402	319
2023-2027	40,827	1,389
2028-2032	18,866	-
Thereafter	11,196	-
Total future rental payments	$163,739	$4,507

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

During fiscal year 2017, the State issued one bond anticipation note. The proceeds of Coal Severance Tax - 2016E will be used to fund water and wastewater system improvements and rehabilitation. As of June 30, 2017, three bond anticipation notes; Drinking Water - 2016D, Water/Wastewater - 2017B, and Drinking Water - 2017C have been authorized, but not issued and no funds have been drawn. The State issued two bond anticipation notes during fiscal year 2015, and one bond anticipation note during fiscal year 2016, all of which were paid off during fiscal year 2017. Three bond anticipation notes that were issued in fiscal year 2016 are still active at the end of fiscal year 2017. The following schedule summarizes the activity for the year ended June 30, 2017 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Coal Severance Tax – 2014A (1)	$ 300	$ -	$ 300	$ -
Drinking Water – 2014A	1,065	-	1,065	-
Coal Severance Tax – 2015A (2)	2,605	495	1,850	1,250
Drinking Water – 2015B	900	1,100	460	1,540
Water/Wastewater – 2016C (3)	-	2,000	1,175	825
Coal Severance Tax – 2016E (3)	-	1,034	-	1,034
Coal Tax Trust Fund – 2016	1,207	7,272	8,479	-

(1) Listed as Water / Wastewater – 2014A in prior fiscal year.

(2) Listed as Water / Wastewater – 2015A in prior fiscal year.

(3) These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2017, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2017
1998	12,500	$ 2,600
2000	15,000	14,255
2003	15,000	14,330
2004	18,500	18,000
2007	15,000	14,725
2010	12,000	11,975
2013	12,000	11,995
2017	20,000	20,000
		$107,880

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2017 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$97,340	$20,000	$9,460	$107,880

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2017, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2018	Principal Payments In Year of Maturity (2)	Balance June 30, 2017
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 150	200 (2023)	$ 1,050
CERCLA Program (6)	2005D	2,000	3.25-4.3	105	140 (2026)	1,085
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	655	165 (2019)	820
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	280	330 (2022)	1,530
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,465	2,465 (2018)	2,465
Long-Range Bldg Program	2008D	3,100	3.375-4.35	140	220 (2028)	1,930
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	640	710 (2021)	2,690
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	475	110 (2026)	2,720
Trust Land (Taxable)	2010F	21,000	1.55-4.9	915	1,450 (2031)	16,090
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	235
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	105	70 (2021)	395
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	610	720 (2023)	3,970
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	610	115 (2025)	4,925
Water Pollution Control Revolving Fund (Taxable)(3)	2013D	1,035	0.4-3.7	100	120 (2024)	755
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	490	575 (2024)	3,700
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,510	820 (2028)	24,040
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,890	1,260 (2020)	6,530
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	805	1,860 (2036)	23,695
Total general obligation bonds		$ 161,220		$ 14,000		$ 98,625
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,495	1,820 (2022)	$ 8,270
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	165	215 (2024)	1,320
Broadwater Power Project Refunding (8)	2010A	10,180	3.0-4.0	1,605	1,605 (2018)	1,605
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	75	115 (2031)	1,300
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	365	170 (2031)	4,680
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	10,155	11,040 (2020)	31,785
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	135	185 (2029)	1,870
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	195	290 (2029)	2,815
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	2,925	3,740 (2023)	19,905
Total special revenue bonds		$ 126,645		$ 17,115		$ 73,550

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2018	Principal Payments In Year of Maturity (2)	Balance June 30, 2017
Notes Payable					
Middle Creek Dam Project (10)	$ 3,272	8.125	$ 85	226 (2034)	$ 2,119
Tongue River Dam Project (11)	11,300	-	290	290 (2038)	6,085
ITSD Software Licenses	1,004	3.44	335	335 (2018)	335
ITSD Software Licenses	2,890	2.41	971	494 (2019)	1,465
Total notes payable	$ 18,466		$ 1,681		$ 10,004
Subtotal governmental activities, before unamortized balances					182,179
Unamortized discount					(9)
Unamortized premium					11,202
Total governmental activities	$ 306,331		$ 32,796		$193,372

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

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

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

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

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

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

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

(11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2017, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Special Revenue Bonds Principal	Special Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest
2018	$ 14,000	$ 3,783	$ 17,115	$ 2,875	$ 1,681	$ 79
2019	10,145	3,367	16,195	2,234	872	45
2020	9,170	3,034	16,915	1,595	382	41
2021	8,120	2,735	6,160	947	385	41
2022	7,320	2,424	6,445	738	389	41
2023-2027	29,475	7,975	8,735	1,199	2,016	205
2028-2032	13,465	3,196	1,985	145	2,155	205
2033-2037	6,930	714	-	-	1,834	82
2038-2042	-	-	-	-	290	-
Total	$ 98,625	$ 27,228	$ 73,550	$ 9,733	$ 10,004	$ 739

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2017, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$ 115,500	$ -	$ 16,875	$ 98,625	$ 14,000	$ 84,625
Special revenue bonds	89,840	-	16,290	73,550	17,115	56,435
Notes payable	11,643	-	1,639	10,004	1,681	8,323
	216,983	-	34,804	182,179	32,796	149,383
Unamortized discount	(11)	2	-	(9)	-	(9)
Unamortized premium	13,645	-	2,443	11,202	-	11,202
Total bonds/notes payable (3)	230,617	2	37,247	193,372	32,796	160,576
Other liabilities						
Lease/installment purchase payable	3,170	5,206	1,839	6,537	1,767	4,770
Operating lease rent holiday	46	-	19	27	9	18
Pension benefits payable	4	-	-	4	2	2
Compensated absences payable (1)	102,568	57,206	56,209	103,565	55,899	47,666
Arbitrage rebate tax payable (1)	83	-	-	83	-	83
Estimated insurance claims (1)	71,727	184,285	190,050	65,962	29,044	36,918
Pollution remediation	242,989	-	34,208	208,781	23,859	184,922
Net pension liability	1,558,463	231,520	173	1,789,810	-	1,789,810
OPEB implicit rate subsidy (2)	262,599	35,215	8,639	289,175	-	289,175
Total other liabilities	2,241,649	513,432	291,137	2,463,944	110,580	2,353,364
Total governmental activities long-term liabilities	$2,472,266	$ 513,434	$ 328,384	$2,657,316	$ 143,376	$2,513,940
Business-type activities						
Lease/installment purchase payable	600	1	186	415	195	220
Compensated absences payable	2,075	1,021	1,049	2,047	1,044	1,003
Arbitrage rebate tax payable	17	6	-	23	3	20
Estimated insurance claims	20,347	87,167	87,272	20,242	13,658	6,584
Net pension liability	10,750	3,556	13	14,293	-	14,293
OPEB implicit rate subsidy (2)	4,650	641	159	5,132	-	5,132
Total business-type activities long-term liabilities	$ 38,439	$ 92,392	$ 88,679	$ 42,152	$ 14,900	$ 27,252

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

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy on the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. The OPEB beginning balance was restated due to correction of an error.

(3) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

F. Refunded and Early Retired Debt

Prepayments
The Department of Natural Resources and Conservation (DNRC) used current available resources to make three prepayments: $155.0 thousand on Series 2006D resulting in a payoff, $900.0 thousand on Series 2010C resulting in a payoff, and $45.0 thousand on Series 2010H general obligation bonds.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)
BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2017, QZAB debt outstanding aggregated $6.4 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2017, QSCB debt outstanding aggregated $5.6 million.

Beginning Farm Loan Program
The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2017, was as follows: Hershberger Project, outstanding $38.4 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2017, was $208.8 million. Of this liability, $13.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $188.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

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

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2017 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$79,875	$32,905	$41,364	$71,416

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2017, consisted of the following (in thousands):

	Due to Other Funds							
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds								
Coal Severance Tax	$ -	$ -	$ -	$ -	$ -	$ 13	$ -	$ 13
Economic Development Bonds	-	-	-	1,806	-	103	608	2,517
Federal Special Revenue	-	-	3	-	-	-	72	75
General Fund	-	2,613	-	23	13,230	-	12,889	28,755
Internal Service Funds	32	-	-	-	-	-	-	32
Nonmajor Governmental (1)	-	-	190	-	-	-	88	278
State Special Revenue (2)	-	11,805	76	3	-	486	-	12,370
Total	$ 32	$14,418	$ 269	$1,832	$13,230	$ 602	$13,657	$44,040

(1) Total due from other funds to the non-major governmental funds on the financial statements is reported as $1.8 million. The difference of $1.5 million between the amount reported above of $278 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as $20.9 million. The difference of $8.5 million between the amount reported above of $12.4 million and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as $13.5 million. The difference of $313.3 thousand between the amount reported above of $13.2 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2017, consisted of the following (in thousands):

	Interfund Loans Payable						
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Interfund Loans Receivable							
General Fund	$1,677	$109,466	$ -	$277	$11,624	$ -	$123,044
Internal Service Funds	-	211	-	-	-	-	211
State Special Revenue	-	54,695	3	-	-	75	54,773
Total	$1,677	$164,372	$ 3	$277	$11,624	$75	$178,028

C. Advances To/From Other Funds

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

Advances to/from other funds at June 30, 2017, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax	$ -	$ -	$ 3,996	$ -	$ 3,996
Economic Development Bonds	-	5,897	4,649	-	10,546
General Fund	275	-	-	251	526
Nonmajor Governmental Funds	-	-	-	9,767	9,767
State Special Revenue	17,536	-	5,231	-	22,767
Total	$17,811	$5,897	$13,876	$10,018	$47,602

Additional detail for certain advance balances at June 30, 2017, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	$ 4,649
Transportation	5,897
Total	$10,546

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2017, consisted of the following (in thousands):

	Transfers In								
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out									
Coal Severance Tax	$ -	$ -	$19,799	$ -	$-	$ -	$ 1,164	$ 22,050	$ 43,013
Federal Special Revenue	-	-	157	-	-	-	15,684	13,088	28,929
General Fund	-	22	-	1,053	-	-	12,621	31,641	45,337
Internal Service Funds (1)	-	-	-	296	-	65	160	22	543
Land Grant	-	-	6	-	-	-	1,504	60,168	61,678
Nonmajor Enterprise Funds (2)	-	1	42,497	-	-	-	-	6,664	49,162
Nonmajor Governmental Funds	10	-	67	-	-	-	5,907	23,442	29,426
State Special Revenue	-	1,656	11,361	437	8	286	13,306	-	27,054
Total	$10	$1,679	$73,887	$1,786	$8	$351	$50,346	$157,075	$285,142

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $1.0 million. The difference of $463.2 thousand between the amount reported above of $543.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as $49.2 million. The difference of $6.4 thousand between the amount reported above of $49.2 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2017, as follows (in thousands):

Fund Type/Fund	Deficit (1)
Internal Service Funds	
Information Tech Services	$(12,527)
Admin Insurance	(1,890)
Print & Mail Services	(452)
Building and Grounds	(582)
Admin Central Services	(1,792)
Labor Central Services	(6,457)
Commerce Central Services	(1,648)
OPI Central Services	(1,790)
DEQ Indirect Cost Pool	(4,239)
Payroll Processing	(2,293)
Investment Division	(2,186)
Aircraft Operation	(1,150)
Justice Legal Services	(503)
Personnel Training	(285)
Debt Collection	(61)
Other Internal Services	(389)
Enterprise Fund	
State Lottery	$ (2,390)
Subsequent Injury	(1,605)
Secretary of State Business Services	(482)
Local Government Audits	(37)

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

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2017.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 67,136	$30,997	$ 21,363	$ 1,363	$ 166	$ 78,961	$ 199,986
Taxes	204,878	4,250	231,301	-	(13)	17,505	457,921
Charges for services	24,222	31,657	6,136	36,462	2,003	22,665	123,145
Investment earnings	462	1,858	85	169	198	6,586	9,358
Securities lending income	1	66	-	1	5	128	201
Sale of documents/merchandise/property	479	2,684	123	116	5	1,533	4,940
Rentals/leases/royalties	343	11	456	52	3	348	1,213
Contributions/premiums	26,406	-	-	-	-	-	26,406
Grants/contracts/donations	2,226	667	708	14,283	1,110	4,454	23,448
Federal	6,044	19	-	266	1	2	6,332
Federal indirect cost recoveries	-	-	41,330	83	-	4,250	45,663
Other revenues	2,114	535	315	246	253	204	3,667
Transfers in	43,554	4,036	1,564	7,105	1,120	99,696	157,075
Total State Special Revenue	$377,865	$76,780	$303,381	$60,146	$4,851	$236,332	$1,059,355

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 938	$ 17	$ -	$ 3,982	$ 30,564	$ (7)	$ 35,494
Investment earnings	222	8	-	-	101	53	384
Securities lending income	-	-	-	-	-	2	2
Sale of documents/merchandise/property	3	-	-	-	-	-	3
Grants/contracts/donations	-	-	-	-	-	108	108
Federal	102,855	11,996	424,052	1,870,032	183,524	101,668	2,694,127
Federal indirect cost recoveries	3	-	-	79,303	51	536	79,893
Other revenues	8	6	-	268	4	4	290
Transfers in	22	1,360	-	296	1	-	1,679
Total Federal Special Revenue	$104,051	$13,387	$424,052	$1,953,881	$214,245	$102,364	$2,811,980

Governmental Fund Balance By Function, June 30, 2017
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 3,065	$ 20,195	$ -	$ -	$ -	$ -	$ 23,260
Permanent fund principal	-	500	-	540,477	725,458	323,588	1,590,023
Long-term notes/receivables	525	-	-	-	-	-	525
Prepaid expense	4,106	381	47	-	-	-	4,534
Total nonspendable	7,696	21,076	47	540,477	725,458	323,588	1,618,342
Restricted							
General government	-	1,671	-	-	-	4,778	6,449
Transportation	-	52,636	37	-	-	-	52,673
Health and human services	-	2,266	1,469	-	-	13,045	16,780
Natural resources	-	692,113	-	-	-	10,286	702,399
Public safety	-	235,145	-	-	-	615	235,760
Education	-	8,733	10,525	-	-	24	19,282
Total restricted	-	992,564	12,031	-	-	28,748	1,033,343
Committed							
General government	-	113,813	-	553,774	-	50,084	717,671
Transportation	-	6,201	-	-	-	-	6,201
Health and human services	-	34,173	-	-	-	-	34,173
Natural resources	-	350,189	-	-	-	35,535	385,724
Public safety	-	46,352	-	-	-	-	46,352
Education	-	16,306	-	-	-	-	16,306
Total committed	-	567,034	-	553,774	-	85,619	1,206,427
Assigned							
General government	-	783	-	-	-	509	1,292
Public safety	-	-	-	-	-	892	892
Encumbrance	11,355	-	-	-	-	-	11,355
Total assigned	11,355	783	-	-	-	1,401	13,539
Unassigned	47,933	-	-	-	-	-	47,933
Total fund balance	$66,984	$1,581,457	$12,078	$1,094,251	$725,458	$439,356	$3,919,584

(1) The 2017 Legislature projected $112.0 million of unassigned fund balance for fiscal year 2017.

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation (SAF). Approximately 68.36%, or $745.5 million of MGSLP's outstanding loan volume is held by MHESAC. A Board of Regents board member is also on the board of MHESAC.

The Department of Administration transitioned from a full member to an associate member of the Montana Association of Health Care Purchasers (MAHCP) effective January 1, 2016. This membership expired on December 31, 2016. Associate membership does not require a membership fee, but no longer provides a seat on the board. DOA also paid $0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program, for the period July 1, 2016, through December 31, 2016. The relationship with MAHCP was terminated as of January 1, 2017.

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

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT from Mineral Plaza, LLC, in which one of the owners is Johnette Watkins, a local job service manager. The term of the lease is four years beginning July 1, 2013, and ending June 30, 2017. The annual lease amount is currently set at $21,330.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a base settlement amount of $832 million payable over 26 years. The base amount was augmented by $90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017.

The settlement provides that the cigarette manufacturers may offset, against their payment in any year, certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their national market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question. The First Judicial District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically articulated that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2004-2017, for which years the OPMs have already received a determination that MSA terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

Factual arguments exist to show that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect and diligently enforced during 2004-2016 and thereafter to date. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2004-2017, which would be recouped through an offset of payments due to Montana in future years. The OPMs will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and certain tobacco product manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration. Montana filed a Declaratory Judgement action in March 2017, in the same docket in the First Judicial District, to determine the State's diligent enforcement for calendar year 2004. Trial is currently set for June 2018.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost $41 million for past use of the riverbeds.

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

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

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the $41 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1.2 million for PPL's costs relating to the appellate proceedings. All but approximately $31,000 relate to premiums that PPL paid for a supersedeas bond in support of staying the $41 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31,263. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgement. Several procedural motions have taken place since the prior fiscal year-end, but none that require the State to revise its earlier held opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

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

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately $1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision is expected to be issued in early 2018.

As of June 30, 2017, the State paid Plaintiffs $1.4 million in base payments plus interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Kohoutek, Inc. v. Montana involves a class action constitutional challenge to the state's statute governing compensation for mandatory case-lot sales of liquor. Agency liquor stores are required by statute to provide an 8% discount to liquor licensees for sales of unbroken case-lots. Section 16-2-101(2)(b)(ii)(B), MCA, provides for a weighted average discount ratio to offset for some or all of this mandatory case lot discount. The weighted average discount ratio is based on fiscal year 1994 sales. Plaintiffs contend that this provision, rooted in 1994 rather than based on actual sales, violates their rights to substantive due process and equal protection, and constitutes a taking.

Plaintiffs filed a Complaint for Declaratory, Injunctive, and Class Relief on March 25, 2014, before the Eighth Judicial District Court, ADV-14-181. The District Court for the Eighth Judicial District granted class certification by Order dated August 21, 2014. The case has been bifurcated into two parts: constitutionality and damages. The Court heard oral argument on the Plaintiffs' Motion for Partial Summary Judgment, addressing its constitutional claims, on January 20, 2015, and will decide on that issue in the near future.

On May 28, 2015, the District Court determined that Section 16-2-101(2)(b)(ii)(B), MCA, violated the plaintiffs' rights to substantive due process and to equal protection of the law because the state has continued to use 1994 sales information to reimburse agency liquor stores for the mandatory case lot discounts.

On August 2, 2016, District Judge Greg Pinski ruled the damages due to the class is $14.7 million. Further proceedings were held on December 2, 2016, to determine whether interest and attorney fees are due to the plaintiffs; as of this action, it was determined that $8.7 million would be awarded in attorney's fees and $2.8 million in interest. Total judgement against the State is $26.2 million, but this amount has been stayed pending appeal to the Montana Supreme Court.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. Currently, the parties reached a Class Action Settlement signed February 14, 2017, which includes the Department's agreement to pay attorney's fees. During settlement negotiations, the Class attorneys indicated they would be seeking in the neighborhood of $1.1 million in attorney's fees for a period spanning from 2008 until close. The Department will contest that amount before the Court. That projected sum does not include the anticipated two-year monitoring period as well. At this time, the department cannot specify an anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at MSP. The district court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The department has exchanged settlement proposals and has met with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff's chances of success are fair, given the current political climate. Plaintiffs have made a number of unreasonable demands that would cost the Department millions of dollars and at least $800.0 thousand in attorney's fees and undisclosed expert witness fees. At this time the department cannot specify an anticipated amount of financial obligation.

Fisk v. Montana Department of Corrections, (Cause # ADV-2016-962): An employment case filed by a current employee at Montana State Prison, alleging discrimination by gender and military status. This matter is currently set for trial to begin January 19, 2018. The plaintiff is seeking over $800.0 thousand in monetary damages; if successful, a court would likely order an award of attorneys' fees as well. The plaintiff s chances of success are: poor to fair.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Sheriffs' Retirement System (SRS). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has two items of litigation in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2017, the State distributed $1.2 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $10.6 million in commodities in fiscal year 2017. The value at June 30, 2017, of commodities stored at the State's warehouse is $1.7 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2017, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling $179.3 million. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $107.9 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $71.4 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2017, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	$37,071

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2017. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2017, these include $6.5 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2017. As of June 30, 2017, these include $3.6 million of protested property taxes recorded in the General Fund and $4.1 million recorded in the State Special Revenue Fund. In addition, certain companies have appealed an additional $5.6 million in regular property taxes recorded in the General Fund on the State's financial statements.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

During fiscal year 2017, Board of Investments (BOI) requested a 100% redemption in the amount of $174.0 million from one manager, pertaining to investments from Consolidated Asset Pension Pool (CAPP), Trust Funds Investment Pool (TFIP), and All Other Funds (AOF). Since June 30, 2017, redemptions in the amount of $67.6 million have been received. BOI is confident and it is understood that the full redemption would be received over a reasonable time period.

Since June 30, 2017, BOI made additional commitments to fund loans from the INTERCAP loan program in the amount of $10.0 million.

Since June 30, 2017, BOI has received recovery payments associated with the Structured Investment Vehicle (SIV) related assets in the amount of $1.7 million, representing $1.1 million of principal and $600.0 thousand of interest.

Since June 30, 2017, BOI has committed an additional $490.0 million to alternative equity partnerships within CAPP, with allocations of $145.0 million within the Private Equity Asset Class, $145.0 million within the Natural Resource Asset Class and $200.0 million within the Real Estate Asset Class of CAPP.

On August 1, 2017, BOI reallocated assets held within a small cap domestic equity fund to four of BOI's existing small cap domestic equity managers. The transfer of securities and cash occurred within the Domestic Equity Asset Class of the CAPP. The approximate market value of the transition was $120.0 million.

On August 22, 2017, BOI approved two Qualified Zone Academy Bonds (QZAB) loans in the amount of $1.4 million.

As of August 22, 2017, BOI had approved an additional loan guarantees from the Coal Severance Tax Fund to Facility Finance Authority (FFA) totaling $15.0 million. BOI also approved an increase of $4.0 million to a previously approved $10.0 million commercial loan commitment. Since June 30, 2017, the BOI has received an additional $28.8 million in loan reservations from Montana lenders.

On August 30, 2017, BOI terminated one manager in the Domestic Equity Asset Class with the CAPP. A transition manager was hired to liquidate the portfolio and cash was transferred to BOI's Cash Asset Class within the CAPP, which in turn purchased STIP. The approximate market value of the transition was $179.0 million.

In November 2017, BOI reallocated assets held within an international small cap fund to three of BOI's existing international small cap equity managers. The transfer of securities and cash occurred within the International Equity Pension Asset Class of CAPP. The approximate market value of the transition was $150.0 million.

In November 2017, the Governor called the Montana legislature into special session to address a significant budget shortfall in the State's General Fund. Senate Bill 4 was passed into law and directs BOI to apply a 3% charge against the average total investments of the State Fund in excess of $1.0 billion providing certain conditions are met. BOI is directed to transfer money from this charge on or before April 1, 2018, and April 1, 2019, to the State's Fire Suppression Fund. BOI is not providing additional investment services in making the transfer as required by the Act. Additional information about the special session is provided below.

In December 2017, two new managers were hired in the High Yield Pension Asset Class. Each manager was funded with $50.0 million.

Other Subsequent Events

On July 23, 2017 and August 11, 2017, Governor Bullock declared a fire emergency in the state. The governor issued an executive order announcing Montana to be in a state of disaster on September 1, 2017. As of October 26, 2017, State's estimated fire costs for the calendar year fire season was approximately $71.7 million.

Senate Bill 261 (SB 261), passed during the 2017 Legislative Session, contained requirements for the Department of Administration to determine, by August 15, 2017, the unaudited revenue for the General Fund and compare this to estimates approved by the Legislature. The bill also cut spending authority for fiscal year 2018 should the unaudited revenue balance fall below $2.216 billion at five different intervals. As General Fund revenue was less than any threshold provided within the legislation, cuts and transfers to the General Fund totaling $97.0 million were implemented. Additionally, SB 261 created the Budget Stabilization Reserve Fund, Montana's first formal "Rainy Day" fund. Although, due to actual revenues being less than estimated by the 65th Legislature, for the fiscal year ended June 30, 2017, no deposits were made to the Budget Stabilization Reserve Fund.

On September 18, 2017, the Board of Examiners approved the issuance of a $1.0 million General Obligation Renewable Resource Program Bond, Taxable Series 2017A, $3.4 million General Obligation Bond Anticipation Notes, Taxable Series 2018B, for the Drinking Water Revolving Fund Program, and $3.1 million in General Obligation Bond Anticipation Notes, Taxable Series 2018C, for the Water Pollution Control State Revolving Fund Program.

Effective October 1, 2017 the loan servicing portion of the Montana Guaranteed Student Loan Program (MGSLP) was transferred to a federally approved national education loan servicing provider. This transfer was approved by the Montana Board of Regents in May 2017. The program will continue to offer other student financial aid-related activities for the benefit of Montana students as determined by the Montana Board of Regents. After the transfer of the loan servicing portion, MGSLP will be required to return the Federal Student Loan Reserve Fund to the US Department of Education. As of September 30, 2017, the amount of the return was $6.6 million.

On October 24, 2017, Galen Hollenbaugh was appointed as the new Commissioner of the Department of Labor and Industry.

On November 6, 2017, Governor Bullock called for a special session of the Legislature to address an anticipated $228.2 million General Fund deficit balance for the budget period ended June 30, 2019. The session was held from November 13 through 16, 2017. The Legislature approved revenue proposals estimated to generate an additional $44.7 million in revenue and $95.2 million in fund transfers and other legislation. In coordination with this, on November 14, 2017, the Governor enacted $76.7 million in expenditure cuts under the authority granted by 17-7-140, MCA.

On January 22, 2018, a group of Montana State Fund (MSF) policyholders filed suit against the State, MSF and the Board of Investments (BOI), in Lake County District Court, in an effort to prevent BOI from charging a 3% management fee on any single investor whose average portfolio balance held by BOI is greater than $1.0 billion. This fee was implemented as part of the revenue enhancements passed during the Legislative Special Session disclosed above.

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2017 (in thousands):

Condensed Statement of Net Position
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$609,471	$5,582	$1,650,567	$614,260	$504,086	$3,383,966
Due from primary government	-	-	-	640	1,042	1,682
Due from component units	-	-	-	49	222	271
Capital assets (net) (Note 18C)	2	-	27,687	478,466	381,392	887,547
Total assets	609,473	5,582	1,678,254	1,093,415	886,742	4,273,466
Deferred Outflows of Resources	752	43	3,407	35,478	27,283	66,963
Liabilities:						
Accounts payable and other liabilities	6,937	12	126,100	69,431	54,638	257,118
Due to primary government	-		-	2,221	1,930	4,151
Due to component units	-	-	-	222	49	271
Advances from primary government	-	-	-	18,573	20,617	39,190
Long-term liabilities (Note 18I)	449,953	342	1,030,179	373,602	275,378	2,129,454
Total liabilities	456,890	354	1,156,279	464,049	352,612	2,430,184
Deferred Inflows of Resources	7	1	78	1,229	1,162	2,477
Net Position:						
Net investment in capital assets	2	-	27,687	305,890	264,065	597,644
Restricted	153,326	-	-	310,969	337,255	801,550
Unrestricted	-	5,270	497,617	46,756	(41,069)	508,574
Total net position	$153,328	$5,270	$525,304	$663,615	$560,251	$1,907,768

(1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2016.

Condensed Statement of Activities
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (2)	Montana State University	University of Montana	Total Component Units
Expenses	$ 20,822	$ 462	$210,763	$573,551	$458,117	$1,263,715
Program Revenues:						
Charges for services	1,541	783	169,677	272,972	191,932	636,905
Operating grants and contributions	19,047	75	-	181,074	161,079	361,275
Capital grants and contributions	-	-	-	5,005	14,118	19,123
Total program revenues	20,588	858	169,677	459,051	367,129	1,017,303
Net (expense) program revenues	(234)	396	(41,086)	(114,500)	(90,988)	(246,412)
General Revenues:						
Unrestricted grants and contributions	-	-	-	107	-	107
Unrestricted investment earnings	-	-	50,239	5,099	24,332	79,670
Transfer from primary government (1)	-	-	-	136,645	103,522	240,167
Gain (loss) on sale of capital assets	-	-	-	594	-	594
Miscellaneous	-	-	1,237	-	-	1,237
Contributions to term and permanent endowments	-	-	-	21,724	30,494	52,218
Total general revenues and contributions	-	-	51,476	164,169	158,348	373,993
Change in net position	(234)	396	10,390	49,669	67,360	127,581
Total net position – July 1 – as previously reported	153,871	4,963	514,961	613,946	491,240	1,778,981
Adjustments to beginning net position	(309)	(89)	(47)	-	1,651	1,206
Total net position – July 1 – as restated	153,562	4,874	514,914	613,946	492,891	1,780,187
Total net position – June 30	$ 153,328	$ 5,270	$525,304	$663,615	$560,251	$1,907,768

(1) Includes non-employer pension revenue and payments for services provided.
(2) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2016.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 8,650	$ 8,226	$ 1,139	$ 18,015
Construction work in progress	38,638	10,548	-	49,186
Capitalized collections	9,783	18,300	-	28,083
Livestock for educational purposes	3,858	-	-	3,858
Total capital assets not being depreciated	60,929	37,074	1,139	99,142
Capital assets being depreciated:				
Infrastructure	44,820	9,904	-	54,724
Land improvements	25,033	15,893	-	40,926
Buildings/Improvements	653,517	602,472	27,941	1,283,930
Equipment	162,401	92,215	7,395	262,011
Livestock	-	255	-	255
Library books	66,776	61,867	-	128,643
Leasehold improvements	3,246	-	-	3,246
Total capital assets being depreciated	955,793	782,606	35,336	1,773,735
Total accumulated depreciation	(546,220)	(448,092)	(9,016)	(1,003,328)
Total capital assets being depreciated, net	409,573	334,514	26,320	770,407
Intangible assets	1,589	1,360	230	3,179
MSU Component Unit capital assets, net	6,375	-	-	6,375
UM Component Unit capital assets, net	-	8,444	-	8,444
Discretely Presented Component Units capital assets, net	$478,466	$381,392	$27,689	$887,547

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2016, approximately 24,200 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2016, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2016, $921.5 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2016, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to $100.0 million in which MSF retains the first $5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5.0 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2014 through December 31, 2016. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $10.4 million during the year ended December 31, 2016.

Estimated claim reserves were reduced by $5.1 million as of December 31, 2016, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional $13.1 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

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

	Year Ended December 31, 2016
Unpaid claims and claim adjustments expenses at beginning of year	$ 900,296
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	147,194
Increase (decrease) in provision for insured events of prior years	(64)
Total incurred claims and claim adjustment expenses	147,130
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(31,040)
Claims and claim adjustment expenses attributable to insured events of prior years	(94,854)
Total payments	(125,894)
Total unpaid claims and claim adjustment expenses at end of year	$ 921,532

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2017, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2018	$216
2019	142
2020	93
2021	45
2022	9
Total minimum payments	505
Less: interest	(49)
Present value of minimum payments	$456

G. Operating Leases

Future rental payments under operating leases at June 30, 2017, are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2018	$ 4,324
2019	2,870
2020	2,450
2021	1,457
2022	1,066
2023-2027	2,297
Total future rental payments	$14,464

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2017, were as follows (in thousands):

	Montana Board of Housing		Montana State University		University of Montana	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 14,860	$ 14,842	$ 10,354	$ 5,965	$ 8,506	$ 3,293
2019	15,355	14,544	11,841	5,721	8,825	2,964
2020	15,745	14,194	9,349	5,401	9,220	2,611
2021	16,240	13,798	9,372	5,086	9,565	2,227
2022	16,655	13,350	9,727	4,761	10,031	1,828
2023-2027	94,515	58,314	32,564	19,488	34,939	4,122
2028-2032	101,360	40,781	24,935	13,251	8,585	911
2033-2037	87,080	22,603	23,213	8,063	960	38
2038-2042	61,759	8,873	16,747	4,026	-	-
2043-2047	17,350	1,219	8,799	462	-	-
2048-2052	130	3	-	-	-	-
Total	$ 441,049	$ 202,521	$ 156,901	$ 72,224	$ 90,631	$ 17,994

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2017, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	$ 477,014	$ 42,643	$ 73,040	$ 446,617	$ 14,860	$ 431,757
Montana State University (MSU)	163,939	7,253	11,025	160,167	10,328	149,839
University of Montana (UM)	100,386	-	8,340	92,046	8,540	83,506
Total bonds/notes payable (1)	741,339	49,896	92,405	698,830	33,728	665,102
Other liabilities						
Lease/installment purchase payable	550	156	250	456	192	264
Compensated absences payable	61,764	32,297	30,193	63,868	31,969	31,899
Arbitrage rebate tax payable	761	217	417	561	304	257
Estimated insurance claims	900,296	147,129	125,894	921,531	128,265	793,266
Due to federal government	32,501	318	310	32,509	-	32,509
Derivative instrument liability	6,097	-	1,909	4,188	-	4,188
Reinsurance funds withheld	89,571	-	13,832	75,739	-	75,739
Unearned compensation	391	-	-	391	-	391
Net pension liability	178,700	42,099	14,153	206,646	-	206,646
OPEB implicit rate subsidy (2)	114,894	10,899	3,548	122,245	-	122,245
Total other liabilities	1,385,525	233,115	190,506	1,428,134	160,730	1,267,404
	$2,126,864	$283,011	$282,911	$2,126,964	194,458	1,932,506
Long-term liabilities of Montana University System component units (4)					(105)	2,595
Total discretely presented component units' long-term liabilities					$194,353	$1,935,101

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

(3) Beginning balances are taken from component unit financial statements.

(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2017, $98.3 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2017, revenue bonds and notes outstanding aggregated $947.0 million.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)
MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2017, bonds outstanding aggregated $36.6 million.

L. Non-Exchange Financial Guarantee

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

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2017 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$79,875	$32,905	$41,364	$71,416

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2017. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2017, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option’s value included intrinsic value and time value. The option’s intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2017, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2017, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty’s credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2017 (in thousands):

		Activity During 2017		Fair Values at June 30, 2017	
Cash flow hedges:	Notional	Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	$20,475	Interest expense	$ 18	Loan receivable	$ 250
		Investment income	-	Derivative liability	4,189
		Deferred outflow	(1,909)		
Investment derivative –					
Basis swap	$20,475	Investment loss	$808	Investment (excluding interest accrued)	$ 463

The objective and terms of MSU’s hedging derivative outstanding as of June 30, 2017, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$20,475	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk
It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2017, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk
Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk
The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk
MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2017, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the years ended June 30, 2017, $283.2 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $988.9 thousand during 2017 and Friends of KEMC Public Radio provided $802.6 thousand during 2017 in support of MSU's television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers' Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of $2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson vs. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

P. Subsequent Events

Subsequent to Montana State Fund's (MSF) fiscal year ended December 31, 2016, the Board of Investments (BOI) decided to divest its investment in the TIAA-CREF US Cities Fund LP. Sales of the investments took place throughout calendar year 2017 and proceeds from the sales were used to repurchase similar investments. No value impairment is considered to have happened and therefore, adjustments to the investment values are not considered necessary.

In response to declining enrollment, the University of Montana's (UM) Missoula campus implemented voluntary termination plans to reduce the percentage of its budget spent on personnel costs.

Voluntary Employment Retirement Incentive Program (VERIP)
The first of two VERIP offerings was announced in May 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- Be full-time tenured faculty,
- Be age 65 years of age or older as of May 12, 2017, and,
- Be eligible to retire under Montana Teacher's Retirement System or the Montana University System-Retirement Plan (MUS-RP) as of May 12, 2017.

Eligible faculty members who accepted the offer by July 17, 2017, received a lump sum payment equal to 50% of their FY2016-2017 general fund contract base salary.

The second VERIP offering was announced in June 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- Be full-time tenured faculty,
- Be age 60-64 years of age as of May 12, 2017, and,
- Be eligible to retire under Montana Teacher's Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 28, 2017, could elect to receive either of the following:

- A lump sum payment equal to 50% of their fiscal year 2016 through fiscal year 2017 general fund contract base salary, or,
- The lump sum payment outlined above, less any deductions for premiums paid for coverage in the UM retiree health insurance plan until their 65th birthday.

Faculty members who accepted the May or June 2017 VERIP offering were terminated on July 17, 2017, or July 28, 2017, respectively. The total cost to the UM for the 14-tenured faculty who accepted the VERIP was approximately $1.6 million.

Voluntary Severance Option (VSO)
UM announced the VSO in October 2017, which was extended to currently employed, full-time (1.0 FTE) classified staff, contract professionals, and contract administrators, whose positions are funded by the General Fund and had an initial employment date no later than October 17, 2015. The offer extended to December 6, 2017, and employees who accepted the VSO were terminated on December 31, 2017. The VSO provided for the employee to be paid an equivalent of six months of wages, at their stated salary level as of December 6, 2017, as severance in January 2018.

In addition:

- The employee retains medical and dental coverage until December 31, 2018; or,
- The employee may elect to receive a lump sum payment of $12.6 thousand (the value of 12 months of health insurance), plus their severance payment, in lieu of remaining on the health insurance plan.

The VSO offer was accepted by 84 employees and the UM expects the cost of the plan to be approximately $3.8 million, to be paid primarily in fiscal year 2018.

In July 2017, the Montana State University (MSU) received authorization to enter into a long-term space lease at a cost of up to $1.7 million per year for ten years. The lessor is the MSU Innovation Campus, a subsidiary of the Montana State University Alumni Foundation. The leased facility is not yet constructed, and will be designed to meet requirements necessary to conduct classified research on the Bozeman campus. The capacity to perform classified research will qualify MSU to perform additional types of research funded by governmental grants. At the expiration of the lease term MSU will have the right of first refusal to purchase or continue leasing the property at no cost (other than operations and maintenance).

On July 12, 2017, Montana State University (MSU) issued $21.0 million in Series 2017D bonds to refund all of the Series 2006 bonds with stated maturities in the years 2017 and thereafter and to refund all of the Series 2011M bonds with stated maturities in the years 2022 and thereafter. The refunded principal amount for Series 2006K and Series 2011M is $8.5 million and $12.9 million respectively. The refunding resulted in an economic gain to MSU of $1.3 million.

On July 24, 2017, the University of Montana (UM) issued $14.1 million of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provide funds to construct a Living Learning Center (LLC) on the UM Tech campus in Butte.
UM will record $14.1 million of the Series O bonds payable in fiscal year 2018. The interest rate on the revenue bonds is 3.390% over the 20-Year Term of the bonds.

The LLC is a three-story new construction building. The first two floors make up a new residential hall for Montana Tech student residents. The third floor of the new space is known as the Student Success Center. This new space will service all students on the Butte campus. Additional operation and maintenance costs for the residential hall living space are forecasted at $320.8 thousand annually; beginning Fall 2019. All O&M costs for the residential hall and dining space will be paid from Auxiliary funds.

The $14.1 million Series O revenue bond will be re-paid from new net revenue (both residence life and dining) generated by the LLC. Debt Service payments for the new facility are estimated at $1.0 million per year for 20 years. Revenue committed toward the payment of debt are currently generating funds in excess of recurring operating and debt service requirements. This situation allows for the re-direction of these funds to the new Series O debt. The existing debt is fully paid in fiscal year 2024 providing additional revenues to commit to the $14.1 million debt.

On August 29, 2017, approximately $21.5 million in Master Loan Program Revenue Refunding Bonds, Series 2017, were issued by the Facility Finance Authority (FFA) for the benefit of Glendive Medical Center to advance refund bonds issued in 2008.

In August 2017, MSU entered into an off-campus lease for space to accommodate university support functions, which will make available approximately 35,000 square feet in the core of the Bozeman campus for academic and student support services. The lessor is a subsidiary of the MSU Alumni Foundation. The lease terms began September 1, 2017, and is for an initial ten-year period, with up to four renewals of five years each. Discounted rent is charged while MSU performs leasehold improvements and transitions its staff into the building, and full rent of $25.0 thousand per month begins in May 2018. Annual escalators of 2% are included for the initial ten-year lease term.

On August 31, 2017, a Direct Loan for $141.6 thousand Direct Loan was made by the FFA to Northern Rockies Medical Center to finance the purchase of a new telemetry unit.

On September 7, 2017, the Board of Housing issued a contract for the purchase, sale, and delivery of $42.6 million in bonds closing on October 18, 2017. Of this, $11.9 million of the funds will be used to refund previous issues, $30.3 million will be used to purchase eligible Montana home loans, and the remaining $400.0 thousand will be used to pay issuance costs.

On September 15, 2017, MSF's board declared a dividend of $40.0 million to be distributed to approximately 23,000 employers.

Effective October 1, 2017, a space lease for property near the MSU Bozeman campus was renewed at a cost of $104.0 thousand per year for an initial three-year term, with two one-year renewal options.

On October 5, 2017, a Direct Loan for $300.0 thousand was made by the FFA to Intermountain Children's Services to finance the purchase of a new electronic health records system.

In November 2017, the Board of Regents approved the issuance of bonds to construct a new residence hall on the MSU Bozeman campus. Construction proceeds of $50.0 million, plus costs of issuance, a debt service reserve fund, and capitalized interest (if needed), were authorized for a borrowing term of up to 30 years.

In November 2017, the Board of Regents authorized the issuance of up to $4.5 million in Intercap debt to fund the construction of a student activity complex on the MSU Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt.

Subsequent to June 30, 2017, MSU drew the remaining $6.0 million on its Series C bonds, bringing the total outstanding as of January 8, 2018, to $16.5 million. No further draws will be made.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

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

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 125,616	$ 125,616	$ 125,737	$ 121
Taxes:				
Natural resource	90,220	90,220	71,042	(19,178)
Individual income	1,307,356	1,307,356	1,161,730	(145,626)
Corporate income	156,751	156,751	133,247	(23,504)
Property	262,709	262,709	258,698	(4,011)
Fuel	-	-	-	-
Other	244,043	244,043	237,589	(6,454)
Charges for services/fines/forfeits/settlements	39,846	39,846	35,035	(4,811)
Investment earnings	-	-	7,400	7,400
Sale of documents/merchandise/property	387	387	369	(18)
Rentals/leases/royalties	8	8	8	-
Contributions/premiums	180	180	4,727	4,547
Grants/contracts/donations	4,130	4,130	10,116	5,986
Federal	25,254	25,254	18,416	(6,838)
Federal indirect cost recoveries	177	177	244	67
Other revenues	5,979	5,979	957	(5,022)
Total revenues	2,262,656	2,262,656	2,065,315	(197,341)
EXPENDITURES				
Current:				
General government	384,521	384,521	353,582	30,939
Public safety	333,667	333,667	318,926	14,741
Transportation	-	-	-	-
Health and human services	541,407	541,407	538,738	2,669
Education	1,064,745	1,064,745	1,058,596	6,149
Natural resources	41,767	41,767	37,738	4,029
Debt service (Note RSI-1):				
Principal retirement	-	-	56	(56)
Interest/fiscal charges	-	-	197	(197)
Capital outlay (Note RSI-1)	-	-	7,270	(7,270)
Total expenditures	2,366,107	2,366,107	2,315,103	51,004
Excess of revenue over (under) expenditures	(103,451)	(103,451)	(249,788)	(146,337)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	196	196	252	56
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	73,415	73,415	73,886	471
Transfers out (Note 12)	(260,064)	(260,064)	(45,336)	214,728
Total other financing sources (uses)	(186,453)	(186,453)	28,802	215,255
Net change in fund balances (Budgetary basis)	(289,904)	(289,904)	(220,986)	68,918
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	55	55
2. Securities lending costs	-	-	(19)	(19)
3. Inception of lease/installment contract	-	-	-	-
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances (GAAP basis)	(289,904)	(289,904)	(220,950)	68,954
Fund balance - July 1	-	-	271,310	271,310
Prior period adjustments	-	-	16,370	16,370
Increase (decrease) in inventories	-	-	254	254
Fund balances - June 30	$ (289,904)	$ (289,904)	$ 66,984	$ 356,888

The notes to the required supplementary information are an integral part of this schedule.

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 201,515 $	201,515 $	199,980 $	(1,535) $	- $	- $	- $	-
122,532	122,532	69,683	(52,849)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
16,845	16,845	16,729	(116)	-	-	-	-
222,433	222,433	231,296	8,863	-	-	-	-
140,295	140,295	138,386	(1,909)	1	1	-	(1)
108,609	108,609	106,465	(2,144)	48,618	48,618	35,496	(13,122)
-	-	5,739	5,739	-	-	384	384
4,717	4,717	4,817	100	3	3	3	-
849	849	980	131	-	-	-	-
27,180	27,180	26,296	(884)	-	-	-	-
10,259	10,259	11,822	1,563	108	108	108	-
9,316	9,316	7,116	(2,200)	2,375,117	2,375,117	2,694,127	319,010
51,280	51,280	45,583	(5,697)	67,012	67,012	79,893	12,881
5,116	5,116	3,175	(1,941)	412	412	289	(123)
920,946	920,946	868,067	(52,879)	2,491,271	2,491,271	2,810,300	319,029
346,613	346,613	189,652	156,961	251,983	251,983	105,148	146,835
89,980	89,980	71,863	18,117	36,960	36,960	13,475	23,485
320,219	320,219	217,582	102,637	539,009	539,009	111,680	427,329
173,112	173,112	159,348	13,764	2,128,873	2,128,873	1,947,967	180,906
103,089	103,089	71,575	31,514	302,496	302,496	214,285	88,211
350,957	350,957	189,675	161,282	154,468	154,468	68,119	86,349
						-	
-	-	638	(638)	-	-	30	(30)
-	-	359	(359)	-	-	6	(6)
-	-	49,864	(49,864)	-	-	319,171	(319,171)
1,383,970	1,383,970	950,556	433,414	3,413,789	3,413,789	2,779,881	633,908
(463,024)	(463,024)	(82,489)	380,535	(922,518)	(922,518)	30,419	952,937
545	545	43	(502)	-	-	-	-
134	134	325	191	-	-	42	42
-	-	1,770	1,770	-	-	-	-
282,711	282,711	155,783	(126,928)	14,838	14,838	1,679	(13,159)
(92,606)	(92,606)	(25,442)	67,164	(59,375)	(59,375)	(28,927)	30,448
190,784	190,784	132,479	(58,305)	(44,537)	(44,537)	(27,206)	17,331
(272,240)	(272,240)	49,990	322,230	(967,055)	(967,055)	3,213	970,268
-	-	201	201	-	-	2	2
-	-	(90)	(90)	-	-	(1)	(1)
-	-	184	184	-	-	-	-
-	-	(22,730)	(22,730)	-	-	-	-
(272,240)	(272,240)	27,555	299,795	(967,055)	(967,055)	3,214	970,269
-	-	1,554,015	1,554,015	-	-	8,958	8,958
-	-	(984)	(984)	-	-	(94)	(94)
-	-	870	870	-	-	-	-
$ (272,240) $	(272,240) $	1,581,456 $	1,853,696 $	(967,055) $	(967,055) $	12,078 $	979,133

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2017, reverted governmental fund appropriations were as follows: General Fund - $25.2 million, State Special Revenue Fund - $242.6 million, and Federal Special Revenue Fund - $354.0 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	$ 1,578	$ 1,653	$ 1,594
Interest	3,986	3,934	3,824
Differences between expected and actual experience	(1,341)	(1,032)	-
Benefit payments	(3,416)	(3,041)	(3,023)
Net change in total pension liability	$ 807	$ 1,514	$ 2,395
Total pension liability – beginning	53,146	51,632	49,237
Total pension liability – ending	$ 53,953	$ 53,146	$ 51,632
Plan Fiduciary Net Position			
Contributions – employer	$ 1,806	$ 1,684	$ 1,651
Contributions – member	729	534	481
Net investment income	1,779	3,843	12,421
Benefit payments	(3,416)	(3,041)	(3,023)
Administrative expense	(197)	(136)	(100)
Other	(3)	-	-
Net change in plan fiduciary net position	$ 698	$ 2,884	$ 11,430
Plan fiduciary net position - beginning	87,107	84,223	72,793
Plan fiduciary net position - ending	$ 87,805	$ 87,107	$ 84,223
Net Pension (Asset) – Beginning	$(33,961)	$(32,591)	$(23,556)
Net Pension (Asset) – Ending	$(33,852)	$(33,961)	$(32,591)
Plan fiduciary net position as a percentage of TPL	162.74%	163.90%	163.12%
Covered payroll	$6,920	$6,525	$6,355
Net pension (asset) as a percentage of covered payroll	(489)%	(521)%	(513)%

Judges' Retirement System
Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2017	2016	2015
Contractually required contributions	$1,800	$1,786	$1,684
Contributions made in relation to the contractually required contributions	1,800	1,786	1,684
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$6,974	$6,920	$6,525
Contributions as a percentage of covered payroll	26%	26%	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	0 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00%
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	$ 3,799	$ 3,598	$ 3,464
Interest	14,545	14,113	13,518
Changes in benefits	-	1,856	-
Difference between expected and actual experience	18	267	-
Benefit payments	(10,482)	(10,001)	(9,443)
Refunds of contributions	(94)	-	-
Net change in total pension liability	$ 7,786	$9,833	$ 7,539
Total pension liability – beginning	192,966	183,133	175,594
Total pension liability – ending	$200,752	$192,966	$183,133
Plan Fiduciary Net Position			
Contributions – employer	$ 5,916	$ 5,840	$ 5,736
Contributions – non-employer	243	-	-
Contributions – member	1,917	1,624	1,458
Net investment income	2,605	5,738	18,677
Benefit payments	(10,482)	(10,001)	(9,443)
Administrative expense	(197)	(144)	(109)
Refunds of Contributions	(94)	-	-
Other	(2)	-	-
Net change in plan fiduciary net position	$ (94)	$ 3,057	$ 16,319
Plan fiduciary net position – beginning	129,067	126,010	109,691
Plan fiduciary net position – ending	$128,973	$129,067	$126,010
Net Pension Liability – Beginning	$ 63,899	$ 57,123	$ 65,903
Net Pension Liability – Ending	$ 71,779	$ 63,899	$ 57,123
Plan fiduciary net position as a percentage of TPL	64%	67%	69%
Covered payroll	15,276	$14,549	$14,149
Net pension liability as a percentage of covered payroll	470%	439%	404%

Highway Patrol Officers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$5,706	$6,161	$5,782
Contributions in relation to the contractually required contributions	5,706	6,161	5,782
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$14,779	$15,276	$14,549
Contributions as a percentage of covered payroll	39%	40%	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	29 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Inflation	3.00%
Salary increases	4.00% to 11.30%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: The following changes to the assumptions were made as identified:

2015

DROP accounts are assumed to earn the actuarial rate of return

An additional 15% of active members are assumed to elect DROP for each of the first six years following DROP eligibility. These members are assumed to elect to participate in the DROP for five years or until age 60 if earlier.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Total Pension Liability (TPL)			
Service costs	$ 8,403	$8,008	$7,850
Interest	12,911	12,398	11,258
Actual experience	2,705	731	-
Benefit payments	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,066)	-	-
Net change in total pension liability	$ 17,885	$15,785	$13,879
Total pension liability – beginning	169,649	153,864	139,985
Total pension liability – ending	$187,534	$169,649	$153,864
Plan Fiduciary Net Position			
Contributions - employer	$ 4,278	$4,088	$3,762
Contributions - member	5,036	4,924	4,462
Net investment income	3,167	6,435	20,069
Benefit payments	(5,068)	(5,352)	(5,229)
Administrative expense	(269)	(200)	(162)
Refunds of contributions	(1,066)	-	-
Other	(31)	-	-
Net change in plan fiduciary net position	$ 6,047	$9,895	$22,902
Plan fiduciary net position – beginning	148,638	138,743	115,841
Plan fiduciary net position – ending	$154,685	$148,638	$138,743
Net Pension Liability – Beginning	$ 21,011	$15,121	$24,144
Net Pension Liability – Ending	$ 32,849	$21,011	$15,121
Plan fiduciary net position as a percentage of TPL	82%	87%	90%
Covered payroll	$47,108	$44,885	$41,637
Net pension liability as a percentage of covered payroll	70%	47%	36%

Game Wardens' and Peace Officers' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$4,447	$4,240	$4,040
Contributions in relation to the contractually required contributions	4,447	4,240	4,040
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$49,381	$47,108	$44,885
Contributions as a percentage of covered payroll	9%	9%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00% to 11.30%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	$906,880	$749,414	$663,174
Employer's covered payroll	$621,755	$620,286	$597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	146%	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$56,256	$59,073	$58,575
Contributions in relation to the contractually required contributions	56,256	59,073	58,575
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$648,671	$621,755	$620,286
Contributions as a percentage of covered payroll	9%	10%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	27.2 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Salary increases	4.00% to 10.00%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: The following changes have been made to the actuarial assumptions and methods:

2015 Assumptions related to the Guaranteed Annual Benefit Adjustment (GABA) for members hired on or after July 1, 2013, have been added.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	$16,287	$13,365	$11,978
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$28,763	$30,800	$32,397
Contributions in relation to the contractually required contributions	28,763	30,800	32,397
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	5.454386%	5.637055%	5.535%
Employer's proportionate share of the net pension liability	$9,582	$5,434	$2,304
Employer's covered payroll	$3,850	$3,836	$3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	249%	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	63%	75%	87%

Sheriffs' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$368	$389	$388
Contributions in relation to the contractually required contributions	368	389	388
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$3,634	$3,850	$3,836
Contributions as a percentage of covered payroll	10%	10%	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Sheriffs' Retirement System
Notes to Required Supplementary Information
For the Year ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Wage Inflation	4.00%
Salary increases	4.00% to 11.30%, including inflation
Inflation	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	66.499650%	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	$119,708	$110,756	$105,106
Plan fiduciary net position as a percentage of the total pension liability	66%	67%	67%

Municipal Peace Officers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$13,215	$13,752	$13,433
Contributions in relation to the contractually required contributions	13,215	13,752	13,433
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Municipal Peace Officers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	$2,583	$2,454	$1,806
Employer's covered payroll	$974	$986	$735
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	265%	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	75%	77%	77%

Firefighters' Unified Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$472	$475	$142
Contributions in relation to the contractually required contributions	472	475	142
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$1,022	$974	$986
Contributions as a percentage of covered payroll	46%	49%	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	ADCs are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	10 years
Asset valuation method	4-year smoothed market
Wage inflation	4.00%
Inflation	3.00%
Salary increases	4.00% to 11.30%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2015 using scale AA
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	$77,448	$68,892	$66,384
Plan fiduciary net position as a percentage of the total pension liability	75%	77%	77%

Firefighters' Unified Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$14,042	$13,635	$13,573
Contributions in relation to the contractually required contributions	14,042	13,635	13,573
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	$10,599	$10,504	$5,089
Plan fiduciary net position as a percentage of the total pension liability	76%	76%	87%

Volunteer Firefighters' Compensation Act
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$2,054	$2,024	$1,913
Contributions in relation to the contractually required contributions	2,054	2,024	1,913
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Volunteer Firefighters' Compensation Act
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Employer's proportion of the net pension liability	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	$57,016	$56,230	$72,168
Employer's covered payroll	$28,915	$31,252	$32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	197%	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

Teachers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$17,396	$16,946	$16,234
Contributions in relation to the contractually required contributions	17,396	16,946	16,234
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered payroll	$26,944	$28,915	$31,252
Contributions as a percentage of covered payroll	65%	58%	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

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

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2016, determined as of June 30, 2016.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2017	2016	2015
Nonemployer's proportion of the net pension liability	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	$707,527	$647,092	$596,724
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

Teachers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2017	2016	2015
Contractually required contributions	$43,028	$42,400	$42,806
Contributions in relation to the contractually required contributions	43,028	42,400	42,806
Contribution deficiency/(excess)	$ -	$ -	$ -

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2016, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a $25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an “implied rate” subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

In accordance with GASB Statement No. 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
State Agent Multiple Employer Plan						
1/1/2011	$ -	$337,274	$337,274	0.00%	$521,881	64.63%
1/1/2013	$ -	$366,739	$366,739	0.00%	$616,158	59.52%
1/1/2015	$ -	$347,935	$347,935	0.00%	$645,888	53.87%
MUS Agent Multiple Employer Plan						
7/1/2011	$ -	$191,017	$191,017	0.00%	$371,802	51.38%
7/1/2013	$ -	$114,498	$114,498	0.00%	$400,017	28.62%
7/1/2015	$ -	$110,494	$110,494	0.00%	$416,565	26.53%

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

State of Montana Hail Insurance Program
Claims Development Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1. **Premiums and investment revenue**										
Earned	$5,918	$7,446	$8,309	$ 8,029	$7,101	$7,034	$6,710	$6,866	$6,846	$7,718
Ceded	4,771	6,346	2,049	-	-	-	-	-	-	-
Net earned	$1,147	$1,100	$6,260	$ 8,029	$7,101	$7,034	$6,710	$6,866	$6,846	$7,718
2. **Unallocated expenses including overhead**	$ 455	$ 424	$1,124	$ 1,033	$3,562	$2,308	$1,545	$2,637	$3,593	$1,485
3. **Estimated losses and expenses end of accident year**	$ 819	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435
4. **Net paid (cumulative) as of:**										
End of policy year	$ 817	$ 189	$6,643	$13,285	$1,881	$3,857	$6,144	$3,723	$2,248	$1,960
One year later			-	-	-	-	-	-	-	-
Two years later				-	-	-	-	-	-	-
Three years later					-	-	-	-	-	-
Four years later						-	-	-	-	-
Five years later							-	-	-	-
Six years later								-	-	-
Seven years later									-	-
Eight years later										-
Nine years later										
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 819	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435
One year later			-	-	-	-	-	-	-	-
Two years later				-	-	-	-	-	-	-
Three years later					-	-	-	-	-	-
Four years later						-	-	-	-	-
Five years later							-	-	-	-
Six years later								-	-	-
Seven years later									-	-
Eight years later										-
Nine years later										
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1. **Premiums and investment Revenue**	$100,693	$84,297	$80,764	$79,257	$76,505	$75,911	$73,078	$62,851	$59,573	$62,497
2. **Unallocated expenses including overhead**	$ 5,196	$ 5,129	$ 5,198	$ 4,787	$ 3,938	$ 4,063	$ 4,663	$ 3,629	$ 3,123	$ 2,904
3. **Estimated losses and expenses end of accident year**	$ 85,802	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474
4. **Net paid (cumulative) as of:**										
End of policy year	$ 68,432	$68,968	$72,065	$57,257	$56,383	$51,640	$51,606	$52,860	$48,459	$44,117
One year later		79,441	82,602	63,914	63,200	58,286	58,713	62,116	55,438	51,143
Two years later			82,920	63,915	63,236	58,316	58,756	62,148	55,494	51,199
Three years later				63,915	63,236	58,324	58,756	62,166	55,495	51,212
Four years later					63,236	58,324	58,756	62,167	55,495	51,213
Five years later						58,324	58,756	62,168	55,495	51,213
Six years later							58,756	62,168	55,495	51,213
Seven years later								62,168	55,495	51,213
Eight years later									55,495	51,213
Nine years later										51,213
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 85,802	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474
One year later		89,418	71,718	69,106	63,446	63,941	67,006	60,208	55,319	53,660
Two years later			82,921	63,915	63,236	58,316	58,756	62,148	55,494	51,199
Three years later				63,915	63,236	58,324	58,756	62,166	55,495	51,212
Four years later					63,236	58,324	58,756	62,167	55,495	51,213
Five years later						58,324	58,756	62,168	55,495	51,213
Six years later							58,756	62,168	55,495	51,213
Seven years later								62,168	55,495	51,213
Eight years later									55,495	51,213
Nine years later										51,213
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ -	$ 2,185	($ 4,432)	($ 7,962)	($ 6,089)	($ 6,008)	($ 6,163)	($ 3,407)	($ 5,433)	($ 4,261)

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2017
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 13,967	$ 51,517	$ 6,714	$ 72,198
Receivables (net)	4,107	1,373	818	6,298
Due from other funds	1,480	278	-	1,758
Equity in pooled investments	-	-	338,793	338,793
Long-term loans/notes receivable	25,413	-	-	25,413
Advances to other funds	9,767	-	-	9,767
Investments	3,649	-	-	3,649
Securities lending collateral	-	-	2,666	2,666
Total assets	$ 58,383	$ 53,168	$ 348,991	$ 460,542
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	-	3,299	2	3,301
Interfund loans payable	-	-	277	277
Due to other funds	116	-	486	602
Advances from other funds	13,876	-	-	13,876
Amounts held in custody for others	-	54	-	54
Securities lending liability	-	-	2,666	2,666
Total liabilities	13,992	3,353	3,431	20,776
DEFERRED INFLOWS OF RESOURCES	410	-	-	410
Fund balances:				
Nonspendable	-	-	323,588	323,588
Restricted	8,625	10,234	9,889	28,748
Committed	35,037	38,499	12,084	85,620
Assigned	319	1,082	-	1,401
Total fund balances	43,981	49,815	345,561	439,357
Total liabilities, deferred inflows of resources, and fund balances	$ 58,383	$ 53,168	$ 348,992	$ 460,543

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

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Taxes:				
Natural resource	$ 1,566	$ 5,715	$ -	$ 7,281
Other	-	1,762	-	1,762
Charges for services/fines/forfeits/settlements	73	601	12,157	12,831
Investment earnings	9,942	228	2,742	12,912
Securities lending income	-	1	106	107
Sale of documents/merchandise/property	4,241	-	-	4,241
Total revenues	15,822	8,307	15,005	39,134
EXPENDITURES				
Current:				
General government	-	3,651	-	3,651
Public safety	-	974	-	974
Health and human services	-	736	-	736
Education	-	73	16	89
Natural resources	25	180	-	205
Debt service:				
Principal retirement	33,165	-	-	33,165
Interest/fiscal charges	8,958	-	-	8,958
Capital outlay	-	26,632	28	26,660
Securities lending	-	-	40	40
Total expenditures	42,148	32,246	84	74,478
Excess of revenue over (under) expenditures	(26,326)	(23,939)	14,921	(35,344)
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	-	-	13	13
Transfers in	42,152	8,194	-	50,346
Transfers out	(14,405)	(4,709)	(10,313)	(29,427)
Total other financing sources (uses)	27,747	3,485	(10,300)	20,932
Net change in fund balances	1,421	(20,454)	4,621	(14,412)
Fund balances - July 1 - as previously reported	42,561	70,270	340,940	453,771
Fund balances - June 30	$ 43,982	$ 49,816	$ 345,561	$ 439,359

NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

Long-Range Building Program – This fund accounts for payments on general obligation long-range building program bonds.

Water & Wastewater Development – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

Health Care – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

Energy Conservation Program – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

Environmental Reclamation – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

Highway – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

Trust Lands – This fund accounts for payments on taxable trust lands bonds.

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	HEALTH CARE
ASSETS				
Cash/cash equivalents	$ 6,895	$ 319	$ 6,130	$ 334
Receivables (net)	703	-	2,953	-
Due from other funds	-	-	-	-
Long-term loans/notes receivable	15,822	-	9,591	-
Advances to other funds	5,253	-	4,514	-
Investments	-	-	779	2,870
Total assets	28,673	319	23,967	3,204
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Due to other funds	58	-	58	-
Advances from other funds	5,035	-	8,841	-
Total liabilities	5,093	-	8,899	-
DEFERRED INFLOWS OF RESOURCES	169	-	241	-
Fund balances:				
Restricted	-	-	5,422	3,204
Committed	23,412	-	9,406	-
Assigned	-	319	-	-
Total fund balances	23,412	319	14,828	3,204
Total liabilities, deferred inflows of resources and fund balances	$ 28,674	$ 319	$ 23,968	$ 3,204

ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ 141	$ 148	$ 13,967
-	451	4,107
1,480	-	1,480
-	-	25,413
-	-	9,767
-	-	3,649
1,621	599	58,383
-	-	116
-	-	13,876
-	-	13,992
-	-	410
-	-	8,626
1,620	599	35,037
-	-	319
1,620	599	43,982
$ 1,620	$ 599	$ 58,384

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	HEALTH CARE
REVENUES				
Taxes:	$	$	$	$
Natural resource	-	-	452	-
Charges for services/fines/forfeits/settlements	-	-	-	-
Investment earnings	735	-	9,037	168
Sale of documents/merchandise/property	4,241	-	-	-
Total revenues	4,976	-	9,489	168
EXPENDITURES				
Current:				
Natural resources	-	-	-	-
Debt service:				
Principal retirement	2,140	11,880	3,795	1,425
Interest/fiscal charges	620	2,016	1,985	489
Total expenditures	2,760	13,896	5,780	1,914
Excess of revenue over (under) expenditures	2,216	(13,896)	3,709	(1,746)
OTHER FINANCING SOURCES (USES)				
Transfers in	8,598	13,965	629	1,749
Transfers out	(7,487)	-	(6,069)	-
Total other financing sources (uses)	1,111	13,965	(5,440)	1,749
Net change in fund balances	3,327	69	(1,731)	3
Fund balances - July 1 - as previously reported	20,084	250	16,558	3,202
Fund balances - June 30	$ 23,411	$ 319	$ 14,827	$ 3,205

ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TRUST LANDS	TOTAL
$	$	$	$	$
-	1,114	-	-	1,566
72	-	-	-	72
1	-	-	-	9,941
-	-	-	-	4,241
73	1,114	-	-	15,820
23	2	-	-	25
270	360	12,400	895	33,165
71	101	3,016	659	8,957
364	463	15,416	1,554	42,147
(291)	651	(15,416)	(1,554)	(26,327)
240	-	15,416	1,554	42,151
(200)	(650)	-	-	(14,406)
40	(650)	15,416	1,554	27,745
(251)	1	-	-	1,418
1,870	597	-	-	42,561
$ 1,619	$ 598	$ -	$ -	$ 43,979

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

Long-Range Building Program – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

Information Technology Projects – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Federal/Private Construction Grants – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

Capital Land Grant – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
ASSETS				
Cash/cash equivalents	$ 35,592	$ 10,921	$ 5,004	$ 51,517
Receivables (net)	1,373	-	-	1,373
Due from other funds	278	-	-	278
Total assets	37,243	10,921	5,004	53,168
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2,974	288	36	3,298
Amounts held in custody for others	54	-	-	54
Total liabilities	3,028	288	36	3,352
Fund balances:				
Restricted	4,652	614	4,968	10,234
Committed	29,373	9,126	-	38,499
Assigned	190	892	-	1,082
Total fund balances	34,215	10,632	4,968	49,815
Total liabilities and fund balances	$ 37,243	$ 10,920	$ 5,004	$ 53,167

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

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural resource	$ 5,715	$ -	$ -	$ -	$ 5,715
Other	1,762	-	-	-	1,762
Charges for services/fines/forfeits/settlements	601	-	-	-	601
Investment earnings	228	-	-	-	228
Securities lending income	1	-	-	-	1
Total revenues	8,307	-	-	-	8,307
EXPENDITURES					
Current:					
General government	725	2,926	-	-	3,651
Public safety	-	974	-	-	974
Health and human services	326	410	-	-	736
Education	73	-	-	-	73
Natural resources	-	180	-	-	180
Capital outlay	23,388	3,202	5	36	26,631
Total expenditures	24,512	7,692	5	36	32,245
Excess of revenue over (under) expenditures	(16,205)	(7,692)	(5)	(36)	(23,938)
OTHER FINANCING SOURCES (USES)					
Transfers in	5,885	800	5	1,504	8,194
Transfers out	(4,320)	-	-	(389)	(4,709)
Total other financing sources (uses)	1,565	800	5	1,115	3,485
Net change in fund balances	(14,640)	(6,892)	-	1,079	(20,453)
Fund balances - July 1 - as previously reported	48,855	17,525	-	3,890	70,270
Fund balances - June 30	$ 34,215	$ 10,633	$ -	$ 4,969	$ 49,817

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

Resource Indemnity – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches $100 million. Interest earnings are expended from a Special Revenue fund. This fund is administered by the Department of Revenue.

Cultural Trust – A portion of coal severance taxes are credited to these funds by the Department of Revenue. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds. Funds in this trusts that were established as permanent funds by legislature have been reclassified as State Special Revenue Funds.

Historical Society Trusts – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

Tobacco Settlement – In addition to the principle, this fund holds interest earned by investing the Tobacco Settlement Principal.

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
ASSETS			
Cash/cash equivalents	$ 23	$ 71	$ -
Receivables (net)	277	-	-
Equity in pooled investments	112,084	-	10,002
Securities lending collateral	880	-	86
Total assets	$ 113,264	$ 71	$ 10,088
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	-
Interfund loans payable	277	-	-
Due to other funds	-	-	2
Securities lending liability	880	-	86
Total liabilities	1,157	-	88
Fund balances:			
Nonspendable	100,000	66	10,000
Restricted	23	5	-
Committed	12,084	-	-
Total fund balances	112,107	71	10,000
Total liabilities and fund balances	$ 113,264	$ 71	$ 10,088

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	TOTAL
$ 17	$ 6,603	$ 6,714
3	538	818
1,357	215,351	338,794
11	1,690	2,667
$ 1,388	$ 224,182	$ 348,993
2	-	2
-	-	277
-	484	486
11	1,690	2,667
13	2,174	3,432
1,356	212,166	323,588
19	9,842	9,889
-	-	12,084
1,375	222,008	345,561
$ 1,388	$ 224,182	$ 348,993

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

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
REVENUES			
Charges for services/fines/forfeits/settlements	$ -	$ -	$ -
Investment earnings	945	1	-
Securities lending income	36	-	-
Total revenues	981	1	-
EXPENDITURES			
Current:			
Education	-	3	-
Capital outlay	-	-	-
Securities lending	14	-	-
Total expenditures	14	3	-
Excess of revenue over (under) expenditures	967	(2)	-
OTHER FINANCING SOURCES (USES)			
General capital asset sale proceeds	-	-	-
Transfers out	(3,818)	-	-
Total other financing sources (uses)	(3,818)	-	-
Net change in fund balances	(2,851)	(2)	-
Fund balances - July 1 - as previously reported	114,957	74	10,000
Fund balances - June 30	$ 112,106	$ 72	$ 10,000

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	TOTAL
$ -	$ 12,157	$ 12,157
12	1,785	2,743
-	69	105
12	14,011	15,005
13	-	16
28	-	28
-	26	40
41	26	84
(29)	13,985	14,921
13	-	13
-	(6,495)	(10,313)
13	(6,495)	(10,300)
(16)	7,490	4,621
1,392	214,518	340,941
$ 1,376	$ 222,008	$ 345,562

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 4,563	$ 2,997	$ 1,973	$ 2,410
Receivables (net)	22,665	1,555	1,750	416
Due from other governments	-	-	-	-
Inventories	158	-	512	3,500
Securities lending collateral	-	-	-	-
Other current assets	20	-	103	-
Total current assets	27,406	4,552	4,338	6,326
Noncurrent assets:				
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,028	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,111	-	99	6,267
Equipment	960	-	571	6,092
Infrastructure	-	-	-	1,175
Construction in progress	-	-	-	100
Intangible assets	-	-	-	-
Other capital assets	-	-	-	4,309
Less accumulated depreciation	(2,471)	-	(403)	(8,983)
Total capital assets	600	-	267	10,381
Total noncurrent assets	600	-	1,295	10,673
Total assets	$ 28,006	$ 4,552	$ 5,633	$ 16,999
DEFERRED OUTFLOWS OF RESOURCES	899	48	320	168
LIABILITIES				
Current liabilities:				
Accounts payable	$ 6,828	$ 3,166	$ 286	$ 1,026
Lottery prizes payable	-	-	2,618	-
Due to other governments	-	-	-	-
Due to other funds	12,063	-	1,480	-
Unearned revenue	1,161	239	96	47
Current lease liability	-	-	-	194
Amounts held in custody for others	20	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	2	-	-
Compensated absences payable	183	8	202	161
Total current liabilities	20,255	3,415	4,682	1,428
Noncurrent liabilities:				
Long term lease liability	-	-	-	219
Lottery prizes payable	-	-	952	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	170	-	-	265
Net pension liability	2,853	226	1,967	1,092
OPEB implicit rate subsidy	946	100	731	779
Total noncurrent liabilities	3,969	326	3,650	2,355
Total liabilities	24,224	3,741	8,332	3,783
DEFERRED INFLOWS OF RESOURCES	157	1	12	17
NET POSITION				
Net investment in capital assets	599	-	267	9,968
Restricted for:				
Other purposes	-	856	-	-
Unrestricted	3,923	-	(2,657)	3,401
Total net position	$ 4,522	$ 856	$ (2,390)	$ 13,369

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 46,432	$ 16,515	$ 1,200	$ 2,714	$ 335
583	28	137	4	28
-	-	-	1	-
-	-	-	23	491
2,010	39	-	-	-
-	-	-	-	-
49,025	16,582	1,337	2,742	854
11,462	4,915	-	-	48
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	379	11
-	-	-	-	-
-	-	-	1,626	-
-	-	-	-	-
-	-	-	-	-
-	-	-	(319)	(10)
-	-	-	1,686	1
11,462	4,915	-	1,686	49
$ 60,487	$ 21,497	$ 1,337	$ 4,428	$ 903
100	-	-	972	29
$ 3,776	$ 80	$ -	$ 292	$ 20
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
205	-	-	-	150
-	-	-	-	-
-	-	-	10	-
2,010	39	-	-	-
10,000	2,156	1,500	-	-
39	7	-	192	6
16,030	2,282	1,500	494	176
-	-	-	-	-
-	-	-	-	-
-	5,141	1,442	-	-
93	2	-	214	14
700	-	-	3,870	183
110	18	-	1,292	142
903	5,161	1,442	5,376	339
16,933	7,443	2,942	5,870	515
2	-	-	13	4
-	-	-	1,686	1
43,650	14,056	-	-	-
-	-	(1,605)	(2,168)	412
$ 43,650	$ 14,056	$ (1,605)	$ (482)	$ 413

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS				
Current assets:				
Cash/cash equivalents	$ 322	$ 622	$ 274	$ 4,428
Receivables (net)	36	40	26	1
Due from other governments	-	-	-	-
Inventories	592	-	-	-
Securities lending collateral	-	-	-	-
Other current assets	-	-	-	-
Total current assets	950	662	300	4,429
Noncurrent assets:				
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	-	-
Capital assets:				
Land	-	110	-	-
Land improvements	-	3,099	-	-
Buildings/improvements	118	1,488	-	-
Equipment	161	939	-	-
Infrastructure	-	-	-	-
Construction in progress	-	2,889	-	-
Intangible assets	-	-	137	-
Other capital assets	-	-	-	-
Less accumulated depreciation	(200)	(2,417)	-	-
Total capital assets	79	6,108	137	-
Total noncurrent assets	79	6,108	137	-
Total assets	$ 1,029	$ 6,770	$ 437	$ 4,429
DEFERRED OUTFLOWS OF RESOURCES	51	25	56	-
LIABILITIES				
Current liabilities:				
Accounts payable	$ 36	$ 27	$ 30	$ 297
Lottery prizes payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	1
Current lease liability	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	22	22	21	-
Total current liabilities	58	49	51	298
Noncurrent liabilities:				
Long term lease liability	-	-	-	-
Lottery prizes payable	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	37	10	30	-
Net pension Liability	310	158	348	-
OPEB implicit rate subsidy	110	45	100	-
Total noncurrent liabilities	457	213	478	-
Total liabilities	515	262	529	298
DEFERRED INFLOWS OF RESOURCES	2	2	2	-
NET POSITION				
Net investment in capital assets	79	6,108	137	-
Restricted for:				
Other purposes	-	-	-	4,130
Unrestricted	484	422	(174)	-
Total net position	$ 563	$ 6,530	$ (37)	$ 4,130

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 7,916	$ 2,326	$ 95,027
65	8	27,342
133	-	134
-	211	5,487
-	-	2,049
4	1	128
8,118	2,546	130,167
-	-	16,425
53	-	53
-	-	1,320
-	-	800
-	-	3,830
-	40	10,123
10	249	9,372
-	-	1,175
-	-	4,615
-	58	195
-	-	4,309
(10)	(207)	(15,020)
-	140	19,399
53	140	37,197
$ 8,171	$ 2,686	$ 167,364
230	159	3,057
$ 82	$ 90	$ 16,036
-	-	2,618
74	-	74
-	-	13,543
-	101	2,000
-	1	195
-	-	30
-	-	2,049
-	-	13,658
100	50	1,013
256	242	51,216
-	1	220
-	-	952
-	-	6,583
68	69	972
1,302	900	13,909
451	220	5,044
1,821	1,190	27,680
2,077	1,432	78,896
4	13	229
-	140	18,985
4,885	2	67,579
1,432	1,257	4,727
$ 6,317	$ 1,399	$ 91,291

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

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 96,338	$ -	$ 52,459	$ 7,648
Investment earnings	-	8	13	-
Securities lending income	-	-	-	-
Contributions/premiums	-	1,147	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	176	8	1	8
Total operating revenues	96,514	1,163	52,473	7,656
Operating expenses:				
Personal services	3,201	317	2,113	2,696
Contractual services	105	22	7,845	233
Supplies/materials	78,927	3	1,263	3,306
Benefits/claims	400	1,271	269	194
Depreciation	165	-	47	602
Amortization	-	-	-	-
Utilities/rent	150	10	218	172
Communications	110	6	746	24
Travel	23	35	43	9
Repair/maintenance	166	1	30	590
Lottery prize payments	-	-	30,595	-
Securities lending expense	-	-	-	-
Interest expense	10	-	-	22
Other operating expenses	56	31	207	565
Total operating expenses	83,313	1,696	43,376	8,413
Operating income (loss)	13,201	(533)	9,097	(757)
Nonoperating revenues (expenses):				
Tax revenues	27,958	-	-	-
Non-employer pension revenue	36	4	34	18
Insurance proceeds	-	-	-	13
Gain (loss) on sale of capital assets	(304)	-	(2)	125
Increase (decrease) value of livestock	-	-	-	166
Total nonoperating revenues (expenses)	27,690	4	32	322
Income (loss) before contributions and transfers	40,891	(529)	9,129	(435)
Capital contributions	-	-	-	44
Transfers in	-	-	-	-
Transfers out	(39,894)	-	(9,224)	(1)
Change in net position	997	(529)	(95)	(392)
Total net position - July 1 - as previously reported	3,551	1,304	(2,239)	13,804
Adjustments to beginning net position	(26)	80	(57)	(41)
Total net position - July 1 - as adjusted	3,525	1,384	(2,296)	13,763
Total net position - June 30	$ 4,522	$ 855	$ (2,391)	$ 13,371

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ -	$ -	$ -	$ 6,246	$ 713
388	156	6	17	-
14	2	-	-	-
99,448	3,838	1,707	-	-
-	-	-	-	1
958	-	-	12	12
100,808	3,996	1,713	6,275	726
696	99	-	4,031	236
7,710	627	-	1,076	100
75	1	-	238	270
71,701	1,735	708	619	27
-	-	-	20	-
-	-	-	-	-
56	6	-	255	23
68	-	-	334	39
65	-	-	66	14
-	-	-	7	7
-	-	-	-	-
7	1	-	-	-
-	-	-	-	-
672	317	-	116	59
81,050	2,786	708	6,762	775
19,758	1,210	1,005	(487)	(49)
-	-	-	-	-
12	-	-	68	3
-	-	-	-	-
-	-	-	(13)	-
-	-	-	-	-
12	-	-	55	3
19,770	1,210	1,005	(432)	(46)
-	-	-	-	-
-	-	-	-	-
-	-	(43)	-	(5)
19,770	1,210	962	(432)	(51)
24,096	12,846	(2,565)	(48)	484
(216)	-	-	(3)	(23)
23,880	12,846	(2,565)	(51)	461
$ 43,650	$ 14,056	$ (1,603)	$ (483)	$ 410

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

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:				
Charges for services	$ 605	$ 139	$ 640	$ 150
Investment earnings	-	-	-	8
Securities lending income	-	-	-	-
Contributions/premiums	-	-	-	11,211
Grants/contracts/donations	-	23	-	-
Other operating revenues	-	246	105	-
Total operating revenues	605	408	745	11,369
Operating expenses:				
Personal services	360	170	381	-
Contractual services	119	11	80	488
Supplies/materials	579	15	6	-
Benefits/claims	43	21	45	12,316
Depreciation	19	199	-	-
Amortization	-	-	59	-
Utilities/rent	10	33	7	-
Communications	21	5	5	-
Travel	2	4	2	-
Repair/maintenance	10	17	-	-
Lottery prize payments	-	-	-	-
Securities lending expense	-	-	-	-
Interest expense	-	-	-	-
Other operating expenses	11	8	133	11
Total operating expenses	1,174	483	718	12,815
Operating income (loss)	(569)	(75)	27	(1,446)
Nonoperating revenues (expenses):				
Tax revenues	-	-	-	-
Non-employer pension revenue	5	3	6	-
Insurance proceeds	-	-	-	-
Gain (loss) on sale of capital assets	-	(29)	-	-
Increase (decrease) value of livestock	-	-	-	-
Total nonoperating revenues (expenses)	5	(26)	6	-
Income (loss) before contributions and transfers	(564)	(101)	33	(1,446)
Capital contributions	585	2,633	-	-
Transfers in	65	286	-	-
Transfers out	-	-	-	-
Change in net position	86	2,818	33	(1,446)
Total net position - July 1 - as previously reported	487	3,713	(50)	5,578
Adjustments to beginning net position	(8)	-	(20)	-
Total net position - July 1 - as adjusted	479	3,713	(70)	5,578
Total net position - June 30	$ 565	$ 6,531	$ (37)	$ 4,132

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 2,588	$ 167,526
65	8	669
-	-	16
-	-	117,351
46,703	9	46,736
-	17	1,543
46,768	2,622	333,841
1,342	821	16,463
1,651	626	20,693
37	303	85,023
42,957	129	132,435
-	16	1,068
-	63	122
114	36	1,090
46	53	1,457
52	52	367
91	32	951
-	-	30,595
-	-	8
-	-	32
244	343	2,773
46,534	2,474	293,077
234	148	40,764
-	-	27,958
23	22	234
-	-	13
-	-	(223)
-	-	166
23	22	28,148
257	170	68,912
-	-	3,262
-	-	351
-	-	(49,167)
257	170	23,358
6,032	1,627	68,620
29	(395)	(680)
6,061	1,232	67,940
$ 6,318	$ 1,402	$ 91,298

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

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 95,534	$ 2,813	$ 52,940	$ 7,541
Payments to suppliers for goods and services	(79,248)	(2,915)	(10,836)	(3,858)
Payments to employees	(3,578)	(344)	(2,314)	(2,734)
Grant receipts (expenses)	-	-	-	-
Cash payments for claims	-	(1,373)	-	-
Cash payments for prizes	-	-	(30,563)	-
Other operating revenues	176	8	1	8
Other operating payments	(56)	(31)	(207)	(565)
Net cash provided by (used for) operating activities	12,828	(1,842)	9,021	392
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	27,958	-	-	-
Transfer to other funds	(39,894)	-	(9,224)	(1)
Transfer from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans and advances	-	-	-	(80)
Payment of principal and interest on bonds and notes	(10)	-	-	(22)
Proceeds from nonemployer pension contributions	36	4	34	18
Net cash provided by (used for) noncapital financing activities	(11,910)	4	(9,190)	(85)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	13
Acquisition of capital assets	(235)	-	(180)	(711)
Proceeds from sale of capital assets	-	-	-	-
Net cash provided by (used for) capital and related financing activities	(235)	-	(180)	(698)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	-	-	-	-
Proceeds (loss) from securities lending transactions/investments	-	-	-	-
Interest and dividends on investments	-	8	13	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	8	13	-
Net increase (decrease) in cash and cash equivalents	683	(1,830)	(336)	(391)
Cash and cash equivalents, July 1	3,880	4,826	2,309	2,804
Cash and cash equivalents, June 30	$ 4,563	$ 2,996	$ 1,973	$ 2,413

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ 99,224	$ 3,887	$ 1,696	$ 6,247	$ 701
(10,067)	(629)	-	(1,972)	(356)
(730)	(99)	-	(4,402)	(230)
-	-	-	8	1
(70,727)	(2,201)	(1,115)	-	(1)
-	-	-	-	-
958	-	-	12	12
(672)	(315)	-	(116)	(59)
17,986	643	581	(223)	68
-	-	-	-	-
-	-	(43)	-	(5)
-	-	-	-	-
-	-	-	-	6
-	-	-	-	-
-	-	-	-	-
12	-	-	68	3
12	-	(43)	68	4
-	-	-	-	-
-	-	-	(130)	-
-	-	-	-	-
-	-	-	(130)	-
13,014	(1,870)	-	-	(18)
14	2	-	-	-
388	156	6	17	-
(7)	(1)	-	-	-
13,409	(1,713)	6	17	(18)
31,407	(1,070)	544	(268)	54
15,025	17,586	658	2,982	280
$ 46,432	$ 16,516	$ 1,202	$ 2,714	$ 334

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

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 583	$ 144	$ 626	$ 11,363
Payments to suppliers for goods and services	(792)	(89)	(102)	(729)
Payments to employees	(388)	(186)	(403)	-
Grant receipts (expenses)	-	23	-	-
Cash payments for claims	-	-	-	(12,316)
Cash payments for prizes	-	-	-	-
Other operating revenues	-	246	105	-
Other operating payments	(11)	(8)	(133)	(11)
Net cash provided by (used for) operating activities	(608)	130	93	(1,693)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	-	-	-	-
Transfer to other funds	-	-	-	-
Transfer from other funds	65	286	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans and advances	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-
Proceeds from nonemployer pension contributions	5	3	6	-
Net cash provided by (used for) noncapital financing activities	70	289	6	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	-	(306)	(1)	-
Proceeds from sale of capital assets	585	-	-	-
Net cash used for capital and related financing activities	585	(306)	(1)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	-	-	-	-
Proceeds (loss) from securities lending transactions/investments	-	-	-	-
Interest and dividends on investments	-	-	-	8
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	8
Net increase (decrease) in cash and cash equivalents	47	113	98	(1,685)
Cash and cash equivalents, July 1	275	509	176	6,116
Cash and cash equivalents, June 30	$ 322	$ 622	$ 274	$ 4,431

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 110	$ 2,599	$ 286,008
(2,007)	(1,154)	(114,754)
(1,459)	(889)	(17,756)
46,688	9	46,729
(42,779)	-	(130,512)
-	-	(30,563)
-	17	1,543
(244)	(343)	(2,771)
309	239	37,924
-	-	27,958
-	-	(49,167)
-	-	351
-	-	6
-	-	(80)
-	-	(32)
23	22	234
23	22	(20,730)
-	-	13
-	-	(1,563)
-	-	585
-	-	(965)
-	-	11,126
-	-	16
65	8	669
-	-	(8)
65	8	11,803
397	269	28,032
7,518	2,061	67,005
$ 7,915	$ 2,330	$ 95,037

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

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ 13,201	$ (533)	$ 9,097	$ (757)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:				
Depreciation	165	-	47	602
Amortization	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	(8)	(13)	-
Securities lending income	-	-	-	-
Interest expense	10	-	-	22
Change in assets, deferred outflows, liabilities, and deferred inflows :				
Decr (Incr) in accounts receivable	(824)	1,666	390	(106)
Decr (Incr) in due from other governments	-	-	-	-
Decr (Incr) in inventories	(51)	-	(77)	(89)
Decr (Incr) in other assets	20	-	91	-
Incr (Decr) in accounts payable	(490)	(2,410)	(550)	740
Incr (Decr) in due to other funds	728	-	(47)	(9)
Incr (Decr) in due to other governments	-	-	-	-
Incr (Decr) in lottery prizes payable	-	-	32	-
Incr (Decr) in unearned revenue	59	(435)	(8)	37
Incr (Decr) in amounts held in custody for others	(20)	-	-	-
Incr (Decr) in compensated absences payable	(75)	-	(34)	55
Incr (Decr) in OPEB implicit rate subsidy	96	8	67	73
Incr (Decr) in estimated claims	-	(132)	-	-
Incr (Decr) in other payables	-	-	-	(186)
Incr (Decr) in net pension liability and related accounts	8	3	26	11
Net cash provided by (used for) operating activities	$ 12,827	$ (1,841)	$ 9,021	$ 393
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	-	-	-	44
Incr (Decr) in fair value of investments	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ 44

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ 19,758	$ 1,211	$ 1,005	$ (487)	$ (49)
-	-	-	20	-
-	-	-	-	-
7	1	-	-	-
(388)	(156)	(6)	(17)	-
(14)	(2)	-	-	-
-	-	-	-	-
(224)	49	(11)	-	(12)
-	-	-	8	-
-	-	-	(5)	33
-	-	-	-	-
(2,016)	6	-	8	8
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(73)	-	-	-	63
-	-	-	-	-
19	-	-	(28)	14
9	1	-	116	10
900	(466)	(407)	-	-
-	-	-	-	-
8	-	-	162	1
$ 17,986	$ 644	$ 581	$ (223)	$ 68
-	-	-	-	-
347	130	-	-	1
$ 347	$ 130	$ -	$ -	$ 1

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

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ (569)	$ (75)	$ 27	$ (1,446)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:				
Depreciation	19	199	-	-
Amortization	-	-	59	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	(8)
Securities lending income	-	-	-	-
Interest expense	-	-	-	-
Change in assets, deferred outflows, liabilities, and deferred inflows :				
Decr (Incr) in accounts receivable	(22)	4	(14)	2
Decr (Incr) in due from other governments	-	-	-	-
Decr (Incr) in inventories	(47)	-	-	-
Decr (Incr) in other assets	-	-	-	-
Incr (Decr) in accounts payable	(9)	(4)	(2)	(243)
Incr (Decr) in due to other funds	-	-	-	-
Incr (Decr) in due to other governments	-	-	-	-
Incr (Decr) in lottery prizes payable	-	-	-	-
Incr (Decr) in unearned revenue	-	-	-	1
Incr (Decr) in amounts held in custody for others	-	-	-	-
Incr (Decr) in compensated absences payable	5	(2)	8	-
Incr (Decr) in OPEB implicit rate subsidy	11	5	10	-
Incr (Decr) in estimated claims	-	-	-	-
Incr (Decr) in other payables	-	-	-	-
Incr (Decr) in net pension liability and related accounts	4	2	5	-
Net cash provided by (used for) operating activities	$ (608)	$ 129	$ 93	$ (1,694)
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	585	2,633	-	-
Incr (Decr) in fair value of investments	-	-	-	-
Total noncash transactions	$ 585	$ 2,633	$ -	$ -

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 234	$ 148	$ 40,765
-	16	1,068
-	63	122
-	-	8
(65)	(8)	(669)
-	-	(16)
-	-	32
48	10	956
(15)	-	(7)
-	3	(233)
62	-	173
(3)	(60)	(5,025)
-	-	672
(7)	-	(7)
-	-	32
-	8	(348)
(2)	-	(22)
(11)	19	(30)
41	24	471
-	-	(105)
-	-	(186)
26	12	268
$ 308	$ 235	$ 37,919
-	-	3,262
-	-	478
$ -	$ -	$ 3,740

INTERNAL SERVICE FUNDS

Internal Service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan.

Information Technology Services – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants. This fund also implements and maintains the State's central human resource reporting system.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of Natural Resources and Conservation to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

SABHRS Finance and Budget Bureau – This fund implements and maintains the State's central accounting and budget software reporting system that is used by state agencies.

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,221	$ 4,816	$ 60,617	$ 7,958	$ 15,846
Receivables (net)	-	264	4,927	144	14
Interfund loans receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	2,196	-	-	-
Securities lending collateral	-	-	3,983	-	-
Other current assets	-	-	-	926	-
Total current assets	1,221	7,276	69,527	9,028	15,860
Noncurrent assets:					
Long-term investments	-	-	39,957	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	14,874	169,029	-	17,951	8
Construction in progress	-	6,581	-	-	-
Intangible assets	-	-	319	142	504
Less accumulated depreciation	(7,327)	(101,586)	-	(10,721)	(8)
Total capital assets	7,547	74,024	319	7,372	504
Total noncurrent assets	7,547	74,024	40,276	7,372	504
Total assets	8,768	81,300	109,803	16,400	16,364
DEFERRED OUTFLOWS OF RESOURCES	20	1,213	217	2,424	234
LIABILITIES					
Current liabilities:					
Accounts payable	71	1,076	9,719	3,565	344
Interfund loans payable	-	-	-	-	-
Due to other funds	-	-	23	4	-
Unearned revenue	-	-	1,624	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	1,357	-
Bonds/notes payable	-	-	-	1,305	-
Securities lending liability	-	-	3,983	-	-
Estimated insurance claims	-	-	17,519	-	4,067
Compensated absences payable	9	543	64	891	103
Total current liabilities	80	1,619	32,932	7,122	4,514
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	4,178	-
Bonds/notes payable	-	-	-	494	-
Estimated insurance claims	-	-	177	-	11,987
Compensated absences payable	19	437	49	989	224
Net pension liability	126	7,321	1,243	14,426	1,398
OPEB implicit rate subsidy	66	2,762	369	4,053	357
Total noncurrent liabilities	211	10,520	1,838	24,140	13,966
Total liabilities	291	12,139	34,770	31,262	18,480
DEFERRED INFLOWS OF RESOURCES	3	39	7	86	8
NET POSITION					
Net investment in capital assets	7,546	74,025	319	1,838	504
Unrestricted	945	(3,689)	74,923	(14,365)	(2,394)
Total net position	$ 8,491	$ 70,336	$ 75,242	$ (12,527)	$ (1,890)

MOTOR POOL	PRINT & MAIL SERVICES	BUILDING & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 2,090	$ 1,008	$ 2,107	$ 789	$ 2,939	$ 477	$ 314
-	42	12	-	-	-	-
-	-	-	-	-	-	211
-	-	-	-	-	-	-
-	-	-	-	-	-	-
5	109	-	-	-	-	-
-	-	-	-	-	-	-
-	327	-	-	20	8	-
2,095	1,486	2,119	789	2,959	485	525
-	-	-	-	-	-	-
236	-	-	-	-	-	-
-	-	95	-	-	-	-
-	-	1,091	-	-	-	-
23,132	2,979	757	-	178	5	-
-	-	-	-	239	-	-
-	-	-	-	-	-	-
(11,053)	(2,050)	(1,417)	-	(156)	(5)	-
12,315	929	526	-	261	-	-
12,315	929	526	-	261	-	-
14,410	2,415	2,645	789	3,220	485	525
54	219	310	333	1,096	283	287
145	446	656	131	660	117	160
-	-	-	-	-	-	-
1,806	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	1	-	-	-	-
-	72	-	-	27	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
24	82	145	120	562	120	125
1,975	600	802	251	1,249	237	285
5,897	-	-	-	-	-	-
-	242	-	-	37	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
22	133	81	143	244	96	-
335	1,392	1,934	2,114	7,464	1,662	1,718
137	712	710	393	1,521	417	594
6,391	2,479	2,725	2,650	9,266	2,175	2,312
8,366	3,079	3,527	2,901	10,515	2,412	2,597
2	8	12	13	259	6	6
4,621	616	526	-	196	1	-
1,476	(1,068)	(1,108)	(1,792)	(6,653)	(1,649)	(1,790)
$ 6,097	$ (452)	$ (582)	$ (1,792)	$ (6,457)	$ (1,648)	$ (1,790)

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,067	$ 386	$ 284	$ 1,945	$ 300
Receivables (net)	2	-	-	-	-
Interfund loans receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	32	-
Inventories	-	-	-	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	125	5	9	47	-
Total current assets	1,194	391	293	2,024	300
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	520	-	149	8	192
Construction in progress	-	-	-	-	-
Intangible assets	15	-	-	-	-
Less accumulated depreciation	(414)	-	(145)	(6)	(109)
Total capital assets	121	-	4	2	83
Total noncurrent assets	121	-	4	2	83
Total assets	1,315	391	297	2,026	383
DEFERRED OUTFLOWS OF RESOURCES	657	304	28	559	213
LIABILITIES					
Current liabilities:					
Accounts payable	362	223	10	380	101
Interfund loans payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Bonds/notes payable	-	-	-	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	260	161	4	196	94
Total current liabilities	622	384	14	576	195
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Bonds/notes payable	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	288	85	-	350	78
Net pension liability	4,003	1,950	169	3,240	1,176
OPEB implicit rate subsidy	1,225	559	109	594	293
Total noncurrent liabilities	5,516	2,594	278	4,184	1,547
Total liabilities	6,138	2,978	292	4,760	1,742
DEFERRED INFLOWS OF RESOURCES	73	12	1	11	4
NET POSITION					
Net investment in capital assets	121	-	3	1	82
Unrestricted	(4,360)	(2,293)	30	(2,187)	(1,232)
Total net position	$ (4,239)	$ (2,293)	$ 33	$ (2,186)	$ (1,150)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 265	$ 53	$ 140	$ 1,318	$ 263	$ 1,393	$ 107,596
-	-	-	367	-	-	5,772
-	-	-	-	-	-	211
-	1	-	-	-	-	1
-	-	-	-	-	-	32
-	-	-	526	121	-	2,957
-	-	-	-	-	-	3,983
7	-	-	28	-	308	1,810
272	54	140	2,239	384	1,701	122,362
-	-	-	-	-	-	39,957
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	4,968	-	-	6,059
17	-	-	4,148	77	71	234,095
-	-	-	142	-	-	6,962
-	-	-	-	-	1,592	2,572
-	-	-	(3,546)	(73)	(61)	(138,677)
17	-	-	5,712	4	1,602	111,342
17	-	-	5,712	4	1,602	151,299
289	54	140	7,951	388	3,303	273,661
52	39	21	114	99	309	9,085
101	17	9	492	36	349	19,170
-	-	-	-	3	-	3
-	-	-	-	-	-	1,833
-	-	-	-	-	-	1,624
-	-	-	-	-	-	1
-	-	-	-	-	-	1,456
-	-	-	-	-	-	1,305
-	-	-	-	-	-	3,983
-	-	-	-	-	-	21,586
82	22	4	82	42	143	3,878
183	39	13	574	81	492	54,839
-	-	-	-	-	-	5,897
-	-	-	-	-	-	4,457
-	-	-	-	-	-	494
-	-	-	-	-	-	12,164
73	23	-	55	62	138	3,589
287	248	138	675	629	1,935	55,583
299	67	69	570	101	391	16,368
659	338	207	1,300	792	2,464	98,552
842	377	220	1,874	873	2,956	153,391
1	1	3	2	4	11	572
16	-	-	5,711	4	1,601	97,731
(519)	(285)	(61)	477	(393)	(957)	31,056
$ (503)	$ (285)	$ (61)	$ 6,188	$ (389)	$ 644	$ 128,787

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 3,612	$ 27,321	$ 3,584	$ 44,722	$ 1
Investment earnings	-	-	214	-	204
Securities lending income	-	-	17	-	1
Contributions/premiums	-	-	183,974	-	17,873
Grants/contracts/donations	-	-	2,147	-	-
Other operating revenues	-	16	3,845	42	-
Total operating revenues	3,612	27,337	193,781	44,764	18,079
Operating expenses:					
Personal services	197	8,118	1,285	14,947	1,154
Contractual services	95	420	11,850	2,542	5,884
Supplies/materials	1,205	6,626	31	2,863	25
Benefits/claims	19	973	149,826	1,773	20,609
Depreciation	855	6,952	-	1,330	1
Amortization	-	-	95	3	331
Utilities/rent	51	104	436	1,594	84
Communications	5	7	87	7,340	21
Travel	4	26	21	160	20
Repair/maintenance	751	5,228	-	8,400	1
Grants	-	-	-	-	127
Securities lending expense	-	-	11	-	-
Interest expense	-	-	-	142	-
Other operating expenses	7	314	973	1,026	150
Total operating expenses	3,189	28,768	164,615	42,120	28,407
Operating income (loss)	423	(1,431)	29,166	2,644	(10,328)
Nonoperating revenues (expenses):					
Non-employer pension revenue	2	128	22	253	24
Insurance proceeds	3	-	-	-	153
Gain (loss) on sale of capital assets	(137)	(105)	-	(253)	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(132)	23	22	-	177
Income (loss) before contributions and transfers	292	(1,408)	29,188	2,644	(10,151)
Capital contributions	102	2,299	-	15	-
Transfers in	-	-	-	-	7
Transfers out	(19)	-	(147)	(155)	(283)
Changes in net position	375	891	29,041	2,504	(10,427)
Total net position - July 1 - as previously reported	8,137	69,319	46,021	(15,652)	8,518
Adjustments to beginning net position	(18)	127	181	623	18
Total net position - July 1 - as adjusted	8,119	69,446	46,202	(15,029)	8,536
Total net position - June 30	$ 8,494	$ 70,337	$ 75,243	$ (12,525)	$ (1,891)

MOTOR POOL	PRINT & MAIL SERVICES	BUILDING & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,123	$ 10,131	$ 10,940	$ 2,748	$ 13,062	$ 1	$ 1,158
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	10	-	-	-	-
-	-	-	-	-	-	-
-	1	8	8	-	1,701	8
4,123	10,132	10,958	2,756	13,062	1,702	1,166
392	1,617	2,272	2,149	7,975	1,697	2,035
316	127	3,990	172	3,988	40	632
1,252	3,234	229	62	897	37	138
46	209	267	264	815	213	243
1,617	256	74	-	11	-	-
-	-	-	-	-	-	-
74	243	2,134	77	393	125	292
1	4,297	66	36	777	25	151
-	-	8	9	86	16	23
417	418	816	90	25	-	23
-	-	-	-	-	-	-
-	-	-	-	-	-	-
135	9	38	-	3	-	-
74	328	393	37	1,329	31	92
4,324	10,738	10,287	2,896	16,299	2,184	3,629
(201)	(606)	671	(140)	(3,237)	(482)	(2,463)
6	24	34	37	131	29	30
76	-	-	-	-	-	-
104	(20)	7	-	-	-	-
-	-	-	-	3,559	297	1,787
186	4	41	37	3,690	326	1,817
(15)	(602)	712	(103)	453	(156)	(646)
-	-	-	-	-	-	-
-	-	-	130	-	-	-
-	-	(339)	(2)	(18)	(1)	-
(15)	(602)	373	25	435	(157)	(646)
6,222	281	(839)	(1,606)	(4,979)	(1,391)	(1,103)
(111)	(132)	(116)	(210)	(1,911)	(100)	(42)
6,111	149	(955)	(1,816)	(6,890)	(1,491)	(1,145)
$ 6,096	$ (453)	$ (582)	$ (1,791)	$ (6,455)	$ (1,648)	$ (1,791)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 5,163	$ 3,170	$ 781	$ 6,089	$ 838
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	10	-	-	-	-
Total operating revenues	5,173	3,170	781	6,089	838
Operating expenses:					
Personal services	4,140	2,305	182	3,159	1,465
Contractual services	985	473	156	1,560	55
Supplies/materials	286	261	48	80	258
Benefits/claims	474	240	26	382	151
Depreciation	28	-	-	1	12
Amortization	5	-	-	-	-
Utilities/rent	1,510	58	20	175	136
Communications	194	29	259	27	17
Travel	21	25	2	64	39
Repair/maintenance	88	449	1	1	775
Grants	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Interest expense	-	-	-	-	-
Other operating expenses	183	192	18	548	15
Total operating expenses	7,914	4,032	712	5,997	2,923
Operating income (loss)	(2,741)	(862)	69	92	(2,085)
Nonoperating revenues (expenses):					
Non-employer pension revenue	70	34	3	57	21
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	(8)	-	-	-	-
Federal indirect cost recoveries	2,559	-	-	-	-
Total nonoperating revenues (expenses)	2,621	34	3	57	21
Income (loss) before contributions and transfers	(120)	(828)	72	149	(2,064)
Capital contributions	-	-	-	-	-
Transfers in	-	82	-	-	1,445
Transfers out	(40)	-	-	-	-
Changes in net position	(160)	(746)	72	149	(619)
Total net position - July 1 - as previously reported	(4,071)	(1,320)	(47)	(2,267)	(577)
Adjustments to beginning net position	(8)	(228)	8	(70)	47
Total net position - July 1 - as adjusted	(4,079)	(1,548)	(39)	(2,337)	(530)
Total net position - June 30	$ (4,239)	$ (2,294)	$ 33	$ (2,188)	$ (1,149)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,471	$ 350	$ 54	$ 7,686	$ 543	$ 4,056	151,604
-	-	-	-	-	-	418
-	-	-	-	-	-	18
-	-	-	-	-	-	201,857
-	-	-	-	-	-	2,147
-	14	-	-	-	2	5,655
1,471	364	54	7,686	543	4,058	361,699
1,252	238	166	1,595	713	1,608	60,661
79	83	7	101	49	509	34,113
29	50	2	4,586	96	110	22,405
63	31	20	137	76	235	177,092
-	-	-	341	-	1	11,479
-	-	-	-	-	699	1,133
69	28	2	111	54	22	7,792
11	3	11	4	9	14	13,391
16	14	-	4	2	12	572
5	1	-	291	16	1,075	18,871
-	-	-	-	-	-	127
-	-	-	-	-	-	11
-	-	-	-	-	-	327
28	13	1	534	13	116	6,415
1,552	461	209	7,704	1,028	4,401	354,389
(81)	(97)	(155)	(18)	(485)	(343)	7,310
5	4	2	10	11	34	971
-	-	-	-	-	-	232
-	-	-	508	-	-	96
-	-	-	-	441	-	8,643
5	4	2	518	452	34	9,942
(76)	(93)	(153)	500	(33)	(309)	17,252
-	-	-	25	-	-	2,441
-	38	-	-	-	83	1,785
-	-	-	-	-	-	(1,004)
(76)	(55)	(153)	525	(33)	(226)	20,474
(387)	(203)	107	5,658	(295)	1,007	110,533
(39)	(28)	(16)	6	(61)	(138)	(2,218)
(426)	(231)	91	5,664	(356)	869	108,315
$ (502)	$ (286)	$ (62)	$ 6,189	$ (389)	$ 643	128,789

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 3,612	$ 27,126	$ 185,228	$ 44,757	$ 17,871
Payments to suppliers for goods and services	(2,217)	(11,937)	(10,683)	(20,419)	(6,107)
Payments to employees	(201)	(8,736)	(1,406)	(16,129)	(1,243)
Grant receipts (expenses)	-	-	2,147	-	(127)
Cash payments for claims	-	-	(149,844)	-	(19,825)
Other operating revenues	-	16	3,845	42	-
Other operating payments	(7)	(314)	(973)	(1,026)	(150)
Net cash provided by (used for) operating activities	1,187	6,155	28,314	7,225	(9,581)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer to other funds	(19)	-	(147)	(155)	(283)
Transfer from other funds	-	-	-	-	7
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans and advances	-	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	(1,411)	-
Proceeds from nonemployer pension contributions	2	128	22	253	24
Net cash provided by (used for) noncapital financing activities	(17)	128	(125)	(1,313)	(252)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	3	-	-	-	153
Acquisition of capital assets	(1,995)	(5,283)	-	(5,993)	(324)
Proceeds from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	(1,992)	(5,283)	-	(5,993)	(171)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	(2,097)	-	-
Proceeds (loss) from securities lending transactions	-	-	17	-	1
Interest and dividends on investments	-	-	214	-	204
Payment of securities lending costs	-	-	(11)	-	-
Net cash provided by (used for) investing activities	-	-	(1,877)	-	205
Net increase (decrease) in cash and cash equivalents	(822)	1,000	26,312	(81)	(9,799)
Cash and cash equivalents, July 1	2,043	3,815	34,306	8,041	25,643
Cash and cash equivalents, June 30	$ 1,221	$ 4,815	$ 60,618	$ 7,960	$ 15,844

MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,123	$ 10,201	$ 10,938	$ 2,754	$ 13,049	$ (2)	$ 1,158
(1,765)	(7,957)	(7,121)	(442)	(6,065)	(238)	(1,263)
(420)	(1,721)	(2,367)	(2,341)	(8,514)	(1,814)	(2,168)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1	8	8	3,559	1,998	1,795
(74)	(328)	(393)	(37)	(1,329)	(31)	(92)
1,864	196	1,065	(58)	700	(87)	(570)
-	-	(339)	(2)	(18)	(1)	-
-	-	-	130	-	-	-
632	-	-	-	-	-	-
-	-	-	-	-	-	(211)
(135)	(9)	(38)	-	(3)	-	-
6	24	34	37	131	29	30
503	15	(343)	165	110	28	(181)
76	-	-	-	-	-	-
(2,534)	(274)	(108)	-	-	-	-
-	-	-	-	-	-	-
(2,458)	(274)	(108)	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(91)	(63)	614	107	810	(59)	(751)
2,180	1,069	1,494	682	2,129	535	1,065
$ 2,089	$ 1,006	$ 2,108	$ 789	$ 2,939	$ 476	$ 314

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 5,107	$ 3,165	$ 772	$ 6,134	$ 840
Payments to suppliers for goods and services	(2,998)	(1,339)	(487)	(1,826)	(1,314)
Payments to employees	(4,495)	(2,433)	(203)	(3,330)	(1,537)
Grant receipts (expenses)	-	-	-	-	-
Cash payments for claims	-	-	-	-	-
Other operating revenues	2,569	-	-	-	-
Other operating payments	(183)	(192)	(18)	(548)	(15)
Net cash provided by (used for) operating activities	-	(799)	64	430	(2,026)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer to other funds	(40)	-	-	-	-
Transfer from other funds	-	82	-	-	1,445
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans and advances	-	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-	-
Proceeds from nonemployer pension contributions	70	34	3	57	21
Net cash provided by (used for) noncapital financing activities	30	116	3	57	1,466
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	-
Acquisition of capital assets	(27)	-	-	-	(65)
Proceeds from sale of capital assets	-	308	-	-	-
Net cash used for capital and related financing activities	(27)	308	-	-	(65)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	-	-	-
Proceeds (loss) from securities lending transactions	-	-	-	-	-
Interest and dividends on investments	-	-	-	-	-
Payment of securities lending costs	-	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	3	(375)	67	487	(625)
Cash and cash equivalents, July 1	1,063	760	217	1,458	925
Cash and cash equivalents, June 30	$ 1,066	$ 385	$ 284	$ 1,945	$ 300

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,464	$ 351	$ 54	$ 7,521	$ 543	$ 3,861	$ 350,627
(192)	(191)	(22)	(4,857)	(255)	(1,726)	(91,421)
(1,292)	(238)	(173)	(1,654)	(752)	(1,749)	(64,916)
8	3	-	-	-	-	2,031
-	-	-	-	-	-	(169,669)
-	14	-	-	441	2	14,298
(28)	(13)	(1)	(534)	(13)	(116)	(6,415)
(40)	(74)	(142)	476	(36)	272	34,535
-	-	-	-	-	-	(1,004)
-	38	-	-	-	83	1,785
-	-	-	80	3	-	715
-	-	-	-	-	-	(211)
-	-	-	-	-	-	(1,596)
5	4	2	10	11	34	971
5	42	2	90	14	117	660
-	-	-	-	-	-	232
(17)	-	-	(288)	-	(366)	(17,274)
-	-	-	-	-	-	308
(17)	-	-	(288)	-	(366)	(16,734)
-	-	-	-	-	-	(2,097)
-	-	-	-	-	-	18
-	-	-	-	-	-	418
-	-	-	-	-	-	(11)
-	-	-	-	-	-	(1,672)
(52)	(32)	(140)	278	(22)	23	16,789
316	85	280	1,039	285	1,370	90,800
$ 264	$ 53	$ 140	$ 1,317	$ 263	$ 1,393	$ 107,589

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 423	$ (1,431)	$ 29,166	$ 2,643	$ (10,329)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	855	6,952	-	1,330	1
Amortization	-	-	95	3	331
Securities lending expense	-	-	11	-	-
Investment earnings	-	-	(214)	-	(204)
Securities lending income	-	-	(17)	-	(1)
Interest expense	-	-	-	142	-
Federal indirect cost recoveries	-	-	-	-	-
Change in assets, deferred outflows, liabilities, and deferred inflows:					
Decr (Incr) in accounts receivable	-	(195)	(2,335)	(51)	(3)
Decr (Incr) in due from other funds	-	-	-	7	-
Decr (Incr) in due from other governments	-	-	-	-	-
Decr (Incr) in inventories	-	350	-	-	-
Decr (Incr) in other assets	-	-	4	80	-
Incr (Decr) in accounts payable	(105)	123	1,774	(814)	(69)
Incr (Decr) in due to other funds	-	-	23	4	-
Incr (Decr) in unearned revenue	-	-	(54)	-	-
Incr (Decr) in compensated absences payable	7	48	(13)	(12)	28
Incr (Decr) in OPEB implicit rate subsidy	7	249	35	344	35
Incr (Decr) in estimated claims	-	-	(177)	-	610
Incr (Decr) in other payables	-	-	-	3,353	-
Incr (decr) in net pension liability and related accounts	-	61	17	196	19
Net cash provided by (used for) operating activities	$ 1,187	$ 6,157	$ 28,315	$ 7,225	$ (9,582)
Schedule of noncash transactions:					
Increase (decrease) in value of investments	-	-	447	-	2
Capital asset acquisitions from contributed capital	102	2,299	-	15	-
Total noncash transactions	$ 102	$ 2,299	$ 447	$ 15	$ 2

MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ (201)	$ (606)	$ 671	$ (140)	$ (3,238)	$ (483)	$ (2,463)
1,617	256	74	-	11	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
135	9	38	-	3	-	-
-	-	-	-	3,559	297	1,787
-	(30)	(12)	-	1	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1	131	-	-	-	-	-
-	101	-	6	(13)	(3)	-
(117)	30	153	1	139	17	4
409	-	-	-	-	-	-
-	-	-	-	-	-	-
4	20	47	(7)	79	9	7
12	62	69	54	202	41	63
-	-	-	-	-	-	-
-	205	-	-	(19)	-	-
3	19	26	29	(24)	34	32
$ 1,863	$ 197	$ 1,066	$ (57)	$ 700	$ (88)	$ (570)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ (2,741)	$ (861)	$ 69	$ 94	$ (2,086)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	28	-	-	1	12
Amortization	5	-	-	-	-
Securities lending expense	-	-	-	-	-
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Interest expense	-	-	-	-	-
Federal indirect cost recoveries	2,559	-	-	-	-
Change in assets, deferred outflows, liabilities, and deferred inflows:					
Decr (incr) in accounts receivable	(1)	-	-	(36)	2
Decr (incr) in due from other funds	-	-	-	49	-
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	-	-	-	-
Decr (incr) in other assets	(56)	(5)	(9)	32	-
Incr (decr) in accounts payable	76	(41)	(5)	118	(27)
Incr (decr) in due to other funds	-	-	-	-	-
Incr (decr) in unearned revenue	-	-	-	-	-
Incr (decr) in compensated absences payable	-	36	(2)	51	27
Incr (decr) in OPEB implicit rate subsidy	109	47	8	55	35
Incr (decr) in estimated claims	-	-	-	-	-
Incr (Decr) in other payables	-	-	-	-	-
Incr (decr) in net pension liability and related accounts	22	26	2	66	11
Net cash provided by (used for) operating activities	$ 1	$ (798)	$ 63	$ 430	$ (2,026)
Schedule of noncash transactions:					
Increase (decrease) in value of investments	-	-	-	-	-
Capital asset acquisitions from contributed capital	-	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -	$ -

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ (81)	$ (96)	$ (154)	$ (19)	$ (485)	$ (342)	$ 7,310
-	-	-	341	-	1	11,479
-	-	-	-	-	699	1,133
-	-	-	-	-	-	11
-	-	-	-	-	-	(418)
-	-	-	-	-	-	(18)
-	-	-	-	-	-	327
-	-	-	-	441	-	8,643
-	1	-	(137)	-	-	(2,796)
-	-	-	-	-	-	56
8	3	-	-	-	-	11
-	-	-	149	(26)	-	605
(7)	-	-	(28)	-	(195)	(93)
31	(6)	3	97	(2)	33	1,413
-	-	-	-	-	-	436
-	-	-	-	-	-	(54)
(21)	15	2	-	15	6	346
26	6	7	50	15	44	1,575
-	-	-	-	-	-	433
-	-	-	-	-	-	3,539
4	3	1	23	7	26	603
$ (40)	$ (74)	$ (141)	$ 476	$ (35)	$ 272	$ 34,541
-	-	-	-	-	-	449
-	-	-	25	-	-	2,441
$ -	$ -	$ -	$ 25	$ -	$ -	$ 2,890

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Public Employee Retirement System - Defined Contribution Retirement Plan - Disability Other Post Employment Benefit – This fund provides members of the defined contribution retirement system a disability benefit plan funded through employer contributions.

Municipal Police Officers' Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan, and firefighters hired by the Montana Air National Guard.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs, detention officers, and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFITS	PERS DCRP DISABILITY OPEB	JUDGES	HIGHWAY PATROL	SHERIFFS	GAME WARDENS PEACE OFFICERS
ASSETS						
Cash/cash equivalents	$ 142,261	$ 302	$ 2,405	$ 3,803	$ 8,546	$ 4,396
Receivables (net):						
Accounts receivable	3,116	20	-	219	347	24
Interest	131	-	2	3	8	4
Due from primary government	6,052	-	-	-	-	-
Due from other PERB plans	638	5	-	-	-	-
Long-term notes/loans receivable	26	-	-	-	-	-
Total receivables	9,963	25	2	222	355	28
Investments at fair value:						
Equity in pooled investments	5,326,238	-	93,939	136,350	321,985	171,205
Other investments	-	3,462	-	-	-	-
Total investments	5,326,238	3,462	93,939	136,350	321,985	171,205
Securities lending collateral	31,162	-	550	798	1,884	1,002
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	23	-	-	-	-	-
Equipment	43	-	4	3	4	4
Construction work in progress	-	-	-	-	-	-
Accumulated depreciation	(33)	-	(3)	(3)	(3)	(3)
Intangible assets	1,298	-	381	323	381	381
Total capital assets	1,331	-	382	323	382	382
Total assets	5,510,955	3,789	97,278	141,496	333,152	177,013
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-
LIABILITIES						
Accounts payable	2,937	1	53	106	187	59
Due to other PERB plans	286	-	14	47	151	92
Unearned revenue	176	-	1	1	2	7
Securities lending liability	31,162	-	550	798	1,884	1,002
Compensated absences payable	427	-	-	-	-	-
Net pension liability (Note 6)	-	-	-	-	-	-
OPEB implicit rate subsidy	594	-	5	6	11	9
Total liabilities	35,582	1	623	958	2,235	1,169
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-
NET POSITION						
Held in trust for pension benefits and other purposes	$ 5,475,373	$ 3,788	$ 96,655	$ 140,538	$ 330,917	$ 175,844

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)							
MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 9,451	$ 9,784	$ 1,010	$ 1,612	$ 96	$ 108,493	$ 3,597	$ 295,756
210	288	4	173	551	20,954	8	25,914
8	9	1	1	-	99	-	266
13,961	14,438	-	-	-	-	-	34,451
-	-	-	281	-	-	-	924
-	-	-	-	-	-	-	26
14,179	14,735	5	455	551	21,053	8	61,581
360,476	371,013	35,428	-	-	3,820,459	-	10,637,093
-	-	-	192,153	479,575	-	5,971	681,161
360,476	371,013	35,428	192,153	479,575	3,820,459	5,971	11,318,254
2,109	2,171	207	-	-	22,353	-	62,236
-	-	-	-	-	35	-	35
-	-	-	3	2	158	-	186
3	3	3	7	6	16	-	96
-	-	-	-	-	225	-	225
(3)	(3)	(3)	(5)	(5)	(167)	-	(231)
341	337	310	310	368	2,365	-	6,795
341	337	310	315	371	2,632	-	7,106
386,556	398,040	36,960	194,535	480,593	3,974,990	9,576	11,744,933
-	-	-	-	-	311	5	316
210	222	17	776	329	117	17	5,031
127	111	96	-	-	-	-	924
33	18	1	-	-	-	-	239
2,109	2,171	207	-	-	22,353	-	62,236
-	-	-	57	27	193	1	705
-	-	-	-	-	1,502	30	1,532
10	8	8	68	47	369	5	1,140
2,489	2,530	329	901	403	24,534	53	71,807
-	-	-	-	-	5	-	5
$ 384,067	$ 395,510	$ 36,631	$ 193,634	$ 480,190	$ 3,950,762	$ 9,528	$ 11,673,437

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	PERS DCRP DISABILITY OPEB	JUDGES	HIGHWAY PATROL	SHERIFFS	GAME WARDENS PEACE OFFICERS
ADDITIONS						
Contributions/premiums:						
Employer	$ 103,702	$ 392	$ 1,800	$ 5,782	$ 7,542	$ 4,463
Employee	100,709	-	488	1,950	7,188	5,262
Other contributions	29,015	-	-	263	1	16
Net investment earnings:						
Investment earnings	618,271	334	10,839	15,784	37,120	19,433
Administrative investment expenses	(27,685)	(2)	(485)	(707)	(1,662)	(870)
Securities lending income	1,571	-	28	40	94	49
Securities lending expense	(619)	-	(11)	(16)	(37)	(19)
Charges for services	-	-	-	-	-	-
Other additions	-	-	-	-	20	-
Total additions	824,964	724	12,659	23,096	50,266	28,334
DEDUCTIONS						
Benefits	366,459	54	3,555	11,037	16,701	5,810
Refunds	12,326	-	-	245	1,416	1,036
Administrative expenses:						
Personal services	3,124	-	(2)	(5)	(5)	(5)
Contractual services	1,901	-	222	188	222	222
Supplies/materials	106	-	-	-	-	-
Depreciation	7	-	-	-	-	-
Amortization	68	-	20	17	20	20
Utilities/rent	262	-	-	-	-	-
Communications	125	-	-	-	-	-
Travel	25	-	-	-	-	-
Repair/maintenance	-	-	-	-	-	-
Other operating expenses	(500)	-	14	47	151	92
Local assistance	-	-	-	-	-	-
Transfer to MUS-RP	128	-	-	-	-	-
Transfer to PERS-DCRP	1,420	-	-	-	-	-
Total deductions	385,451	54	3,809	11,529	18,505	7,175
Changes in net position	439,513	670	8,850	11,567	31,761	21,159
Net position- July 1- as previously reported	5,035,859	3,118	87,806	128,973	299,152	154,685
Adjustments to beginning net position (Note 2)	-	-	-	-	-	-
Net position - July 1- as adjusted	5,035,859	3,118	87,806	128,973	299,152	154,685
Net position - June 30	$ 5,475,372	$ 3,788	$ 96,656	$ 140,540	$ 330,913	$ 175,844

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)							
MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 7,081	$ 6,483	$ -	$ 10,752	$ 77	$ 91,854	$ 3,385	$ 243,313
4,465	4,925	-	11,828	23,770	74,253	-	234,838
13,962	14,438	2,065	-	-	44,414	-	104,174
41,581	42,692	4,012	22,425	36,862	446,341	721	1,296,415
(1,865)	(1,914)	(180)	(57)	(973)	(19,986)	-	(56,386)
106	108	10	-	-	1,135	-	3,141
(42)	(43)	(4)	-	-	(447)	-	(1,238)
-	-	-	-	586	-	-	586
10	16	-	465	-	28	1	540
65,298	66,705	5,903	45,413	60,322	637,592	4,107	1,825,383
23,475	22,336	2,859	7,049	27,337	333,845	2,839	823,356
1,043	168	-	-	-	7,355	-	23,589
(5)	(5)	(4)	372	223	1,391	30	5,109
199	196	181	541	1,154	440	-	5,466
-	-	-	12	9	33	-	160
-	-	-	1	1	15	-	24
18	18	16	16	19	275	-	507
-	-	-	28	22	71	-	383
-	-	-	8	8	73	-	214
-	-	-	4	3	27	-	59
-	-	-	-	-	18	-	18
127	111	96	67	19	116	84	424
-	-	6	-	-	-	-	6
-	-	-	-	-	-	-	128
-	-	-	-	-	-	-	1,420
24,857	22,824	3,154	8,098	28,795	343,659	2,953	860,863
40,441	43,881	2,749	37,315	31,527	293,933	1,154	964,520
343,627	351,629	33,883	156,318	448,663	3,656,831	8,377	10,708,921
-	-	-	-	-	-	(2)	(2)
343,627	351,629	33,883	156,318	448,663	3,656,831	8,375	10,708,919
$ 384,068	$ 395,510	$ 36,632	$ 193,633	$ 480,190	$ 3,950,764	$ 9,529	$ 11,673,439

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PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

College Savings Plan – This fund accounts for monies contributed towards a "qualified tuition program" under section 529 of the Internal Revenue Code of 1986, as amended. This plan is a voluntary college savings plan whose participants are both Montana residents and out-of-state individuals.

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

Plan Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee's behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Performance Deposits – This fund accounts for deposits held long-term by the State pending compliance with performance agreements. This includes, environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related process.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	$ 73,779	$ 980	$ -	$ 49
Receivables (net):				
Interest	-	1	-	-
Total receivables	-	1	-	-
Investments at fair value:				
Other investments	143,507	-	-	-
Total investments	143,507	-	-	-
Other assets	-	-	32,388	-
Total assets	217,286	981	32,388	49
LIABILITIES				
Accounts payable	-	9	-	-
Total liabilities	-	9	-	-
NET POSITION				
Held in trust for other purposes	$ 217,286	$ 972	$ 32,388	$ 49

PERFORMANCE DEPOSITS	TOTAL
$ 23,338	$ 98,146
16	17
16	17
11,437	154,944
11,437	154,944
5,015	37,403
39,806	290,510
-	9
-	9
$ 39,806	$ 290,501

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2017
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Other contributions	$ 15,228	$ -	$ -	$ -
Net investment earnings:				
Investment earnings	13,363	7	-	-
Other additions	-	3,551	-	-
Total additions	28,591	3,558	-	-
DEDUCTIONS				
Distributions	25,533	3,544	706	-
Administrative expenses:				
Contractual services	841	-	-	-
Other operating expenses	-	-	-	-
Total deductions	26,374	3,544	706	-
Change in net position	2,217	14	(706)	-
Net position - July 1 - as previously reported	215,068	958	33,094	48
Net position - June 30	$ 217,285	$ 972	$ 32,388	$ 48

PERFORMANCE DEPOSITS	TOTAL
$ -	$ 15,228
141	13,511
1,514	5,065
1,655	33,804
3,742	33,525
-	841
86	86
3,828	34,452
(2,173)	(648)
41,978	291,146
$ 39,805	$ 290,498

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AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

OPEB State – This fund accounts for the State's employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

OPEB MUS – This fund accounts for the Montana University System’s (MUS) employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2017
(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS
ASSETS				
Cash/cash equivalents	$ 2,550	$ 26,513	$ 874	$ 2,592
Receivables (net):				
Accounts receivable	3	-	-	9
Total receivables	3	-	-	9
Other assets	423	-	-	15
Total assets	2,976	26,513	874	2,616
LIABILITIES				
Accounts payable	3	(2)	6	16
Amounts held in custody for others	2,973	26,515	868	2,600
Total liabilities	2,976	26,513	874	2,616
NET POSITION				
Held in trust for other purposes	$ -	$ -	$ -	$ -

CHILD SUPPORT COLLECTIONS	UNCLEARED COLLECTIONS	INTER-GOVERNMENTAL	DEBT COLLECTION	MILK PASS-THROUGH	TOTAL
$ 392	$ 28	$ 5	$ 473	$ 57	$ 33,484
597	-	-	-	-	609
597	-	-	-	-	609
-	-	-	-	-	438
989	28	5	473	57	34,531
401	-	4	37	-	465
588	28	1	436	57	34,066
989	28	5	473	57	34,531
$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30,2017

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2016	TOTALS ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2017
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 3,799	$ 87,888	$ 89,137	$ 2,550
Receivables (net)	1	29	27	3
Other assets	250	222	48	423
Total assets	$ 4,050	$ 88,139	$ 89,212	$ 2,976
LIABILITIES				
Accounts payable	$ 2	$ 835	$ 834	$ 3
Amounts held in custody for others	4,048	4,074	5,148	2,973
Total liabilities	$ 4,050	$ 4,909	$ 5,982	$ 2,976
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 4,539	$ 1,099,322	$ 1,077,348	$ 26,513
Total assets	$ 4,539	$ 1,099,322	$ 1,077,348	$ 26,513
LIABILITIES				
Accounts payable	$ -	$ 7,831	$ 7,833	$ (2)
Amounts held in custody for others	4,539	1,099,323	1,077,346	26,515
Total liabilities	$ 4,539	$ 1,107,154	$ 1,085,179	$ 26,513
CRIMINAL OFFENDER RESTITUTTION:				
ASSETS				
Cash/cash equivalents	$ 618	$ 4,316	$ 4,060	$ 874
Total assets	$ 618	$ 4,316	$ 4,060	$ 874
LIABILITIES				
Accounts payable	$ 5	$ 2,219	$ 2,218	$ 6
Amounts held in custody for others	614	4,316	4,061	868
Total liabilities	$ 619	$ 6,535	$ 6,279	$ 874
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 2,016	$ 10,051	$ 9,474	$ 2,593
Receivables (net)	-	41	32	9
Securities lending collateral	1	-	1	-
Other assets	12	536	533	15
Total assets	$ 2,029	$ 10,628	$ 10,040	$ 2,617
LIABILITIES				
Accounts payable	$ 6	$ 3,320	$ 3,309	$ 17
Amounts held in custody for others	2,021	11,418	10,839	2,600
Securities lending liability	1	-	1	-
Total liabilities	$ 2,028	$ 14,738	$ 14,149	$ 2,617

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,2017
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2016	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2017
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 146	$ 73,582	$ 73,337	$ 392
Receivables (net)	581	21	5	597
Total assets	$ 727	$ 73,603	$ 73,342	$ 989
LIABILITIES				
Accounts payable	$ 437	$ 69,679	$ 69,714	$ 402
Amounts held in custody for others	290	73,345	73,048	588
Total liabilities	$ 727	$ 143,024	$ 142,762	$ 990
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 29	$ 10,803,670	$ 10,803,672	$ 28
Receivables (net)	-	340	340	-
Investments	-	999	999	-
Total assets	$ 29	$ 10,805,009	$ 10,805,011	$ 28
LIABILITIES				
Accounts payable	$ -	$ 9,815	$ 9,816	$ -
Amounts held in custody for others	29	11,131	11,133	28
Total liabilities	$ 29	$ 20,946	$ 20,949	$ 28
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 6	$ 148	$ 148	$ 5
Total assets	$ 6	$ 148	$ 148	$ 5
LIABILITIES				
Accounts payable	$ 4	$ 148	$ 148	$ 4
Amounts held in custody for others	2	148	149	1
Total liabilities	$ 6	$ 296	$ 297	$ 5
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 162	$ 10,251	$ 9,940	$ 473
Receivables (net)	-	19,824	19,824	-
Total assets	$ 162	$ 30,075	$ 29,764	$ 473
LIABILITIES				
Accounts payable	$ 10	$ 11,152	$ 11,126	$ 37
Amounts held in custody for others	152	284	-	436
Total liabilities	$ 162	$ 11,436	$ 11,126	$ 473

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30,2017

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2016	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2017
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 58	$ 357	$ 358	$ 57
Total assets	$ 58	$ 357	$ 358	$ 57
LIABILITIES				
Accounts payable	$ -	$ 322	$ 322	$ -
Amounts held in custody for others	58	321	322	57
Total liabilities	$ 58	$ 643	$ 644	$ 57
OPEB STATE:				
ASSETS				
Cash/cash equivalents	$ -	$ 21,876	$ 21,876	$ -
Total assets	$ -	$ 21,876	$ 21,876	$ -
LIABILITIES				
Amounts held in custody for others	$ -	$ 21,876	$ 21,876	$ -
Total liabilities	$ -	$ 21,876	$ 21,876	$ -
OPEB MUS:				
ASSETS				
Cash/cash equivalents	$ -	$ 11,659	$ 11,659	$ -
Total assets	$ -	$ 11,659	$ 11,659	$ -
LIABILITIES				
Amounts held in custody for others	$ -	$ 11,659	$ 11,659	$ -
Total liabilities	$ -	$ 11,659	$ 11,659	$ -
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 11,373	$ 12,123,120	$ 12,101,009	$ 33,485
Receivables (net)	582	20,255	20,228	609
Investments	-	999	999	-
Securities lending collateral	1	-	1	-
Other assets	262	758	581	438
Total assets	$ 12,218	$ 12,145,132	$ 12,122,818	$ 34,532
LIABILITIES				
Accounts payable	$ 464	$ 105,321	$ 105,320	$ 467
Amounts held in custody for others	11,753	1,237,895	1,215,581	34,066
Securities lending liability	1	-	1	-
Total liabilities	$ 12,218	$ 1,343,216	$ 1,320,902	$ 34,533

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STATISTICAL SECTION

SCHEDULE A-1 – NET POSITION BY COMPONENT UNIT
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investment in capital assets	$ 5,873,003	$ 5,616,889	$ 5,332,649	$ 5,049,162	$ 4,681,044	$ 4,529,952	$ 4,178,343	$ 3,874,920	$ 3,526,294	$ 3,262,932
Restricted	2,951,964	2,890,669	2,764,165	2,696,248	2,334,042	2,298,142	2,292,979	1,983,143	2,329,850	2,617,435
Unrestricted	(971,795)	(780,527)	(642,296)	896,270	912,882	824,809	877,017	1,083,674	589,815	595,019
Total governmental activities net position	$ 7,853,172	$ 7,727,031	$ 7,454,518	$ 8,641,680	$ 7,927,968	$ 7,652,903	$ 7,348,339	$ 6,941,737	$ 6,445,959	$ 6,475,386
Business-type activities										
Net investment in capital assets	$ 18,986	$ 15,760	$ 14,616	$ 16,285	$ 14,862	$ 15,011	$ 15,581	$ 14,534	$ 12,539	$ 8,733
Restricted	367,734	347,819	333,536	295,006	253,382	206,896	158,735	159,335	255,493	337,036
Unrestricted	8,289	8,394	8,124	18,912	16,415	15,905	12,349	21,851	6,996	11,234
Total business-type activities net position	$ 395,009	$ 371,973	$ 356,276	$ 330,203	$ 284,659	$ 237,812	$ 186,665	$ 194,720	$ 275,028	$ 357,003
Primary government										
Net investment in capital assets	$ 5,891,989	$ 5,632,649	$ 5,347,265	$ 5,065,447	$ 4,695,907	$ 4,554,963	$ 4,193,924	$ 3,889,454	$ 3,538,833	$ 3,271,665
Restricted	3,319,698	3,238,488	3,097,701	2,991,254	2,587,423	2,505,038	2,451,714	2,142,478	2,585,343	2,594,471
Unrestricted	(963,506)	(772,133)	(634,172)	915,182	929,296	840,714	889,366	1,104,525	596,811	606,253
Total primary government net position	$ 8,248,181	$ 8,099,004	$ 7,810,794	$ 8,971,883	$ 8,212,627	$ 7,900,715	$ 7,535,004	$ 7,136,457	$ 6,720,987	$ 6,832,389

SCHEDULE A-2 – CHANGE IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
Expenses	2017	2016	2015	2014	2013
Governmental activities:					
General government	$ 688,798	$ 696,984	$ 655,878	$ 1,009,121	$ 647,975
Public safety	454,194	420,532	403,407	156,256	380,309
Transportation	484,214	464,092	483,943	461,358	189,207
Health and human services	2,668,273	2,174,506	1,936,701	1,880,505	1,808,386
Education	1,344,121	1,324,299	1,306,740	1,262,069	1,205,955
Natural resources	295,853	295,332	316,834	254,414	332,942
Economic development/assistance	-	-	-	-	-
Principal on long-term debt	-	(1)	-	-	-
Interest on long-term debt	7,484	9,373	9,124	10,760	12,249
Total governmental activities expenses	5,942,937	5,385,117	5,112,627	5,034,483	4,577,022
Business-type activities:					
Unemployment Insurance	117,788	119,088	112,952	136,174	179,826
Liquor Stores	83,313	81,556	78,700	74,917	71,013
State Lottery	43,377	47,202	41,088	41,310	44,049
Economic Development Bonds	1,851	1,198	988	2,564	930
Hail Insurance	1,696	817	8,304	15,163	7,339
General Government Services	72,489	71,343	68,678	63,787	63,354
Prison Funds	8,140	9,099	6,464	7,223	6,995
MUS Group Insurance	81,051	87,535	86,539	80,639	67,250
MUS Workers Compensation	2,786	2,430	4,128	3,199	328
Total business-type activities expenses	412,491	420,268	407,841	424,976	441,084
Total primary government expenses	$ 6,355,428	$ 5,805,385	$ 5,520,468	$ 5,459,459	$ 5,018,106
Program Revenues					
Governmental activities:					
Charges for services:					
General government	$ 143,681	$ 145,725	$ 143,616	$ 142,818	$ 134,756
Public safety/corrections	161,380	160,783	160,339	150,212	148,147
Transportation	28,447	30,321	36,122	33,047	30,792
Health/social services	40,260	42,376	35,795	37,843	37,291
Education/cultural	32,750	30,205	32,176	42,140	37,328
Resource/recreation/environment	165,409	168,269	174,799	172,759	176,400
Economic development/assistance	-	-	-	-	-
Operating grants and contributions	2,506,711	2,093,817	1,885,537	1,823,987	1,780,611
Capital grants and contributions	434,860	456,588	470,860	460,327	455,310
Total governmental activities program revenues	3,513,498	3,128,084	2,939,244	2,863,133	2,800,635
Business-type activities:					
Charges for services:					
Unemployment Insurance	103,928	121,740	151,806	163,745	166,523
Liquor Stores	96,475	93,958	89,286	85,316	82,125
State Lottery	52,459	59,717	52,341	53,106	56,820
Economic Development Bonds	37	34	30	19	13
Hail Insurance	1,156	1,103	6,278	8,040	7,114
General Government Services	24,290	25,342	29,197	25,985	21,988
Prison Funds	7,648	8,499	7,953	7,618	6,945
MUS Group Insurance	99,448	83,136	72,904	80,472	68,216
MUS Workers Compensation	3,838	4,264	4,603	2,170	4,280
Operating grants and contributions	60,219	56,565	50,751	64,982	96,590
Capital grants and contributions	604	857	942	623	445
Total business-type activities program revenues	450,102	455,215	466,091	492,076	511,059
Total primary government program revenues	$ 3,963,600	$ 3,583,299	$ 3,405,335	$ 3,355,209	$ 3,311,694

Fiscal Year				
2012	2011	2010	2009	2008
$ 660,561	$ 752,565	$ 774,881	$ 549,847	$ 634,984
387,213	308,593	342,803	408,239	322,769
468,977	390,523	320,085	438,649	488,450
1,745,284	1,765,871	1,677,261	1,529,104	1,380,629
1,192,205	1,209,969	1,179,788	1,137,772	1,144,637
337,462	318,954	318,300	363,179	258,058
-	-	-	170,027	152,456
7,593	6	-	-	-
15,725	16,314	17,692	18,721	18,344
4,815,020	4,762,795	4,630,810	4,615,538	4,400,327
217,829	278,086	354,793	235,494	90,269
67,863	63,573	61,569	61,446	59,227
39,808	35,481	36,365	33,787	32,984
1,149	1,126	2,167	3,523	4,552
7,052	8,379	6,238	4,087	11,064
62,094	63,003	62,797	60,157	56,697
6,480	6,149	6,463	10,681	6,670
59,577	63,501	72,606	55,023	59,334
4,530	4,232	3,900	3,675	3,109
466,382	523,530	606,898	468,328	323,906
$ 5,281,402	$ 5,286,325	$ 5,237,708	$ 5,083,866	$ 4,724,233
$ 143,815	$ 138,059	$ 127,163	$ 68,982	$ 83,720
147,070	145,754	147,839	144,748	149,534
29,256	25,143	26,531	37,204	42,348
34,191	37,166	43,338	35,554	38,137
36,335	40,720	34,309	113,433	150,906
166,466	164,880	232,861	39,929	80,933
-	-	-	43,182	38,520
1,824,334	1,962,876	1,985,977	1,635,769	1,493,944
512,649	537,194	510,996	467,611	380,856
2,894,116	3,051,792	3,109,014	2,586,412	2,458,898
164,353	137,439	89,500	75,591	85,801
78,384	73,298	68,032	67,242	69,242
52,615	46,047	46,865	43,841	43,826
17	18	22	26	33
7,055	6,710	6,915	6,859	7,730
22,303	23,044	22,601	21,548	19,844
7,284	6,276	6,304	6,620	7,150
69,025	65,228	64,756	52,147	62,666
4,167	4,716	4,979	5,003	4,660
134,120	168,222	226,049	118,058	63,524
398	281	3,174	1,360	540
539,721	531,279	539,197	398,295	365,016
$ 3,433,837	$ 3,583,071	$ 3,648,211	$ 2,984,707	$ 2,823,914

SCHEDULE A-2 – CHANGE IN NET POSITION - Continued
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2017	2016	2015	2014	2013
Net (expense)/revenue					
Governmental activities	$ (2,429,439)	$ (2,257,033)	$ (2,173,383)	$ $ (2,389,119)	$ (1,776,387)
Business-type activities	37,611	34,947	58,250	67,114	69,975
Total primary government net expense	(2,391,828)	(2,222,086)	(2,115,133)	$ (2,322,005)	(1,706,412)
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes					
Property	$ 277,254	$ 276,367	$ 261,532	$ $ 267,029	$ 256,613
Fuel	231,305	225,419	226,892	216,615	216,065
Natural resource	171,629	163,707	257,634	334,210	310,344
Individual income	1,160,431	1,173,281	1,151,329	1,044,828	1,041,767
Corporate Income	132,538	117,758	174,112	145,040	174,510
Other	378,976	361,899	358,676	340,123	324,811
Unrestricted grants and contributions	13,596	15,321	15,101	403	11
Payment from State of Montana	-	-	-	487	-
Settlements	33,824	29,379	29,109	31,534	35,763
Unrestricted investment earnings	25,125	92,404	44,028	108,754	30,296
Gain on sale of capital assets	15,640	3,014	2,067	2,125	7,158
Miscellaneous	4,895	6,596	4,348	4,708	4,355
Transfers	46,141	49,812	50,017	46,377	48,199
Total governmental activities	2,491,354	2,514,957	2,574,845	2,542,233	2,499,802
Business-type activities:					
Taxes					
Other	27,958	27,078	26,440	25,148	24,186
Unrestricted grants and contributions	2,845	1,852	1,777	2	-
Settlements	236	-	-	52	-
Unrestricted investment earnings	31	17	520	12	20
Gain (loss) on sale of capital assets	(274)	318	142	696	41
Miscellaneous	871	514	718	674	570
Transfers	(46,140)	(49,813)	(50,017)	(47,864)	(48,199)
Total business-type activities	(14,473)	(20,034)	(20,420)	(21,280)	(23,382)
Total primary government	2,476,881	2,494,923	2,554,425	2,520,953	2,426,417
Change in Net Position					
Governmental activities	61,915	257,924	401,462	153,114	673,410
Business-type activities	23,138	14,913	37,830	45,834	46,593
Total primary government	$ 85,053	$ 272,837	$ 439,292	$ $ 198,948	$ 720,002

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2012	2011	2010	2009	2008
$ (1,920,904)	$ (1,711,003)	$ (1,521,796)	$ (2,029,126)	$ (1,941,429)
73,339	7,749	(67,700)	(70,033)	41,110
(1,847,565)	(1,703,254)	(1,589,496)	(2,099,159)	(1,900,319)
$ 257,631	$ 241,961	$ 235,287	$ 228,368	$ 214,868
211,933	209,348	204,373	191,061	205,758
309,427	305,471	275,313	307,032	407,007
892,560	810,108	709,699	806,908	862,273
129,668	121,801	89,033	168,053	161,118
308,927	308,703	303,859	315,810	320,398
181	-	461	167	28
-	-	-	-	-
40,426	38,747	77,927	155,127	38,760
87,083	155,419	172,748	42,556	72,203
2,179	3,209	3,244	6,141	6,351
2,728	2,919	4,247	116,865	5,810
46,361	40,547	42,488	42,863	43,010
2,289,104	2,238,233	2,118,677	2,380,951	2,337,584
23,233	21,797	25,017	24,821	20,340
-	-	-	-	-
-	27	-	-	-
54	4,642	244	142	406
270	-	1	-	-
542	637	4,377	2,484	2,662
(46,361)	(40,547)	(42,486)	(42,863)	(43,010)
(22,262)	(13,444)	(12,847)	(15,416)	(19,602)
2,266,842	2,224,789	2,105,830	2,365,535	2,317,982
368,200	527,230	596,881	351,825	396,155
51,077	(5,695)	(80,547)	(85,449)	21,508
$ 419,277	$ 521,535	$ 516,334	$ 266,376	$ 417,663

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year 2017	2016	2015	2014	2013	2012	2011	2010
Nonspendable:								
Inventory	$ 23,260	$ 24,385	$ 25,137	$ 22,611	$ 24,483	$ 25,046	$ 23,007	$ 27,018
Permanent fund principle	1,590,023	1,548,689	1,493,893	1,452,290	1,388,829	1,365,218	1,300,871	1,143,435
Long-term notes/receivable	525	641	817	971	2,470	2,146	65	96
Prepaid expenses	4,534	1,259	1,806	1,045	1,273	1,538	1,254	1,361
Total nonspendable	$ 1,618,342	$ 1,574,974	$ 1,521,653	$ 1,476,917	$ 1,417,055	$ 1,393,948	$ 1,325,197	$ 1,171,910
Restricted:								
General government	6,449	6,339	6,586	8,563	1,966	10,474	13,146	13,785
Transportation	52,673	41,892	47,750	60,851	76,659	75,518	116,353	102,520
Health and human services	16,780	21,372	22,814	24,494	23,049	16,739	22,025	22,367
Natural resources	702,399	710,010	716,294	669,220	646,026	653,179	634,957	438,410
Public safety	235,760	236,139	252,006	265,966	268,616	294,520	290,768	317,295
Education	19,282	15,146	17,896	20,458	21,397	27,140	29,054	24,644
Total restricted	$ 1,033,343	$ 1,030,898	$ 1,063,346	$ 1,049,552	$ 1,037,713	$ 1,077,570	$ 1,106,303	$ 919,021
Committed:								
General government	717,671	749,341	712,767	694,508	612,969	625,432	588,292	551,394
Transportation	6,201	4,070	3,856	4,823	6,644	4,304	4,445	6,403
Health and human services	34,173	29,086	28,226	27,131	30,665	43,952	72,102	65,050
Natural resources	385,724	387,121	346,550	320,560	258,650	266,254	312,467	601,410
Public safety	46,352	31,776	30,207	34,037	29,428	18,162	15,393	39,772
Education	16,306	16,180	8,249	26,631	34,723	12,434	12,162	1,540
Total committed	$ 1,206,427	$ 1,217,574	$ 1,129,855	$ 1,107,691	$ 973,079	$ 970,538	$ 1,004,861	$ 1,255,569
Assigned:								
General government	1,292	8,450	5,361	13,232	23,057	21,413	25,805	33,427
Transportation	-	-	-	-	-	26	-	-
Health and human services	-	-	-	-	-	-	-	148
Natural resources	-	-	-	-	56	60	41	418
Public safety	892	404	599	1,210	1,465	1,756	1,853	2,949
Education	-	-	-	-	-	-	-	138
FY 2011 appropriation	-	-	-	-	-	-	-	70,270
General Fund Spend Down FY15	-	130,000	75,000	80,000	-	-	-	-
Encumbrances	11,355	10,333	11,230	10,366	18,033	22,670	24,591	11,986
Total assigned	$ 13,539	$ 149,187	$ 92,190	$ 104,808	$ 42,611	$ 45,925	$ 52,290	$ 119,336
Unassigned	47,933	126,478	380,436	344,406	537,609	451,656	339,898	212,183
Total fund balances	$ 3,919,584	$ 4,099,111	$ 4,187,480	$ 4,083,374	$ 4,008,066	$ 3,939,637	$ 3,828,549	$ 3,688,019

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year 2009	Fiscal Year 2008
General Fund		
Reserved	$ 25,991	$ 28,221
Unreserved	392,526	433,580
Total general fund	418,517	$ 461,801
All other governmental funds		
Reserved	$ 3,016,151	$ 2,766,497
Unreserved, reported in:		
Special revenue funds	(30,881)	(47,864)
Debt service funds	(4,505)	1,083
Capital project funds	124,205	87,895
Total all other governmental funds	$ 3,104,970	$ 2,807,611

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to GASB Statement 54 a new table is included for fiscal years after 2009.

SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2017	2016	2015	2014	2013
Revenues					
Licenses/permits	$ 327,275	$ 321,882	$ 319,726	$ 302,824	$ 297,148
Taxes	2,353,081	2,317,024	2,435,282	2,344,456	2,314,815
Charges for services/fines/forfeits/settlements	206,505	185,112	183,257	202,912	181,760
Investment earnings	48,919	171,980	90,565	141,733	59,092
Sale of documents/merchandise/property	20,505	19,963	26,177	21,836	23,393
Rentals/leases/royalties	49,592	60,743	66,754	76,824	75,490
Contributions/Premiums	31,133	26,616	24,105	23,206	22,397
Grants/contracts/donations	33,678	31,237	30,048	30,324	24,267
Federal	2,718,875	2,304,394	2,151,163	2,086,310	2,043,912
Federal Indirect cost Recoveries	125,801	113,157	112,914	110,981	112,364
Other revenues	5,780	6,637	4,770	5,410	5,349
Total revenues	5,921,144	5,558,745	5,444,761	5,346,816	5,159,987
Expenditures					
General government	653,362	624,157	676,832	699,219	613,186
Public safety	426,994	419,813	395,561	373,132	363,378
Transportation	329,262	319,940	340,443	324,074	287,218
Health and human services	2,652,851	2,177,895	1,925,968	1,883,909	1,810,312
Education	1,345,216	1,325,927	1,301,116	1,261,012	1,204,060
Natural resources	324,081	306,470	288,791	286,320	341,686
Economic development/assistance	-	-	-	-	-
Debt service:					
Principal retirement	33,889	39,631	33,988	33,617	32,627
Interest/fiscal charges	9,520	10,506	11,346	12,810	13,907
Capital outlay	406,949	477,990	444,940	457,306	454,463
Securities lending	343	218	204	142	302
Total expenditures	6,182,467	5,702,547	5,419,189	5,331,541	5,121,139
Excess of revenue over (under) expenditures	(261,323)	(143,802)	25,572	15,275	38,847
Other financing sources (uses)					
Bond proceeds	-	-	24,365	11,680	-
Bonds issued	-	-	-	-	-
Refunding bonds issued	-	22,540	38,150	6,780	-
Bond premium	-	3,256	7,130	662	-
Payment to refunding bond escrow agent	-	(25,557)	(42,603)	(7,190)	-
Inception of lease/installment contract	184	368	344	324	504
Insurance proceeds	43	106	2,586	1,302	381
General capital asset sale proceeds	15,815	3,430	3,689	1,840	7,340
Energy conservation loans	1,770	677	2,120	169	291
Transfers in	283,004	323,250	324,088	428,368	307,460
Transfers out	(235,435)	(274,206)	(284,180)	(383,933)	(273,502)
Total other financing sources (uses)	65,381	53,864	75,689	60,002	42,474
Net change in fund balances	$ (195,942)	$ (89,938)	$ 101,261	$ 75,277	$ 81,321
Debt service as a percentage of noncapital expenditures	0.8%	1.0%	0.9%	1.0%	1.0%

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2012	2011	2010	2009	2008
$ 290,183	$ 287,580	$ 283,658	$ 283,423	$ 283,755
2,096,733	1,986,722	1,809,427	2,005,327	2,162,928
193,874	191,142	238,758	255,068	188,518
181,484	143,198	232,668	114,857	165,165
16,221	17,208	17,499	15,271	19,711
77,946	70,322	143,714	73,080	65,176
21,666	20,685	19,724	-	-
24,812	23,439	27,324	28,919	27,825
2,102,964	2,338,090	2,271,216	1,953,376	1,713,478
107,446	101,152	112,918	-	-
4,718	5,069	6,809	144,890	30,952
5,118,047	5,184,607	5,163,715	4,874,211	4,657,508
633,336	643,623	666,192	428,723	545,661
353,344	346,670	338,776	335,877	311,094
345,796	271,387	197,197	311,838	360,383
1,734,471	1,757,633	1,675,253	1,526,287	1,372,335
1,183,056	1,208,538	1,181,591	1,136,056	1,137,548
287,636	272,895	288,913	238,834	300,207
-	-	-	168,778	149,057
34,865	33,974	31,682	34,199	33,767
16,314	16,362	18,213	19,079	18,931
488,958	565,943	650,589	464,378	351,111
383	600	873	2,917	7,244
5,078,159	5,117,625	5,049,279	4,666,966	4,587,338
39,888	66,982	114,436	207,245	70,170
-	-	3,800	-	-
-	31,000	-	-	59,490
56,670	10,180	28,270	-	-
8,264	767	1,294	-	828
(64,421)	(11,062)	(29,148)	-	-
49	36	172	615	874
3,565	4,326	670	886	1,681
2,343	4,130	3,614	5,960	6,497
26,171	-	-	-	-
277,279	351,366	491,045	391,661	413,286
(235,235)	(316,934)	(450,686)	(350,135)	(373,727)
74,685	73,809	49,031	48,987	108,929
$ 114,573	$ 140,791	$ 163,467	$ 256,232	$ 179,099
1.1%	1.1%	1.1%	1.2%	1.3%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Farm Earnings	$ 428,532	$ 757,623	$ 832,648	$ 817,733	$ 934,509	$ 720,138	$ 625,246	$ 310,053	$ 468,182	$ 408,523
Agricultural, forestry, fishing, and other	261,677	273,020	232,980	231,268	201,925	168,285	162,669	186,402	193,708	205,861
Mining	1,106,210	1,144,404	1,235,527	1,246,822	1,235,330	820,944	664,485	772,277	897,521	735,100
Construction/utilities	2,914,591	2,765,160	2,486,438	2,397,070	2,235,780	2,097,991	2,067,925	1,677,216	2,007,944	2,186,771
Manufacturing	1,241,423	1,212,283	1,171,673	1,089,971	1,054,098	1,069,144	1,032,034	1,059,780	1,152,181	1,139,506
Transportation and public utilities	1,165,304	1,226,867	1,210,250	1,154,728	1,106,555	985,485	913,489	1,250,836	1,269,832	1,231,036
Wholesale trade	1,224,375	1,285,731	1,201,060	1,201,060	1,114,365	1,002,298	940,214	938,306	985,176	964,006
Retail trade	2,444,871	2,310,956	2,202,105	2,136,747	2,032,683	2,019,009	1,947,337	1,843,250	1,935,405	1,959,131
Finance, insurance, and real estate	2,062,991	1,679,674	1,590,899	1,623,518	1,483,319	1,486,390	1,433,145	1,430,985	1,445,414	1,433,899
Services	10,533,036	9,917,700	8,989,666	8,682,348	8,933,237	8,615,811	8,217,674	8,005,007	7,915,541	7,533,395
Federal, civilian	1,287,848	1,244,570	1,181,524	1,157,617	1,192,569	1,215,699	1,314,102	1,268,108	1,207,987	1,180,607
Military	409,941	406,402	414,108	423,180	429,985	532,199	528,570	515,593	489,616	465,490
State and local government	4,142,806	4,078,431	3,868,541	3,894,912	3,770,989	3,589,740	3,599,170	3,494,129	3,364,342	3,169,949
Other (1)	15,549,265	14,343,779	13,798,057	13,496,216	13,027,496	12,184,262	11,302,305	11,171,289	10,778,049	9,834,100
Total personal income	$ 44,772,870	$ 42,646,600	$ 40,415,476	$ 39,553,190	$ 38,752,840	$ 36,507,395	$ 34,748,365	$ 33,923,231	$ 33,110,898	$ 32,475,374
Average effective rate (2)	2.6%	2.8%	2.6%	2.6%	2.3%	2.2%	2.1%	2.4%	2.6%	2.5%

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce
Montana Department of Revenue

Notes: (1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance

(2) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule B-2) divided by personal income.

SCHEDULE B-2 – PERSONAL INCOME TAX RATES
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Personal income tax revenue (1)	$1,183,699	$1,175,745	$1,063,284	$1,047,790	$898,851	$816,090	$717,834	$815,138	$866,638	$827,095
Personal income	$44,772,870	$42,646,600	$40,415,476	$39,553,190	$38,752,840	$36,507,395	$34,748,365	$33,923,231	$33,110,898	$32,475,374
Average effective rate (2)	2.6%	2.8%	2.6%	2.6%	2.3%	2.2%	2.1%	2.4%	2.6%	2.5%

	Tax Rates on the Portion of Taxable Income in Ranges (3)						
Calendar Year 2016							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.9	$2.9-5.1	$5.1-7.8	$7.8-10.5	$10.5-13.5	$13.5-17.4	$17.4+
Calendar Year 2015							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.8	$2.8-5.0	$5.0-7.6	$7.6-10.3	$10.3-13.3	$13.3-17.1	$17.1+
Calendar Year 2014							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.8	$2.8-5.0	$5.0-7.6	$7.6-10.3	$10.3-13.3	$13.3-17.1	$17.1+
Calendar Year 2013							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.8	$2.8-4.9	$4.9-7.4	$7.4-10.1	$10.1-13.0	$13.0-16.7	$16.7+
Calendar Year 2012							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.7	$2.7-4.8	$4.8-7.3	$7.3-9.9	$9.9-12.7	$12.7-16.4	$16.4 +
Calendar Year 2011							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.7	$2.7-4.7	$4.7-7.2	$7.2-9.7	$9.7-12.5	$12.5-16.0	$16.0 +
Calendar Year 2010							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.6	$2.6-4.6	$4.6-6.9	$6.9-9.4	$9.4-12.1	$12.1-15.6	$15.6 +
Calendar Year 2009							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.6	$2.6-4.5	$4.5-6.9	$6.9-9.3	$9.3-12	$12-15.4	$15.4 +
Calendar Year 2008							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.6	$2.6-4.6	$4.6-7	$7-9.5	$9.5-12.2	$12.2-15.6	$15.6 +
Calendar Year 2007							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.5	$2.5-4.4	$4.4-6.6	$6.6-9	$9-11.6	$11.6-14.9	$14.9 +

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue
Notes: (1) Personal income tax revenue is reported on a fiscal year basis.
(2) Average effective rate equals personal income tax revenue divided by personal income.
(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

SCHEDULE B-3 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
Latest Completed Calendar Year and Five Years Ago

	Calendar Year 2016				Calendar Year 2011			
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$9,999 and under	74,113	16.06%	$ 736,968	0.07%	82,093	18.78%	$ 957,042	0.12%
$10,000–$19,999	67,132	14.55%	8,422,627	0.82%	72,864	16.67%	9,360,237	1.21%
$20,000–$44,999	126,303	27.37%	85,320,944	8.35%	118,545	27.12%	75,877,182	9.77%
$45,000–$69,999	71,420	15.48%	124,053,926	12.13%	67,872	15.52%	112,684,900	14.51%
$70,000–$109,999	67,558	14.64%	211,980,609	20.73%	58,903	13.47%	181,234,011	23.34%
$110,000–$174,999	35,733	7.75%	202,488,078	19.80%	24,699	5.65%	139,133,052	17.92%
$175,000–$499,999	16,512	3.58%	214,553,600	20.99%	10,445	2.39%	134,562,333	17.33%
$500,000 and higher	2,614	0.57%	174,910,524	17.11%	1,758	0.40%	122,706,001	15.80%
Total	461,385	100.00%	$ 1,022,467,276	100.00%	437,179	100.00%	$ 776,514,758	100.00%

Source: Montana Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.

SCHEDULE C-1 – RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
General obligation bonds	$ 98,625	$ 115,500	$ 134,795	$ 127,840	$ 139,595	$ 156,905	$ 174,335	$ 169,150	$ 182,585	$ 201,560
Special revenue bonds	73,550	89,840	110,975	128,020	137,940	152,565	169,220	176,570	189,970	204,365
Notes payable	10,004	11,643	9,949	9,311	9,667	10,020	10,369	10,716	11,065	11,411
Lease/installment purchase payable	6,537	3,170	1,186	764	707	723	1,536	2,440	2,680	1,421
Total governmental activities	188,716	220,153	256,905	265,935	287,909	320,213	355,460	358,876	386,300	418,757
Business-type activities										
Bonds/notes payable	$ -	$ -	$ -	$ -	$ 70	$ 135	$ 195	$ 370	$ 1,180	$ 1,853
Lease/installment purchase payable	415	600	836	141	223	303	382	-	-	-
Total business-type activities	415	600	836	141	293	438	577	370	1,180	1,853
Total primary government	$ 189,131	$ 220,753	$ 257,741	$ 266,076	$ 288,202	$ 320,651	$ 356,037	$ 359,246	$ 387,480	$ 420,610
Debt as a percentage of personal income (1)	0.4%	0.5%	0.6%	0.7%	0.7%	0.9%	1.0%	1.1%	1.2%	1.3%
Amount of debt per capita (2)	$181	$221	$259	$270	$294	$329	$367	$371	$401	$440

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: Details regarding the State's debt can be found in Note 11 of the financial statements.

(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1.
Used calendar year for personal income for fiscal year for debt percentage calculation.
Numbers revised for prior years due to personal income estimate revisions.

(2) Amount of debt per capita is calculated by dividing total debt by total population from Schedule D-1.
Numbers revised for prior years due to population estimate revisions.

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years
(amounts expressed in thousands)

Governmental Activities	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	$ 1,974	$ 2,986	$ 2,774	$ 1,610	$ 1,702	$ 2,200	$ 1,746	$ 1,710	$ 3,157	$ 1,549
Northwestern Energy	4,241	3,945	4,445	3,670	3,340	4,095	3,676	3,435	3,189	2,498
STIP interest earnings	53	25	8	8	14	17	17	19	96	329
Debt service fund interest	904	784	809	599	619	644	444	398	414	472
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ 7,172	$ 7,740	$ 8,036	$ 5,887	$ 5,675	$ 6,956	$ 5,883	$ 5,562	$ 6,856	$ 4,848
Debt service										
Principal	$ 4,994	$ 5,080	$ 4,815	$ 4,345	$ 3,765	$ 4,200	$ 3,620	$ 2,380	$ 3,725	$ 3,485
Interest	$ 808	$ 775	$ 808	$ 821	$ 801	$ 899	$ 848	$ 979	$ 1,093	$ 1,253
Coverage (1)	1.2	1.3	1.4	1.1	1.2	1.4	1.3	1.7	1.4	1.0

Governmental Activities	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
US Highway 93 GARVEES Bond										
Revenue										
Federal Highway Administration	$ 401,121	$ 424,636	$ 447,541	$ 429,398	$ 410,641	$ 471,079	$ 457,372	$ 464,400	$ 381,604	$ 345,583
Less: Operating expenses	(385,705)	(409,039)	(432,041)	(413,897)	(395,056)	(455,102)	(441,395)	(448,419)	(365,624)	(333,705)
Net available revenue	$ 15,416	$ 15,597	$ 15,500	$ 15,501	$ 15,585	$ 15,977	$ 15,977	$ 15,981	$ 15,980	$ 11,878
Debt service										
Principal	$ 12,400	$ 12,270	$ 11,625	$ 11,110	$ 10,630	$ 10,175	$ 9,740	$ 9,340	$ 9,070	$ 6,375
Interest	$ 3,016	$ 3,327	$ 3,875	$ 4,391	$ 4,955	$ 5,802	$ 6,237	$ 6,641	$ 6,910	$ 5,503
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$ 111	$ 116	$ 95	$ 105	$ 94	$ 74	$ 72	$ 90	$ 83	$ 89
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ 111	$ 116	$ 95	$ 105	$ 94	$ 74	$ 72	$ 90	$ 83	$ 89
Debt service										
Principal	$ 77	$ 74	$ 71	$ 58	$ 56	$ 54	$ 51	$ 50	$ 48	$ 46
Interest	$ 34	$ 43	$ 24	$ 47	$ 38	$ 20	$ 21	$ 40	$ 35	$ 43
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
Governmental Activities	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Tongue River Dam Project Note Payable										
Revenue										
Tongue River Water Users Assoc loan payments	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128
Revenue from sale of electricity	162	162	162	162	162	162	162	162	162	162
Less: Operating expenses					-	-	-	-	-	-
Net available revenue	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290
Debt service										
Principal	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290
Interest	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

Governmental Activities	Fiscal Year 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Water Conservation Note Payable										
(Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	$ -	$ -	$ -	$ -	$ -	$ 1	$ 3	$ 3	$ 3	$ 3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ -	$ -	$ -	$ -	$ -	$ 1	$ 3	$ 3	$ 3	$ 3
Debt service										
Principal	$ -	$ -	$ -	$ -	$ -	$ 1	$ 2	$ 2	$ 2	$ 2
Interest	$ -	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1	$ 1	$ 1
Coverage (1)	-	-	-	-	-	1.0	1.0	1.0	1.0	1.0

Governmental Activities	Fiscal Year 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Water Conservation Note Payable										
(Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	$ -	$ 2	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ -	$ -	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Debt service										
Principal	$ -	$ 2	$ 3	$ 3	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2
Interest	$ -	$ -	$ -	$ -	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Coverage (1)	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

Business-type Activities	Fiscal Year 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Economic Development Bonds										
(Municipal Finance Consolidation Irrigation Dist)										
Revenue										
Principal and interest repayments	$ -	$ -	$ -	$ 70	$ 66	$ 62	$ 58	$ 53	$ 47	$ 45
Investment income	-	-	-	-	-	-	-	-	1	3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ -	$ -	$ -	$ 70	$ 66	$ 62	$ 58	$ 53	$ 48	$ 48
Debt service										
Principal	$ -	$ -	$ -	$ 70	$ 65	$ 60	$ 55	$ 50	$ 45	$ 45
Interest	$ -	$ -	$ -	$ 3	$ 8	$ 13	$ 17	$ 21	$ 25	$ 28
Coverage (1)	-	-	-	1.0	0.9	0.9	0.8	0.7	0.7	0.7

Business-type Activities	Fiscal Year 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Economic Development Bonds										
(Conservation Reserve Enhancement Program)										
Revenue										
Principal and interest repayments	$ 29	$ 33	$ 81	$ 71	$ 151	$ 162	$ 454	$ 782	$ 989	$ 926
Investment income	-	-	-	-	-	-	-	-	1	10
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ 29	$ 33	$ 81	$ 71	$ 151	$ 162	$ 454	$ 782	$ 990	$ 936
Debt service										
Principal	$ -	$ -	$ -	$ -	$ -	$ -	$ 120	$ 891	$ 628	$ 1,208
Interest	$ -	$ -	$ -	$ -	$ -	$ 3	$ 3	$ 62	$ 101	$ 107
Coverage (1)	-	-	-	-	-	49.7	3.7	0.8	1.4	0.7

Note: (1) Coverage equals net available revenue divided by debt service.

SCHEDULE C-3 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount, in dollars)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Personal Income (1)	Debt per Capita (2)
2017	$ 98,625	$ 17,366	$ 81,259	0.18%	$ 78
2016	$ 115,500	$ 19,275	$ 96,225	0.23%	$ 96
2015	$ 134,795	$ 18,348	$ 116,447	0.29%	$ 117
2014	$ 127,840	$ 20,248	$ 107,592	0.28%	$ 109
2013	$ 139,595	$ 14,702	$ 124,893	0.32%	$ 127
2012	$ 156,905	$ 16,240	$ 140,665	0.39%	$ 144
2011	$ 174,335	$ 15,910	$ 158,425	0.46%	$ 163
2010	$ 169,150	$ 13,486	$ 155,664	0.46%	$ 162
2009	$ 182,585	$ 8,985	$ 173,600	0.52%	$ 182
2008	$ 201,560	$ 11,967	$ 189,593	0.58%	$ 198

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: Details regarding the State's debt can be found in Note 11 of the financial statements.

(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1. Used calendar year for personal income and fiscal year for debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.

(2) Debt per capita is calculated by dividing total debt by total population from Schedule D-1. Numbers revised for prior years due to population estimate revisions.

SCHEDULE D-1 – DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years

	Calendar Year									
	2016 (1)	2015	2014	2013	2012	2011	2010	2009	2008	2007
Population										
Montana *(in thousands)*	1,043	999	994	988	982	975	969	962	955	947
Percentage change	4.4%	0.5%	0.6%	0.6%	0.7%	0.6%	0.7%	0.7%	0.8%	0.7%
National *(in thousands)*	323,128	322,366	319,668	316,971	314,281	311,601	308,936	306,272	303,598	300,913
Percentage change	0.2%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Total Personal Income										
Montana *(in millions)*	44,773	42,726	40,844	39,963	38,753	36,507	34,748	33,923	34,111	32,475
Percentage change	4.8%	4.6%	2.2%	3.1%	6.2%	5.1%	2.4%	(0.6%)	5.0%	6.7%
National *(in billons)*	15,913	15,582	14,683	14,151	13,729	12,950	12,357	12,165	12,380	11,900
Percentage change	2.1%	6.1%	3.8%	3.0%	6.0%	4.6%	1.6%	(1.7%)	4.0%	5.5%
Per Capita Personal Income										
Montana	42,947	41,204	39,903	39,366	39,474	36,573	35,068	34,794	35,237	33,897
Percentage change	4.2%	3.3%	1.4%	(0.3%)	7.9%	4.1%	0.8%	(1.3%)	4.0%	5.3%
National	49,246	48,322	46,049	44,765	43,684	41,560	39,945	39,626	40,673	39,458
Percentage change	1.9%	4.9%	2.9%	2.5%	5.1%	3.9%	0.8%	(2.6%)	3.1%	4.5%
Resident Civilian Labor Force & Employment										
Civilian labor force	528,349	522,709	516,516	513,432	507,377	503,903	497,538	498,897	510,816	502,219
Employed	507,322	502,284	492,493	485,014	476,191	468,896	461,602	468,211	487,870	485,221
Unemployed	21,027	21,327	24,082	29,328	31,186	35,007	35,936	30,686	22,946	16,998
Unemployment rate	4.0%	4.1%	4.7%	5.7%	6.1%	6.9%	7.2%	6.2%	4.5%	3.4%
Nonfarm Wage and Salary Workers (in thousands)										
Goods-producing industries										
Natural Resources and Mining	6.8	8.2	9.1	9.5	9.3	7.9	7.5	7.0	8.3	8.4
Construction	25.7	26.5	24.8	23.9	22.9	23	22.7	24.0	29.8	32.3
Durable goods	11.8	11.7	11.6	11.1	10.5	9.6	9.5	10.1	12.3	13.0
Nondurable goods	8.0	7.4	7.3	7.2	7.0	7.2	7.0	7.3	7.6	7.5
Subtotal goods-producing industries	52.3	53.8	52.8	51.7	49.7	47.7	46.7	48.4	58.0	61.2
Service-producing industries										
Transp, communications, and utilities	25.5	24.8	25.1	25	23.6	23.3	24.1	21.5	24.3	24.6
Trade	77.3	76.1	74.3	73.3	71.6	70.2	70.3	66.9	75.6	75.3
Finance, insurance, and real estate	24.5	23.8	24.9	22.7	21.4	20.9	21.2	21.1	21.9	21.8
Service	195.7	191.9	187.6	186.3	184.3	177.2	175.5	182.3	178.7	174.8
State and local government	80.2	77.4	76.2	77.1	76.5	74.6	75.7	74.4	74.1	73.9
Federal government	12.6	13.0	12.9	13.0	13.4	13.8	14.8	13.9	13.6	13.4
Subtotal service-producing industries	415.8	407.0	401.0	397.4	390.8	380	381.6	380.1	388.2	383.8
Total Nonfarm Wage and Salary Employment	468.10	460.8	453.8	449.1	440.5	427.7	428.3	428.5	446.2	445.0

(1) Previous population numbers are from U.S. Cenus projections. These projections are no longer available. 2016 population numbers are from U. S. Cenus estimates.

Sources: Population Division, U.S. Census Bureau
Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce
Bureau of Labor Statistics, U.S. Department of Labor

Notes: Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita income calculated by dividing personal income by population; amounts may not be exact due to rounding.
Numbers for prior years revised due to releases of updated data.

SCHEDULE D-2 – PRINCIPAL EMPLOYERS
Current Calendar Year and Nine Calendar Years Ago

	2007			2016		
Employer	Employees	Rank	Percentage of Total State Employment (2)	Employees (1)	Rank	Percentage of Total State Employment (2)
State of Montana	21,500-22,000	1	5.11%	23,000-23,500	1	5.19%
Federal Government	12,500-13,000	2	2.99%	12,000-12,500	2	2.74%
Wal-Mart	4,500-5,000	3	1.12%	4,500-5,000	3	1.06%
Billings Clinic	3,000-3,500	4	0.76%	3,500-4,000	4	0.84%
Town Pump	2,500-3,000	6	0.65%	3,000-3,500	5	0.73%
Albertson’s	2,000-2,500	5	0.53%	2,000-2,500	6	0.50%
Benefis Healthcare	1,500-2,000	8	0.41%	2,000-2,500	7	0.50%
Kalispell Regional Hospital				2,000-2,500	8	0.50%
St. Vincent Healthcare	2,000-2,500	7	0.53%	1,500-2,000	9	0.39%
St. Patrick Hospital	1,500-2,000	9	0.41%	1,500-2,000	10	0.39%
Stillwater Mining	1,500-2,000	10	0.41%			
Total Statewide Employment	425,821			447,768		

Sources: Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor

Notes: (1) Number of employees based on March 2016 data.
(2) Percentage of total state employment based on the midpoints in the ranges given.

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SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2017	2016	2015	2014	2013
Governmental:					
General government	3,003	2,979	3,058	2,995	2,999
Public safety/corrections	2,667	2,656	2,668	2,668	2,639
Transportation	2,194	2,194	2,266	2,266	2,252
Health/social services	3,106	3,040	3,044	3,029	3,019
Education/cultural	519	501	511	526	526
Resource/recreation/environment	2,105	2,065	2,131	2,133	2,144
Economic development/ assistance	-	-	-	-	-
Total governmental	13,594	13,435	13,678	13,617	13,579
Business-type:					
Liquor Stores	33	33	33	33	31
State Lottery	32	32	32	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	5	6	7	7	7
General Government Services	101	112	118	113	115
Prison Funds	40	40	41	42	43
MUS Group Insurance	7	6	6	6	5
MUS Workers Compensation	1	1	1	1	1
Total business-type	223	234	242	238	238
Fiduciary:					
Pension Trust	71	70	69	69	66
Total fiduciary	71	70	69	69	66
Component unit:					
Montana Board of Housing	55	54	52	50	53
Facility Finance Authority	3	3	3	3	3
State Compensation Insurance (New Fund)	307	307	304	304	289
Montana State University	4,960	4,945	4,737	4,649	4,475
University of Montana	3,848	3,844	3,906	3,831	3,844
Total component unit	9,173	9,153	9,002	8,837	8,664
Total full-time equivalent employees	23,061	22,892	22,991	22,761	22,547

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2012	2011	2010	2009	2008
2,914	2,596	2,781	1,564	1,696
2,558	2,786	2,573	2,065	2,270
2,225	2,234	2,233	1,935	2,023
2,974	3,092	2,992	2,422	2,704
478	492	485	406	463
1,963	2,157	2,147	1,696	1,876
-	-	-	853	951
13,112	13,357	13,211	10,941	11,983
29	29	29	39	43
32	32	32	30	33
4	4	4	3	5
7	7	8	3	3
115	106	94	84	108
43	32	21	32	35
5	5	5	4	4
1	1	1	1	1
236	216	194	196	232
66	58	57	46	48
66	58	57	46	48
51	47	47	19	21
3	3	3	3	2
287	285	300	298	298
4,443	4,285	4,181	4,090	4,021
3,770	3,746	3,705	3,578	3,557
8,554	8,366	8,236	7,988	7,899
21,968	21,997	21,698	19,171	20,162

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year 2017	2016	2015	2014	2013
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	490,237	490,050	470,854	456,736	439,403
Paper-filed income tax returns	76,428	83,831	88,514	95,626	103,585
Judiciary					
Supreme Court total filings (1)	758	850	806	800	784
District Court total filings (1)	50,355	57,000	55,824	53,000	52,105
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,719	2,605	2,679	2,625	2,509
Supervised offenders	11,626	11,106	11,040	10,640	10,347
Department of Justice					
Drivers licenses issued	174,858	180,445	191,705	162,365	173,924
Vehicles registered (2)	2,749,855	2,648,484	2,536,737	2,112,741	1,163,000
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	3,102	2,907	2,945	3,052	2,847
Work orders completed	3,127	2,842	2,863	3,179	3,264
Work orders unfunded or not completed	158	138	165	134	319
Transportation					
Department of Transportation					
Paved roads (miles)	19,534	20,002	19,896	19,894	19,813
Unpaved roads (miles)	56,229	55,981	56,063	50,084	56,048
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assist.	3,976	3,321	3,239	3,299	3,527
Number of households provided with energy assist.	19,617	19,312	20,421	21,605	21,248
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	146,375	144,316	144,532	144,129	142,908
Public schools	821	799	824	823	824
Commissioner of Higher Education					
Total enrollment for Montana University System 4-year Colleges	31,089	30,968	31,268	31,499	31,717
Total enrollment for Montana University System 2-year Colleges	4,794	4,895	5,310	5,693	5,986
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	$ 86.2	$ 95.9	$ 109.1	$ 114.4	$ 122.0
Oil production (millions of bbls)	21.58	21.53	25.61	29.3	26.4
Gas production (millions of mcf)	39.79	29	30.59	55	66.9
Department of Fish, Wildlife and Parks					
License and permit sales (3)	2,103,209	2,003,119	1,892,894	1,858,020	1,883,435
State park visitation (millions)	2.62	2.66	2.39	2.19	2.17

Fiscal Year				
2012	2011	2010	2009	2008
423,574	397,280	333,911	317,211	299,194
110,308	135,144	151,945	178,114	187,188
784	775	650	677	649
49,908	44,234	45,622	43,672	45,143
2,546	2,528	2,491	2,573	2,439
10,331	10,399	10,535	10,453	10,433
164,089	143,368	156,671	164,230	156,088
1,151,674	1,154,627	1,056,227	1,634,914	1,610,753
3,181	3,528	3,380	3,114	3,610
3,561	3,426	3,095	2,941	3,441
557	465	863	746	750
19,737	19,644	20,469	20,704	19,465
56,089	56,108	55,193	56,632	55,472
3,585	3,932	3,206	3,165	3,004
20,704	25,495	28,054	22,448	18,929
142,349	141,693	141,807	142,082	143,405
826	827	828	829	830
31,978	31,934	30,362	31,805	29,072
6,150	6,051	5,538	4,570	4,277
$ 113.5	$ 108.7	$ 180.6	$ 110.0	$ 107.1
24.1	25.3	27.8	31.5	34.9
79.5	93.5	105.3	119.5	120.7
1,939,190	1,806,326	1,800,613	1,806,316	1,808,093
2.07	1.79	1.90	1.80	1.78

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2017	2016	2015	2014	2013
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permits and licenses	11,311	9,162	8,500	8,462	6,989
Environmental violations	4,158	4,305	7,000	7,247	4,790
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	38	60	-	51	-
Treasure State Endowment Project – construction awards	-	-	36	-	64
Community Development Block Grant – public facility applications	12	-	15	7	16
Community Development Block Grant – public facility awards	7	7	9	5	10
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	51,106	55,565	65,155	73,736	76,872
Average weekly benefit (dollars)	$337.45	$324.61	$304.76	$297.00	$282.00
Exhaustion rate (percent)	34.0%	34.7%	35.8%	39.6%	48.1%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	5,373	5,200	5,155	5,077	5,225
Liquor cases distributed	807,125	792,463	746,745	742,388	734,224
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	$52	$60	$53	$54	$57
Transfer to the General Fund (millions of dollars)	$9	$13	$12	$13	$13
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (4)(5)	$600,000	$1,332,068	$1,350,000	$1,750,000	N/A
Grants awarded – homebuyers assistance (dollars) (4) (5)	$600,000	$1,332,068	$1,350,000	$1,750,000	$1,459,904

N/A = not available

Sources: Governor's Office of Budget and Program Planning, Biennium Executive Budget
Montana Departments of Administration, Justice, Military Affairs, and Transportation
Montana Commissioner of Higher Education
Unemployment Insurance Data Summary, Employment & Training Administration, U.S. Department of Labor

Notes: (1) Operating indicators are reported on a calendar-year basis.
(2) Operating indicators for fiscal year 2007 revised in fiscal year 2008.
(3) Effective with fiscal year 2004, license and permit sales reported by license year.
(4) As of July 2006, an additional $483,917 in remaining Community Housing Development Organization (CHDO) available in the second 2006 application round (deadline: August 1).
(5) Effective with fiscal year 2007, reporting method revised to include both single and multiple family assistance.

Fiscal Year				
2012	2011	2010	2009	2008
9,173	9,554	9,419	9,308	9,104
5,073	6,412	3,793	4,069	4,586
66	-	65	-	65
-	-	-	66	-
8	16	11	20	17
5	7	8	8	10
71,125	81,815	92,489	85,760	49,530
$263.18	$265.36	$277.88	$259.38	$241.44
49.5%	54.9%	56.4%	49.2%	32.3%
4,920	5,110	4,972	4,771	4,601
722,313	682,832	660,229	653,471	653,475
$53	$46	$47	$44	$44
$13	$11	$11	$11	$11
N/A	N/A	N/A	$2,776,621	$3,217,708
$620,855	$272,566	$2,626,867	$1,847,714	$3,830,524

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2017	2016	2015	2014	2013
Governmental activities:					
General government					
Department of Administration					
Buildings	57	59	59	59	59
Data processing equipment	1,115	1,710	1,700	2,087	1,434
Judiciary					
Vehicles	15	14	15	16	25
Public safety/corrections					
Department of Corrections					
Vehicles	93	131	128	128	128
Buildings	182	182	252	251	248
Department of Justice					
Vehicles	641	622	531	548	567
Laboratory/scientific equipment	284	289	284	278	279
Transportation					
Department of Transportation					
Vehicles	2,156	2,083	2,067	2,146	2,029
Buildings	985	978	975	962	906
Health/social services					
Department of Public Health and Human Services					
Vehicles	140	125	139	136	167
Buildings	154	154	154	154	153
Education/cultural					
Historical Society					
Buildings	5	5	5	5	5
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Vehicles	959	942	928	872	814
Buildings	90	88	84	83	83
Department of Fish, Wildlife and Parks					
Vehicles	2,541	2,540	2,586	2,686	2,669
Buildings	871	865	859	854	856
Department of Environmental Quality					
Vehicles	46	48	52	53	51
Laboratory/scientific equipment	420	407	377	509	722
Economic development/assistance					
Department of Commerce					
Buildings	4	4	5	5	5
Business-type activities:					
State Lottery					
Department of Administration					
Vehicles	10	10	11	11	11
General government services					
Department of Administration					
Vehicles	58	61	59	53	44
Prison funds					
Department of Corrections					
Vehicles	89	89	84	79	78

Sources: Statewide Accounting, Budgeting, and Human Resource System
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division
Department of Administration

Fiscal Year				
2012	2011	2010	2009	2008
59	52	55	50	50
2,057	1,954	1,917	1,139	1,110
25	24	24	51	52
128	124	192	294	283
247	246	246	151	149
577	555	606	486	524
271	262	259	211	287
2,067	2,151	2,482	4,305	4,289
939	965	969	784	783
175	182	193	195	189
153	153	153	131	131
5	5	5	2	2
810	777	710	517	798
83	83	87	181	181
2,769	2,769	2,693	1,837	1,844
850	830	794	840	769
75	106	108	66	60
761	715	719	159	134
5	4	4	266	261
11	12	15	15	15
59	51	36	13	13
77	70	56	52	49

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