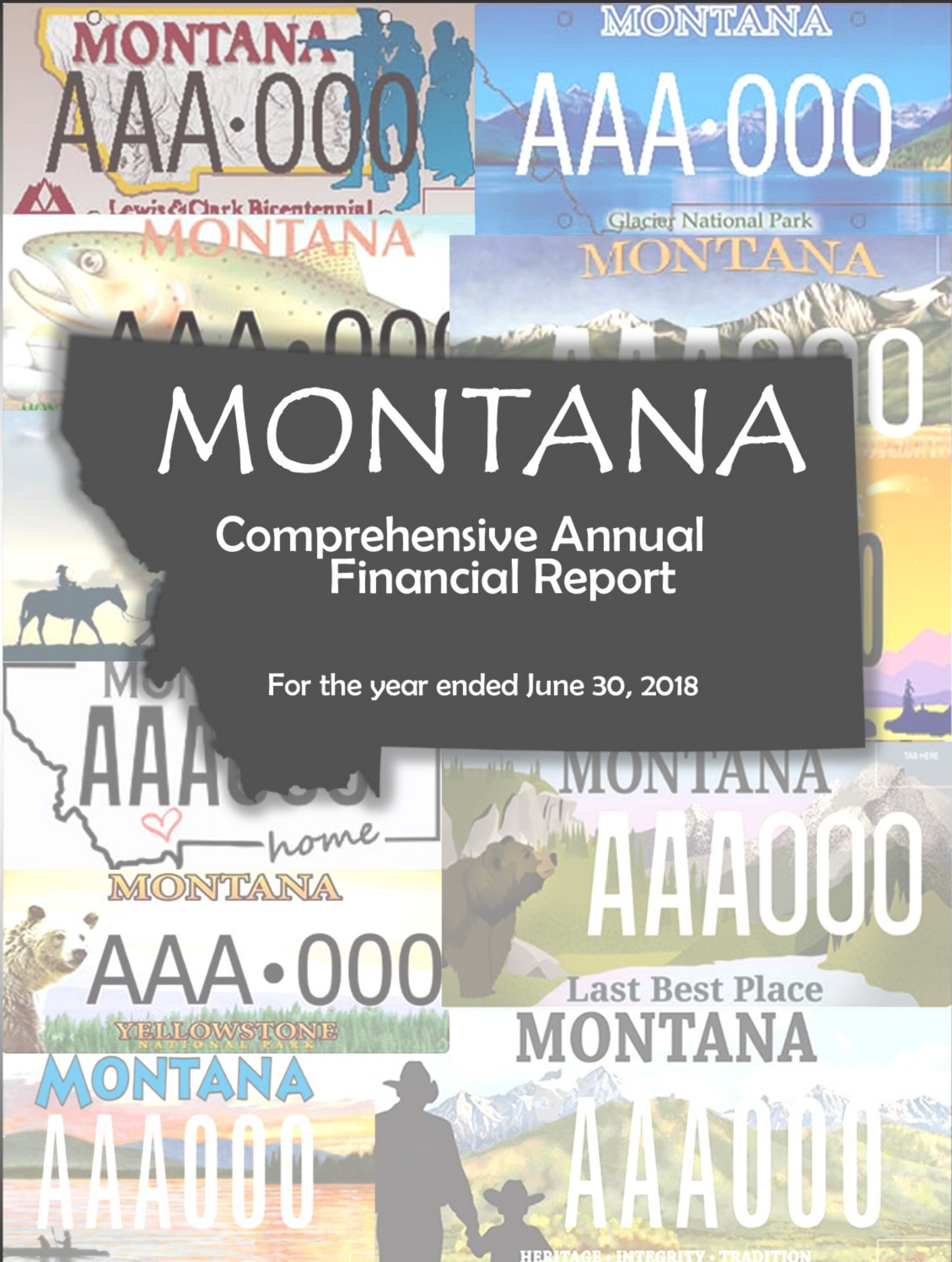
MONTANA

Comprehensive Annual Financial Report

For the year ended June 30, 2018



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

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Montana Community Development Corp, Manhattan Town Council, Neighbor to Neighbor, Western Advocacy, Montana Stockgrowers Association, Glacier National Park Conservancy, Montana Environmental Information Center, Yellowstone Forever, MT State Parks Foundation, Lewis & Clark Bicentennial, and Montana Council of Trout Unlimited

For the Fiscal Year ended June 30, 2018

State of Montana
Comprehensive Annual Financial Report

Department of Administration

John Lewis, Director

State Financial Services Division

Cheryl Grey, CPA, Administrator

Statewide Accounting Bureau

Cody Pearce, CPA, State Accountant

State Accounting & Financial Reporting Section

Kristin Reynolds, CPA, Manager

Ilia Balsley, Accountant

Drew Bisenius, CPA, Accountant

Anthony Cacace, Accountant

Courtney Cozzie, Accountant

Wenruizi Koch, CPA, Accountant

Available at the Department of Administration, State Financial Services Division website: http://sfsd.mt.gov/SAB/cafr

STATE OF MONTANA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

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State of Montana

Introductory Section

DEPARTMENT OF ADMINISTRATION

STEVE BULLOCK, GOVERNOR
MIKE COONEY, LIEUTENANT GOVERNOR

JOHN LEWIS
DIRECTOR

STATE FINANCIAL SERVICES DIVISION

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December 21, 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 (State) for the fiscal year ended June 30, 2018. 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 2018 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 1.1% in 2017, which was faster than the rate of inflation. Montana's unemployment rate has continued to remain around the national rate. Montana's annual unemployment rate of 4.0% in 2017 was the 21st lowest in the nation. Montana added roughly 4,600 jobs in 2017, for a growth rate of 1.0%. Montana had approximately 479,800 people employed in nonfarm non-adjusted jobs in August 2018, as compared to 475,200 in August 2017. Montana's personal income growth over the past ten years is the 10th 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 increased in 2018 to 197.6 million bushels, compared to the 2017 production level of 127.4 million bushels, representing a 55.1% increase. Winter wheat production increased to 78.5 million bushels as compared to the 2017 level of 66.8 million bushels. Spring wheat production was 95.9 million bushels, up from 48.1 million bushels in 2017. Durum production was 23.3 million bushels, up 85.1% from 12.6 million bushels in 2017.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana increased to an estimated 989 thousand bushels in 2018, representing a 16.9% change from 2017 levels. Barley production is estimated at 33.6 million bushels, which is 16.6% higher than last year. Montana's cattle herd as of January 1, 2018 was estimated at 2.6 million head. Montana ranks 11th in the US cattle and calf industry. Montana's 2017 receipts from cattle sales were $1.5 billion.

Manufacturing

When using the nonfarm non-adjusted estimates from the Montana Department of Labor and Industry, Montana's manufacturing industry increased by 900 jobs from August 2017 to August 2018. This is an increase of 6.25% from 19,200 in 2017 to 20,400 in 2018.

Montana's timber sales production volume in 2017 decreased to 480 million board feet, down from the 506 million board feet in 2016, a decrease of 5.1%. Total sales value of the state's primary wood and paper products in 2017 was estimated to be around $569 million. The total wood products industry estimated employment of 7,215 workers for 2017, down approximately 1.2% from the 2016 level. The 2017 timber harvest was 183 million board feet, about a 38.6% decline from 2016.

Nonresident Travel

Nonresident travel to Montana in 2017 was approximately 12.5 million visitors, up 0.6% from 2016. Visitor numbers for Glacier national park was higher in 2017 than in 2016. The visitor numbers for Glacier national park increased an estimated 12.2% from 2.9 million to 3.3 million visitors. Visits to Yellowstone national park were estimated at 4.1 million visitors, with a 3.3% decrease from the previous year's total of 4.3 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 $3.4 billion in 2017, representing an increase of approximately $364.8 million. The estimated total economic benefit of nonresident travel in Montana increased from $4.2 billion for calendar year 2016 to $4.7 billion for 2017, representing an increase of 12.0%.

Natural Resources/Mining

Montana's mining sector of the economy employed 7,100 workers in August 2018. That represented a 2.9% increase from the 6,900 workers employed in August 2017. The various sectors included in this category are discussed in more detail below.

As of the end of calendar year 2016 an estimated 285 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 2017, the state saw a decrease in production and exploration activity, with estimated crude oil production for the state at 20.7 million barrels. This represents a 10.7% decrease from the 2016 production level of 23.2 million barrels. Production through June 2018 is 5.8% lower than the 2017 information for the same period.

Montana's total coal reserves were estimated at 118.6 billion short tons with recoverable reserves of 74.4 billion short tons in 2017 (most recently released data). This represents 24.9% of the total, and 29.4% of the recoverable reserves in the U.S. Of these reserves, 778.0 million short tons of coal, 4.8% of the US total, are located at producing mine sites. During 2017, Montana's coal production decreased 0.2% from 41.9 to 41.8 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 $200.0 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 passed 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 75.0% 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 2018, the General Fund unassigned ending fund balance was $186.7 million. The increase in ending fund balance, when compared to fiscal year 2017, was largely attributable to actions taken during a special session of the Legislature in November 2017.

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 $2.2 billion at five different intervals. As the 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.

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 ending 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 Section 17-7-140, MCA. These cuts were formally adopted by the Legislature and incorporated into HB 2, the omnibus appropriation bill for the State of Montana.

SB 9, passed during the special session of the Legislature, provided for the restoration of budgets in fiscal year 2019, which were reduced by the Legislature during the special session, based on revenue triggers tied to fiscal year 2018 unaudited revenues. Fiscal year 2018 certified unaudited General Fund revenues were collected at a level which allowed for the restoration of $45.7 million to state agency budgets for fiscal year 2019.

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 2018, the total fund balance of the General Fund was reported at approximately $199.3 million. Of this balance $4.6 million is non-spendable. The remaining $194.7 million is spendable with $8.0 million assigned and $186.7 million unassigned. The assigned fund balance of $8.0 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund can be found in Note 14 – Major Purpose Presentation of this report.

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. Of the assigned fund balance, $11.4 million relates to outstanding encumbrances at the end of the fiscal year.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United State and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its comprehensive annual financial report for the fiscal year ended June 30, 2017. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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 Statewide Accounting Bureau – State Accounting and Financial Reporting Section (SAFRS),

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 Statewide 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

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Montana

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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

State of Montana

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, 2018, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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University of Montana (UM) component units, which represents 16.37 percent, 42.63 percent, and 18.78 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of other auditors.

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

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

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

Summary of Opinions

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

Unmodified Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters
As discussed in Note 2B and Note 7 to the financial statements, in fiscal year 2018, the state of Montana adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are not modified with respect to this matter.

As discussed in Note 3, in fiscal year 2018, the Montana Board of Investments elected to change its method of valuing cash equivalents, from fair value to cost. While the pool participant financial activity reflected in the state's basic financial statements are not affected by this change, the investment pool and Economic Development Bond fair value disclosures presented in Note 3 cover significantly fewer assets as a result of this change. Our opinions are not modified with respect to this matter.

As discussed in Note 19 to the financial statements, at June 30, 2018, the Highway Patrol Officers' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Public Employees' Retirement System – Defined Benefit Retirement Plan were not actuarially sound at June 30, 2018, as required by the Montana Constitution because they amortize in 40 years, 72 years, and 38 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 19 to the financial statements, at June 30, 2018, the Teachers' Retirement System is not actuarially sound at June 30, 2018, as required by the Montana Constitution because it amortizes in 31 years. The maximum allowable amortization period is 30 years, as defined by the Teachers' Retirement Board policy. Our opinions are not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Postemployment Benefits Plan Information (OPEB), and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements as a whole. The 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 December 21, 2018, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (17-01B).

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS

Government-wide
The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2018 by $8.9 billion compared with $8.2 billion at the end of fiscal year 2017, representing a 7.6% increase in net position. Component units reported net position of $2.1 billion at the end of fiscal year 2018 compared to $1.9 billion at the end of fiscal year 2017, representing a 7.6% increase in net position. More detail is provided in the financial statement overview below.

Fund Level
As of the close of fiscal year 2018, the State's governmental funds reported combined ending fund balances of $4.0 billion compared with $3.9 billion at fiscal year 2017. Of the 2018 balance, $1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.4 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1.1 billion restricted, $1.1 billion committed, $8.6 million assigned and $176.6 million unassigned. This represents a $100.1 million (2.6%) increase in total fund balance. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2018 in the amount of $431.5 million compared with fiscal year 2017 net position of $395.0 million. Of the 2018 business-type activity net position, $21.4 million was reported as net investment in capital assets. Net position of $410.1 million was in spendable form with $12.5 million unrestricted and $397.6 million restricted to expenditure for a specific purpose. This represents a $34.1 million (9.1%) increase in spendable net position from the fiscal year 2017 balance of $376.0 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt
The State's total governmental activity bonds and notes payable for governmental activities decreased by $34.1 million, from $193.4 million in fiscal year 2017 to $159.3 million, a 17.6% decrease in fiscal year 2018.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the $627.4 million increase (7.6%) in net position. This improvement resulted from a continued economic growth, particularly related to tax revenue, within the State. Additionally, $245.0 million of the increase is related to the implementation of GASB Statement No. 75 (GASB 75) and the restatement of total OPEB liability.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.9 billion at the end of fiscal year 2018. Net position of the both governmental and business-type activities increased by $590.9 million (7.5%) and $36.5 million (9.2%), respectively. These changes are explained in detail in the major fund analysis below.

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

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

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

Net Position
June 30,
(expressed in thousands)

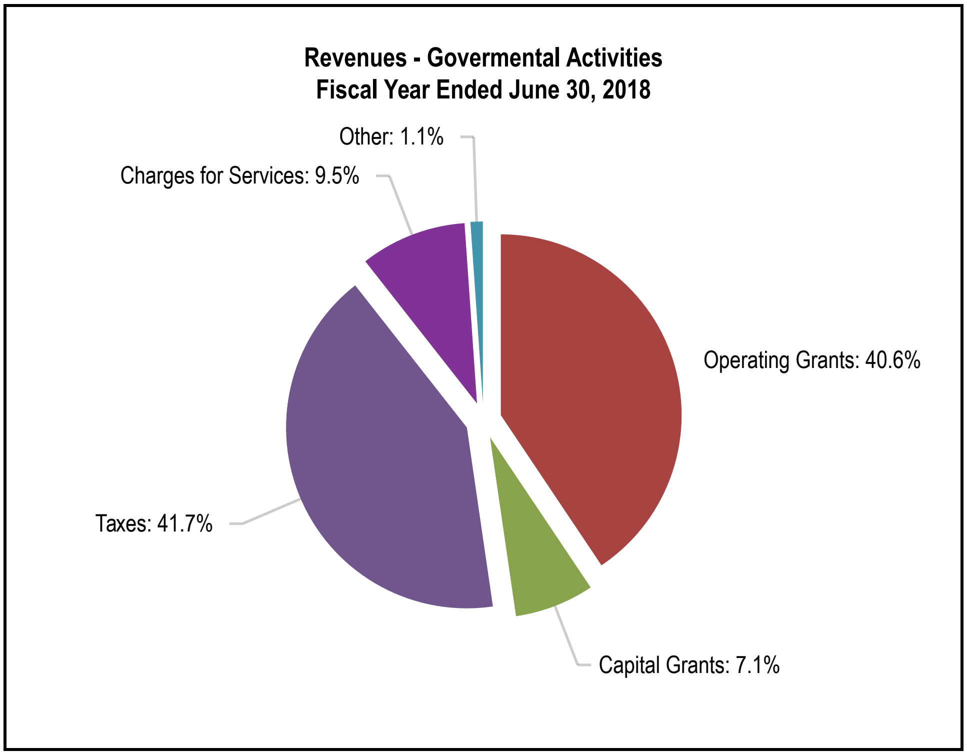
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Current and other assets	$ 5,143,823	$ 5,262,514	$ 549,267	$ 582,328	$ 5,693,090	$ 5,844,842
Capital assets	5,991,964	6,190,693	19,400	21,627	6,011,364	6,212,320
Total assets	11,135,787	11,453,207	568,667	603,955	11,704,454	12,057,162
Deferred outflows of resources	342,370	372,886	3,120	4,011	345,490	376,897
Long-term liabilities						
Due in more than one year	2,513,940	2,279,169	27,252	23,527	2,541,192	2,302,696
Other liabilities	1,055,609	1,029,316	149,298	152,122	1,204,907	1,181,438
Total liabilities	3,569,549	3,308,485	176,550	175,649	3,746,099	3,484,134
Deferred inflows of resources	55,436	73,544	229	831	55,665	74,375
Net investment in capital assets	5,873,003	6,088,211	18,986	21,395	5,891,989	6,109,606
Restricted	2,951,964	2,998,805	367,734	397,588	3,319,698	3,396,393
Unrestricted	(971,795)	(642,952)	8,288	12,503	(963,507)	(630,449)
Total net position	$ 7,853,172	$ 8,444,064	$ 395,008	$ 431,486	$ 8,248,180	$ 8,875,550

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:

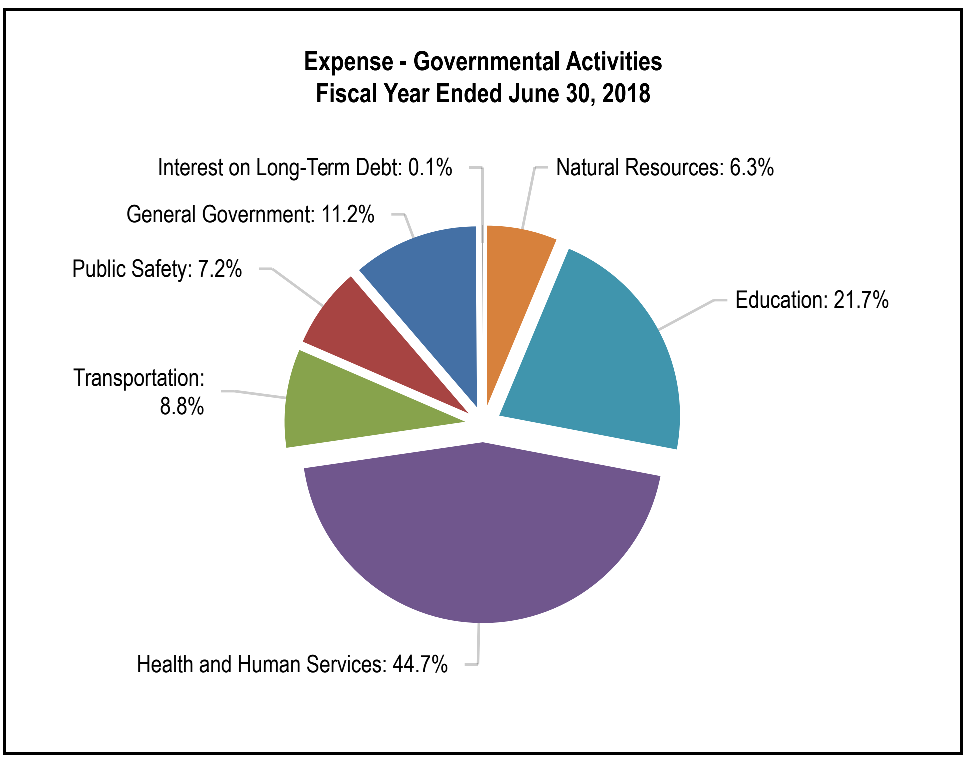
Changes in Net Position
For Fiscal Year Ended June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2018	2017	2018	2017	2018
Revenues:						
Program revenues						
Charges for services	$ 571,927	$ 594,814	$ 389,279	$ 404,890	$ 961,206	$ 999,704
Operating grants	2,506,711	2,555,898	60,219	65,885	2,566,930	2,621,783
Capital grants	434,860	447,018	604	685	435,464	447,703
General revenues						
Taxes	2,352,133	2,625,077	27,958	28,846	2,380,091	2,653,923
Other	93,077	69,101	3,708	4,019	96,785	73,120
Total revenues	5,958,708	6,291,908	481,768	504,325	6,440,476	6,796,233
Expenses:						
General government	688,798	674,329			688,798	674,329
Public safety	454,194	429,760			454,194	429,760
Transportation	484,214	527,927			484,214	527,927
Health and human service	2,668,273	2,681,151			2,668,273	2,681,151
Education	1,344,121	1,299,423			1,344,121	1,299,423
Natural resources	295,853	379,525			295,853	379,525
Interest on long-term debt	7,484	6,743			7,484	6,743
Unemployment Insurance			117,788	113,843	117,788	113,843
Liquor Stores			83,313	86,118	83,313	86,118
State Lottery			43,377	45,896	43,377	45,896
Economic Dev Bonds			1,851	2,648	1,851	2,648
Hail Insurance			1,696	576	1,696	576
Gen Govt Services			72,489	73,539	72,489	73,539
Prison Funds			8,140	9,130	8,140	9,130
MUS Group Insurance			81,051	88,912	81,051	88,912
MUS Workers Comp			2,786	2,738	2,786	2,738
Total expenses	5,942,937	5,998,858	412,491	423,400	6,355,428	6,422,258
Increase (decrease) in net position before transfers	15,771	293,050	69,277	80,925	85,048	373,975
Transfers	46,141	48,854	(46,141)	(48,854)	—	—
Change in net position	61,912	341,904	23,136	32,071	85,048	373,975
Net position, beg of year (as adjusted)	7,791,260	8,102,160	371,872	399,415	8,163,132	8,501,575
Net position, end of year	$ 7,853,172	$ 8,444,064	$ 395,008	$ 431,486	$ 8,248,180	$ 8,875,550

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

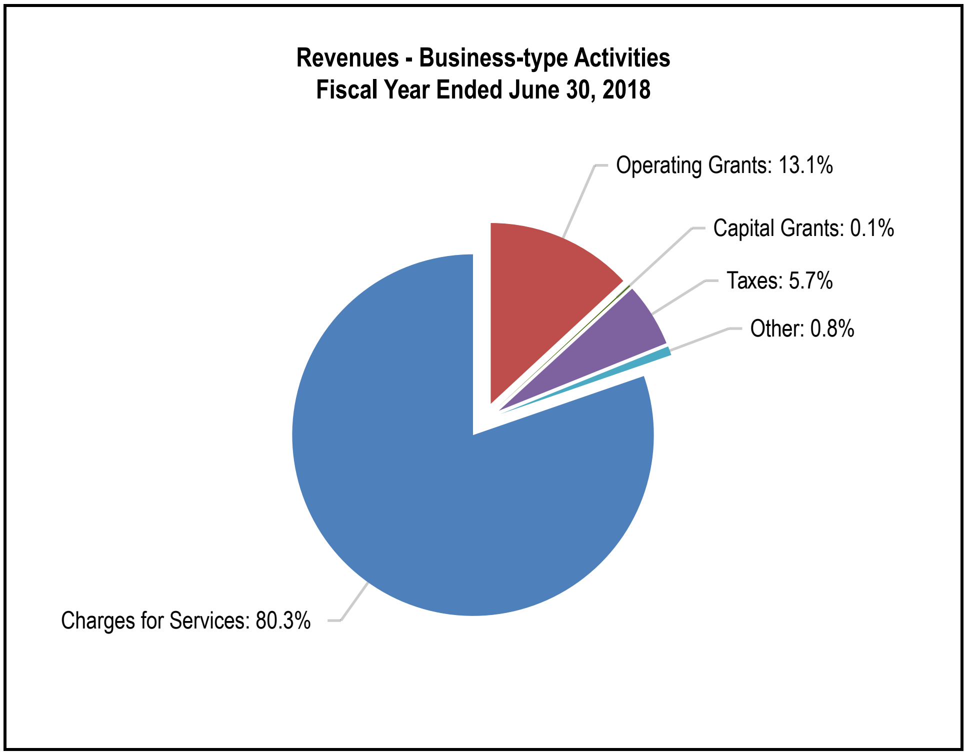


The following chart depicts expenses of the governmental activities for the fiscal year:

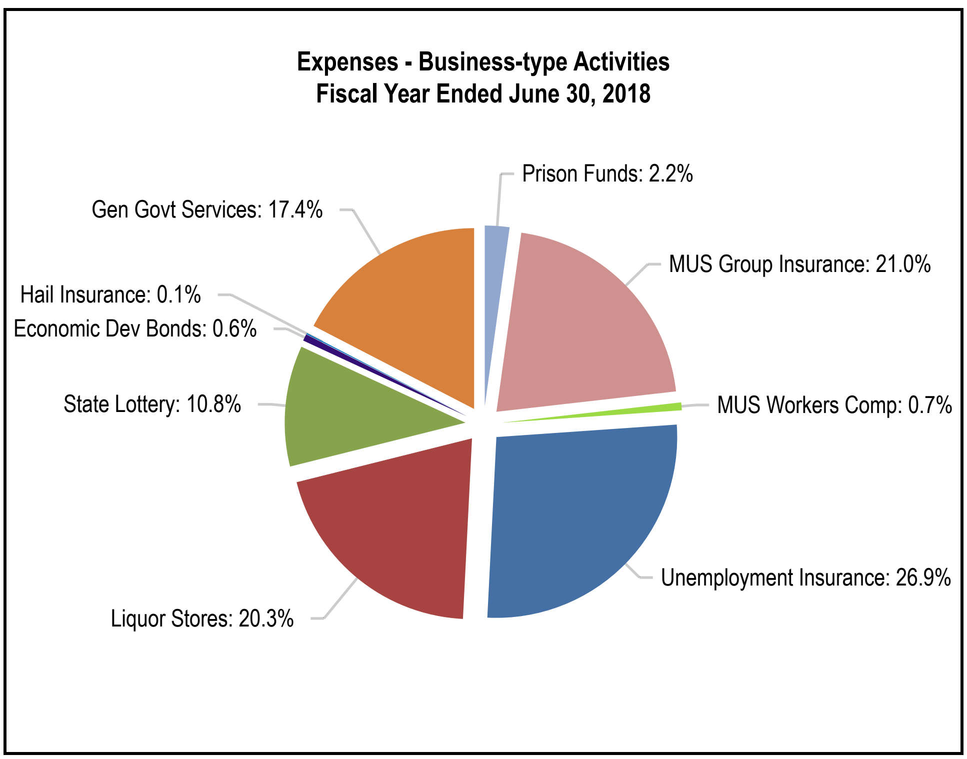


Business-type Activities

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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $4.0 billion. Of this total, $2.4 billion (59.4%) constitutes spendable fund balance and $1.6 billion (40.6%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures
The General Fund is the chief operating fund of the State. For fiscal year 2018, the total fund balance of the General Fund was reported at approximately $199.3 million. Of this balance $4.6 million is non-spendable. The remaining $194.7 million is spendable with $8.0 million assigned and $186.7 million unassigned. This represents 8.2% of the $2.4 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, $8.0 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance increased by $132.3 million when compared to the previously reported fund balance of $67.0 million. Changes in both expenditures and revenues are discussed in detail below. The 2017 Special Legislative Session projected $69.4 million General Fund unassigned fund balance for fiscal year 2018, without regard to a fund balance spend down in fiscal year 2019.

General Fund Revenues – Total General Fund revenues were $2.3 billion for fiscal year 2018 (lower than legislative estimation), a 9.7% increase from the $2.1 billion reported in 2017 (which were also lower than legislative estimation). Fiscal year 2018 tax revenue increased by 10.2% in total over 2017, with natural resource and corporate income tax collections up 21.2% and 24.9%, respectively. Individual income tax collections increased by 10.6%. Transfers also increased $68.6 million (92.3%) due to the 2017 Special Legislative Session activity. Other noted increases in revenues included investment earnings, contributions/premiums, and federal revenues.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2018 decreased by $94.9 million (4.1%). This decrease in expenditures occurred in the public safety, health and human services, education and natural resource functions as follows:

- Public safety expenditures decreased by $7.7 million (2.4%)
- Health and human services expenditures decreased by $21.2 million (3.9%)
- Education expenditures decreased by $50.7 million (4.8%)
- Natural resources expenditures decreased by $6.3 million (16.8%)

Transfers out increased by $13.8 million (30.5%) to $59.2 million in 2018, mostly attributable to the increase in fire suppression transfers. During the 2017 Special Legislative Session, HB 2 revisions were adopted, which called for $9.4 million cuts to judicial, law enforcement, and justice, along with $49.2 million in cuts to health and human services, $6.3 million cuts to education, and $4.6 million cuts for natural resources and transportation. These cuts help to explain the majority of the decrease in General Fund expenditures across the board.

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

General Fund Expenditure Budget Reversions
Fund balances are not reserved for reverted appropriations. For fiscal year 2018, general fund appropriations that reverted to 2019 were $9.4 million.

The Department of Administration had unspent appropriations of $1.1 million, these were attributable to supplemental transfers, banking charges, and other operational costs.

The Department of Public Health and Human Services had unspent appropriations of $6.0 million related to Medicaid savings and other operational costs.

The Department of Justice and the School for the Deaf and Blind had unspent appropriations of $462.6 thousand and $467.6 thousand respectively, related to operational transfers and education costs.

The remaining unspent appropriation of $1.4 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund
The fund balance of the State Special Revenue Fund increased by $19.6 million to $1.6 billion . Revenues increased by $66.3 million (7.3%) and expenditures increased $31.8 million (3.2%), for fiscal year 2018. The largest increases in revenues are attributable to an increase in natural resource and fuel tax collections, along with licenses and permits. The largest increases in expenditures are attributable to general government and natural resource related expenditures. Other financing sources such as transfers in and out both increased due to the 2017 Special Legislative Session. The general increase in both fuel and natural resource taxes along with fund balance is due to the steady crude oil increase over the prior year. This resulted in higher revenues than in the previous year when including the 2017 Special Legislative Session increase in the per gallon fuel tax.

Federal Special Revenue Fund
The fund balance of the Federal Special Revenue Fund decreased by $22.1 million (183.4%) to the balance of negative $10.1 million. Revenues and expenditures increased by $45.0 million (1.6%) and $67.8 million (2.4%) respectively, for the fiscal year 2018. Revenue increases are attributable to increases in federal program revenue, expenditure increases are attributable to increases in health and human services, public safety, and natural resources related expenditures. The natural resources expenditure increase of 35% is attributable to the 2017 fire season which was the most expensive fire season in Montana's history.

Coal Severance Tax Permanent Fund
The fund balance of the Coal Severance Tax Permanent Fund decreased by $4.3 million (0.4%) to $1.1 billion. Revenue increased by $2.6 million (7.0%) to $39.3 million, primarily due to an increase in international coal exports which increased natural resource taxes $7.5 million. Thus an increase in transfers out, which increased by $1.2 million (2.7%), and a decrease in investment earnings of $4.8 million helped to offset the increase in revenue and led to the decrease in fund balance.

Land Grant Permanent Fund
The fund balance of the Land Grant Permanent Fund decreased by $15.3 million (2.1%) to $710.2 million. Total Land Grant revenue was $65.2 million, transfers out were $62.1 million, and the fund purchased land for $12.9 million. which lead to the decrease in fund balance.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $15.6 million (5.2%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2018 accompanied by an increase in the taxable wage base from $31.4 thousand to $32.0 thousand in 2018.

Economic Development Bonds Enterprise Fund
Net position increased by 0.5% to $5.1 million in fiscal year 2018. Financing income revenue increased $637.0 thousand, while expenses from interest expense increased $665.0 thousand. Overall revenues and expenditures increased 45.2% and 43.2% which kept revenues almost even with expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2018, amounted to $8.5 billion, with related accumulated depreciation of $2.3 billion, leaving a net book value of $6.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, intangible assets, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $201.0 million or 3.4% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the *notes to the financial statements*.

Debt Administration

Montana continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA), and Fitch Ratings (AA+), which remain unchanged from 2017.

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

The State of Montana's general obligation debt decreased from $98.6 million at June 30, 2017, to $84.5 million at June 30, 2018. There is cash available, of $7.4 million at the end of fiscal year 2018, in debt service funds to service general obligation debt.

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

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	$ 84,460	0.14 %	$ 65
Total State debt (3)	$ 164,131	0.34 %	$ 156

(1) Based on personal income for calendar year 2017.

(2) Based on estimated 2017 Montana population.

(3) Based on total of general obligation bonds, special revenue bonds, notes payable and lease/installment purchase payable for the percentage and state debt per capita.

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

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2018 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 1.1% in 2018, which was faster than the rate of inflation. Montana's unemployment rate has continued to remain low and in the last year the national rate joined Montana with a rate around 4.0%. Montana added roughly 4,600 jobs in 2017, for a growth rate of 1.0%. Montana had an estimated 1,050,493 population as of July 1, 2017. The Montana labor market has total nonfarm workers of 479,800 in September 2018 as compared to 475,200 in August 2017. Montana's real GDP growth over the 2007 to 2017 time-frame outpaced the nation with an average of roughly 1.3% per year to real GDP. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

During to fiscal year-end 2018, a special session of the Legislature was called to order to address an anticipated General Fund deficit for the budget period ended June 30, 2019. More information, related to the financial impacts are provided in the letter of transmittal.

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System - Defined Benefit Retirement System (PERS-DBRP), and the Teachers' Retirement System (TRS) were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2018.

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

REQUESTS FOR INFORMATION

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

State of Montana

Basic Financial Statements

STATEMENT OF NET POSITION
JUNE 30, 2018
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,268,555	$ 442,364	$ 1,710,919	$ 476,816
Receivables (net) (Note 4)	486,051	46,776	532,827	182,680
Due from primary government	—	—	—	1,183
Due from other governments	378,733	116	378,849	27,925
Due from component units	3,395	2,993	6,388	271
Internal balances	4,764	(4,764)	—	—
Inventories	28,369	4,852	33,221	4,664
Advances to component units	15,435	20,736	36,171	—
Long-term loans/notes receivable	486,893	39,365	526,258	493,184
Equity in pooled investments (Note 3)	2,266,228	14,771	2,280,999	47,127
Investments (Note 3)	246,443	11,795	258,238	2,145,398
Securities lending collateral (Note 3)	31,553	206	31,759	21,655
Net pension asset (Note 6)	35,855	—	35,855	—
Other assets	10,240	3,118	13,358	94,238
Depreciable capital assets and infrastructure, net (Note 5)	4,237,224	8,785	4,246,009	797,969
Land and nondepreciable capital assets (Note 5)	1,953,469	12,842	1,966,311	130,147
Total assets	11,453,207	603,955	12,057,162	4,423,257
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	372,886	4,011	376,897	78,926
LIABILITIES				
Accounts payable (Note 4)	744,307	23,717	768,024	105,337
Lottery prizes payable	—	3,801	3,801	—
Due to primary government	—	—	—	6,388
Due to other governments	35,892	83	35,975	104
Due to component units	1,183	—	1,183	271
Due to pension trust funds	32,014	—	32,014	—
Advances from primary government	—	—	—	36,171
Unearned revenue	22,017	2,197	24,214	99,066
Amounts held in custody for others	18,825	30	18,855	16,761
Securities lending liability (Note 3)	31,553	206	31,759	21,655
Other liabilities	5,955	1,855	7,810	22,560
Short-term debt (Note 11)	—	105,110	105,110	—
Long-term liabilities (Note 11):				
Due within one year	137,570	15,123	152,693	191,241
Due in more than one year	399,938	6,127	406,065	1,673,109
Net pension liability (Note 6)	1,830,301	16,458	1,846,759	222,792
Total OPEB liability (Note 7)	48,930	942	49,872	41,995
Total liabilities	3,308,485	175,649	3,484,134	2,437,450
DEFERRED INFLOWS OF RESOURCES (Note 4)	73,544	831	74,375	11,375

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 6,088,211	$ 21,395	$ 6,109,606	$ 650,844
Restricted for:				
General government	23,409	—	23,409	—
Transportation	58,959	—	58,959	—
Natural resources	531,240	—	531,240	—
Public safety	230,682	—	230,682	—
Education	6,060	—	6,060	—
Funds held as permanent investments:				
Nonexpendable	1,608,361	—	1,608,361	412,779
Expendable	540,094	—	540,094	—
Unemployment compensation	—	314,210	314,210	—
Montana Board of Housing	—	—	—	153,518
Other purposes	—	83,378	83,378	229,878
Unrestricted	(642,952)	12,503	(630,449)	606,339
Total net position	$ 8,444,064	$ 431,486	$ 8,875,550	$ 2,053,358

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 674,329	$ 170,447	$ 137,295	$ 1,205	$ (365,382)
Public safety	429,760	175,999	21,614	107	(232,040)
Transportation	527,927	27,319	60,003	429,478	(11,127)
Health and human services	2,681,151	41,916	2,009,235	—	(630,000)
Education	1,299,423	13,972	197,030	1,119	(1,087,302)
Natural resources	379,525	165,161	130,721	15,109	(68,534)
Interest on long-term debt	6,743	—	—	—	(6,743)
Total governmental activities	5,998,858	594,814	2,555,898	447,018	(2,401,128)
Business-type activities:					
Unemployment Insurance	113,843	114,678	13,967	—	14,802
Liquor Stores	86,118	99,059	—	—	12,941
State Lottery	45,896	56,400	—	—	10,504
Economic Development Bonds	2,648	37	2,554	—	(57)
Hail Insurance	576	1,065	22	—	511
Other Service	73,539	25,386	48,198	685	730
Prison Funds	9,130	7,733	—	—	(1,397)
MUS[1] Group Insurance	88,912	100,532	928	—	12,548
MUS[1] Workers Compensation	2,738	—	216	—	(2,522)
Total business-type activities	423,400	404,890	65,885	685	48,060
Total primary government	$ 6,422,258	$ 999,704	$ 2,621,783	$ 447,703	$ (2,353,068)
Component units:					
Montana Board of Housing	$ 20,996	$ 1,516	$ 19,336	$ —	$ (144)
Facility Finance Authority	515	613	2,208	—	2,306
Montana State Fund	227,078	166,768	—	—	(60,310)
Montana State University	584,734	280,592	176,777	5,219	(122,146)
University of Montana	447,609	189,675	150,945	191	(106,798)
Total component units	$ 1,280,932	$ 639,164	$ 349,266	$ 5,410	$ (287,092)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,401,128)	$ 48,060	$ (2,353,068)	$ (287,092)
General revenues:				
Taxes:				
Property	293,530	—	293,530	—
Fuel	259,162	—	259,162	—
Natural resource	209,776	—	209,776	—
Individual income	1,304,715	—	1,304,715	—
Corporate income	170,607	—	170,607	—
Other (Note 1)	387,287	28,846	416,133	—
Unrestricted grants and contributions	12,595	233	12,828	111
Settlements	19,794	—	19,794	—
Unrestricted investment earnings	29,241	66	29,307	99,080
Transfers from primary government	—	—	—	228,646
Gain (loss) on sale of capital assets	2,595	11	2,606	328
Miscellaneous	4,876	3,709	8,585	1,085
Contributions to term and permanent endowments	—	—	—	21,373
Transfers between primary government	48,854	(48,854)	—	—
Total general revenues, contributions, and transfers	2,743,032	(15,989)	2,727,043	350,623
Change in net position	341,904	32,071	373,975	63,531
Total net position - July 1 - as previously reported	7,853,172	395,008	8,248,180	1,907,768
Adjustments to beginning net position (Note 2)	248,988	4,407	253,395	82,059
Total net position - July 1 - as adjusted	8,102,160	399,415	8,501,575	1,989,827
Total net position - June 30	$ 8,444,064	$ 431,486	$ 8,875,550	$ 2,053,358

[1]Montana University System

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

Governmental
Fund Financial Statements

General Fund— the principal operating fund of the State. It accounts for all governmental financial resources, except those accounted for in another fund.

State Special Revenue 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— accounts for all activities funded from federal sources, which are used in the operation of the state government.

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

Land Grant Fund— 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 Governmental Funds— presented in more detail, by fund type, within the Supplementary Information section.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	$ 242,215	$ 762,741	$ 57,464
Receivables (net)	285,885	120,718	53,234
Interfund loans receivable (Note 12)	72,467	60,222	—
Due from other governments	13,937	408	364,388
Due from other funds (Note 12)	28,839	10,604	2,580
Due from component units	—	1,020	11
Inventories	3,798	21,030	—
Equity in pooled investments (Note 3)	—	353,135	—
Long-term loans/notes receivable	—	458,592	3,899
Advances to other funds (Note 12)	489	39,589	—
Advances to component units	—	7,739	—
Investments (Note 3)	5,759	39,090	1,231
Securities lending collateral (Note 3)	—	4,909	—
Other assets	2,988	5,926	114
Total assets	$ 656,377	$ 1,885,723	$ 482,921
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 258,704	$ 177,751	$ 288,003
Interfund loans payable (Note 12)	—	5,215	125,499
Due to other governments	153	33,474	2,265
Due to other funds (Note 12)	2,355	15,457	1,016
Due to component units	32,031	498	668
Advances from other funds (Note 12)	—	7,660	35,596
Unearned revenue	2,838	20,776	3,054
Amounts held in custody for others	5,848	12,838	13
Securities lending liability (Note 3)	—	4,909	—
Other liabilities	1	824	—
Total liabilities	301,930	279,402	456,114
DEFERRED INFLOWS OF RESOURCES	155,128	5,261	36,876
Fund balances (Note 14):			
Nonspendable	4,614	21,876	57
Restricted	—	1,043,005	—
Committed	—	536,179	—
Assigned	7,998	—	—
Unassigned	186,707	—	(10,126)
Total fund balances	199,319	1,601,060	(10,069)
Total liabilities, deferred inflows of resources, and fund balances	$ 656,377	$ 1,885,723	$ 482,921

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

PERMANENT COAL SEVERANCE TAX	PERMANENT LAND GRANT	NONMAJOR	TOTAL
$ 44,507	$ 11,188	$ 57,101	$ 1,175,216
10,469	1,957	6,012	478,275
—	—	—	132,689
—	—	—	378,733
6	—	1,541	43,570
105	—	2,223	3,359
—	—	—	24,828
856,039	697,183	340,464	2,246,821
—	—	24,402	486,893
1,935	—	7,471	49,484
7,697	—	—	15,436
170,882	—	2,870	219,832
11,919	9,707	4,749	31,284
—	—	—	9,028
$ 1,103,559	$ 720,035	$ 446,833	$ 5,295,448
$ —	$ —	$ 2,445	$ 726,903
1,689	6	303	132,712
—	—	—	35,892
1	—	2,183	21,012
—	—	—	33,197
—	—	7,578	50,834
—	—	—	26,668
—	125	—	18,824
11,919	9,707	4,749	31,284
—	—	—	825
13,609	9,838	17,258	1,078,151
—	—	334	197,599
561,938	710,197	334,376	1,633,058
—	—	21,278	1,064,283
528,012	—	72,972	1,137,163
—	—	615	8,613
—	—	—	176,581
1,089,950	710,197	429,241	4,019,698
$ 1,103,559	$ 720,035	$ 446,833	$ 5,295,448

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

JUNE 30, 2018

(amounts expressed in thousands)

Total fund balances - governmental funds		$ 4,019,698
Amounts reported for governmental activities in the Statement of Net Position are different due to:		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):		
Depreciable capital assets and infrastructure, net	$ 4,237,224	
Land and nondepreciable capital assets	1,953,469	6,190,693
Deferred outflows of resources represent a consumption of net assets that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds.		372,886
Other assets not available in the current period and therefore are not reported in the governmental funds:		
Net pension asset		35,855
Long-term receivables		108
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets and long-term liabilities reported in specific areas.		129,735
Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.		(12,228)
Deferred inflows of resources represent an acquisition of net assets that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds.		124,056
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):		
Other long-term liabilities	(537,508)	
Net pension liability	(1,830,301)	
Total OPEB liability	(48,930)	(2,416,739)
Total net position - governmental activities		$ 8,444,064

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	$ 126,637	$ 220,898	$ —
Taxes:			
Natural resource	86,090	82,085	—
Individual income	1,285,132	—	—
Corporate income	166,393	—	—
Property	277,127	16,403	—
Fuel	—	258,920	—
Other	237,112	146,246	1
Charges for services/fines/forfeits/settlements	35,776	109,846	18,295
Investment earnings	12,805	9,582	447
Securities lending income	1	114	—
Sale of documents/merchandise/property	334	10,000	—
Rentals/leases/royalties	7	1,234	—
Contributions/premiums	5,250	27,471	—
Grants/contracts/donations	10,856	24,274	18
Federal	21,154	9,338	2,768,657
Federal indirect cost recoveries	257	49,007	67,346
Other revenues	400	3,165	516
Total revenues	2,265,331	968,583	2,855,280
EXPENDITURES			
Current:			
General government	350,591	200,367	92,688
Public safety	311,184	89,213	15,824
Transportation	—	220,368	111,201
Health and human services	517,528	160,049	1,997,224
Education	1,007,891	76,112	209,620
Natural resources	31,394	235,021	92,184
Debt service:			
Principal retirement	22	634	32
Interest/fiscal charges	283	355	5
Capital outlay	1,377	56,645	328,856
Securities lending	—	65	—
Total expenditures	2,220,270	1,038,829	2,847,634
Excess of revenue over (under) expenditures	45,061	(70,246)	7,646
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	—	312	—
Insurance proceeds	—	309	—
General capital asset sale proceeds	96	1,805	31
Energy conservation loans	—	1,589	—
Transfers in (Note 12)	142,442	175,712	2,518
Transfers out (Note 12)	(59,155)	(90,735)	(32,381)
Total other financing sources (uses)	83,383	88,992	(29,832)
Net change in fund balances	128,444	18,746	(22,186)
Fund balances - July 1 - as previously reported	66,984	1,581,457	12,078
Adjustments to beginning fund balance (Note 2)	4,625	1,691	39
Fund balances - July 1 - as adjusted	71,609	1,583,148	12,117
Increase (decrease) in inventories	(734)	(834)	—
Fund balances - June 30	$ 199,319	$ 1,601,060	$ (10,069)

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

PERMANENT COAL SEVERANCE TAX	PERMANENT LAND GRANT	NONMAJOR	TOTAL
$ —	$ 1,456	$ —	$ 348,991
31,304	—	9,377	208,856
—	—	—	1,285,132
—	—	—	166,393
—	—	—	293,530
—	—	—	258,920
—	—	1,600	384,959
—	—	10,845	174,762
7,831	2,058	12,035	44,758
189	154	72	530
—	10,519	1,074	21,927
—	50,704	—	51,945
—	—	—	32,721
—	126	—	35,274
—	—	—	2,799,149
—	—	—	116,610
—	—	—	4,081
39,324	65,017	35,003	6,228,538
—	57	99	643,802
—	—	608	416,829
—	—	—	331,569
—	—	372	2,675,173
—	—	24	1,293,647
—	4,227	477	363,303
—	—	31,280	31,968
—	—	7,445	8,088
—	16,057	22,248	425,183
92	76	36	269
92	20,417	62,589	6,189,831
39,232	44,600	(27,586)	38,707
—	—	—	312
—	—	—	309
—	2,269	1	4,202
—	—	—	1,589
656	5	48,203	369,536
(44,189)	(62,135)	(30,758)	(319,353)
(43,533)	(59,861)	17,446	56,595
(4,301)	(15,261)	(10,140)	95,302
1,094,251	725,458	439,356	3,919,584
—	—	25	6,380
1,094,251	725,458	439,381	3,925,964
—	—	—	(1,568)
$ 1,089,950	$ 710,197	$ 429,241	$ 4,019,698

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(amounts expressed in thousands)

Net change in fund balances - total governmental funds		$ 95,302
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):		
Capital outlay	$ 425,183	
Depreciation expense and amortization	(221,414)	203,769
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.		(3,604)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		59,056
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.		(5,511)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease items reported in the Statement of Net Position.		(7,108)
Change in net position - governmental activities		$ 341,904

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

Proprietary
Fund Financial Statements

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 Fund— accounts for all the Economic Development Bond Act 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 Enterprise Funds— 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— 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, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 311,612	$ 24,085	$ 106,667	$ 442,364	$ 93,339
Receivables (net)	4,118	10,938	31,720	46,776	7,665
Interfund loans receivable (Note 12)	—	—	—	—	35
Due from other governments	22	—	94	116	—
Due from other funds (Note 12)	—	3,315	11	3,326	13
Due from component units	—	2,993	—	2,993	36
Inventories	—	—	4,852	4,852	3,541
Short-term investments (Note 3)	—	4,263	—	4,263	—
Securities lending collateral (Note 3)	—	—	206	206	270
Other current assets	—	5	80	85	1,209
Total current assets	315,752	45,599	143,630	504,981	106,108
Noncurrent assets:					
Advances to other funds (Note 12)	—	5,556	—	5,556	—
Advances to component units	—	20,736	—	20,736	—
Long-term investments (Note 3)	—	684	21,619	22,303	46,020
Long-term notes/loans receivable	662	38,692	11	39,365	—
Other long-term assets	—	1,854	1,178	3,032	—
Capital assets (Note 5):					
Land	—	—	800	800	236
Land improvements	—	—	3,830	3,830	95
Buildings/improvements	—	—	10,146	10,146	6,070
Equipment	—	4	9,542	9,546	249,614
Infrastructure	—	—	1,175	1,175	—
Construction work in progress	—	—	7,791	7,791	4,277
Intangible assets	—	—	78	78	2,086
Other capital assets	—	—	4,251	4,251	—
Less accumulated depreciation	—	(3)	(15,987)	(15,990)	(148,653)
Total capital assets	—	1	21,626	21,627	113,725
Total noncurrent assets	662	67,523	44,434	112,619	159,745
Total assets	316,414	113,122	188,064	617,600	265,853
DEFERRED OUTFLOWS OF RESOURCES	—	90	3,921	4,011	13,984

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable	$ 2,204	$ 604	$ 20,909	$ 23,717	$ 14,713
Lottery prizes payable	—	—	3,047	3,047	—
Interfund loans payable (Note 12)	—	—	—	—	12
Due to other governments	—	—	83	83	—
Due to other funds (Note 12)	—	—	13,645	13,645	1,718
Unearned revenue	—	—	2,197	2,197	1,474
Lease/installment purchase payable (Note 10)	—	—	213	213	3,132
Short-term debt (Note 11)	—	105,110	—	105,110	—
Bonds/notes payable - net (Note 11)	—	—	—	—	779
Amounts held in custody for others	—	—	30	30	1
Securities lending liability (Note 3)	—	—	206	206	270
Estimated insurance claims (Note 8)	—	—	13,877	13,877	22,029
Compensated absences payable (Note 11)	—	33	1,000	1,033	4,094
Total current liabilities	2,204	105,747	55,207	163,158	48,222
Noncurrent liabilities:					
Lottery prizes payable	—	—	754	754	—
Advances from other funds (Note 12)	—	—	—	—	4,206
Lease/installment purchase payable (Note 10)	—	—	18	18	9,971
Bonds/notes payable - net (Note 11)	—	—	—	—	699
Estimated insurance claims (Note 8)	—	—	5,083	5,083	10,875
Compensated absences payable (Note 11)	—	29	980	1,009	3,410
Arbitrage rebate tax payable (Note 11)	—	17	—	17	—
Net pension liability (Note 6)	—	419	16,039	16,458	64,195
Total OPEB liability (Note 7)	—	19	923	942	2,961
Other liabilities	—	1,855	—	1,855	—
Total noncurrent liabilities	—	2,339	23,797	26,136	96,317
Total liabilities	2,204	108,086	79,004	189,294	144,539
DEFERRED INFLOWS OF RESOURCES	—	17	814	831	1,669
NET POSITION					
Net investment in capital assets	—	1	21,394	21,395	94,723
Restricted for:					
Unemployment compensation	314,210	—	—	314,210	—
Other purposes	—	1,368	82,010	83,378	—
Unrestricted	—	3,740	8,763	12,503	38,906
Total net position	$ 314,210	$ 5,109	$ 112,167	$ 431,486	$ 133,629

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	$ 129	$ 37	$ 175,503	$ 175,669	$ 154,028
Investment earnings	6,958	250	1,381	8,589	760
Securities lending income	—	—	5	5	21
Financing income	—	2,304	—	2,304	—
Contributions/premiums	114,549	—	114,081	228,630	184,497
Grants/contracts/donations	7,009	—	48,079	55,088	3,657
Other operating revenues	—	—	4,302	4,302	9,284
Total operating revenues	128,645	2,591	343,351	474,587	352,247
Operating expenses:					
Personal services	—	381	16,670	17,051	61,657
Contractual services	—	168	21,104	21,272	36,048
Supplies/materials	—	10	88,405	88,415	27,379
Benefits/claims	113,259	52	139,531	252,842	180,481
Depreciation	—	1	1,037	1,038	12,706
Amortization	—	—	116	116	1,077
Utilities/rent	—	51	1,349	1,400	7,317
Communications	—	13	1,195	1,208	13,087
Travel	—	4	307	311	525
Repairs/maintenance	—	—	1,024	1,024	20,230
Grants	—	—	—	—	229
Lottery prize payments	—	—	32,551	32,551	—
Securities lending expense	—	—	2	2	14
Arbitrage rebate tax	—	(1)	—	(1)	—
Interest expense	—	1,906	24	1,930	496
Other operating expenses	584	63	3,365	4,012	7,183
Total operating expenses	113,843	2,648	306,680	423,171	368,429
Operating income (loss)	14,802	(57)	36,671	51,416	(16,182)
Nonoperating revenues (expenses):					
Tax revenues (Note 1)	—	—	28,846	28,846	—
Non-employer pension revenue	—	6	227	233	917
Insurance proceeds	—	—	—	—	230
Gain (loss) on sale of capital assets	—	—	(228)	(228)	(234)
Federal indirect cost recoveries	—	—	—	—	8,858
Increase (decrease) value of livestock	—	—	4	4	—
Total nonoperating revenues (expenses)	—	6	28,849	28,855	9,771
Income (loss) before contributions and transfers	14,802	(51)	65,520	80,271	(6,411)
Capital contributions	—	—	3,474	3,474	80
Transfers in (Note 12)	—	—	762	762	1,723
Transfers out (Note 12)	—	—	(52,436)	(52,436)	(904)
Change in net position	14,802	(51)	17,320	32,071	(5,512)
Total net position - July 1 - as previously reported	298,631	5,084	91,293	395,008	128,785
Adjustments to beginning net position (Note 2)	777	76	3,554	4,407	10,356
Total net position - July 1 - as adjusted	299,408	5,160	94,847	399,415	139,141
Total net position - June 30	$ 314,210	$ 5,109	$ 112,167	$ 431,486	$ 133,629

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 114,838	$ 37	$ 286,430	$ 401,305	$ 337,217
Payments to suppliers for goods and services	(94)	(311)	(108,811)	(109,216)	(102,769)
Payments to employees	—	(430)	(17,545)	(17,975)	(65,947)
Grant receipts (expenses)	6,879	—	48,118	54,997	3,433
Cash payments for claims	(112,856)	—	(138,657)	(251,513)	(173,228)
Cash payments for prizes	—	—	(32,321)	(32,321)	—
Other operating revenues	339	—	4,302	4,641	18,143
Other operating payments	—	—	(3,361)	(3,361)	(7,184)
Net cash provided by (used for) operating activities	9,106	(704)	38,155	46,557	9,665
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	—	—	28,846	28,846	—
Transfer to other funds	—	—	(52,438)	(52,438)	(904)
Transfer from other funds	—	—	761	761	1,723
Proceeds from interfund loans/advances	—	—	—	—	220
Payment of interfund loans and advances	(75)	—	—	(75)	(1,727)
Payment of principal and interest on bonds and notes	—	(4,529)	(24)	(4,553)	(817)
Proceeds from nonemployer pension contributions	—	6	227	233	917
Net cash provided by (used for) noncapital financing activities	(75)	(4,523)	(22,628)	(27,226)	(588)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	230
Acquisition of capital assets	—	—	(83)	(83)	(18,634)
Proceeds from sale of capital assets	—	—	—	—	368
Net cash provided by (used for) capital and related financing activities	—	—	(83)	(83)	(18,036)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	(4,235)	(5,189)	(9,424)	(6,063)
Proceeds (loss) on sales or maturities of investments	—	10,917	—	10,917	—
Proceeds (loss) from securities lending transactions/ investments	—	—	5	5	21
Interest and dividends on investments	6,958	296	1,381	8,635	760
Payment of securities lending costs	—	—	(2)	(2)	(14)
Collections of principal and interest on loans	—	36,265	—	36,265	—
Cash payment for loans	—	(20,630)	—	(20,630)	—
Net cash provided by (used for) investing activities	6,958	22,613	(3,805)	25,766	(5,296)
Net increase (decrease) in cash and cash equivalents	15,989	17,386	11,639	45,014	(14,255)
Cash and cash equivalents, July 1	295,623	6,699	95,028	397,350	107,594
Cash and cash equivalents, June 30	$ 311,612	$ 24,085	$ 106,667	$ 442,364	$ 93,339

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL 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)	$ 14,802	$ (57)	$ 36,671	$ 51,416	$ (16,182)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	—	1	1,037	1,038	12,706
Amortization	—	—	116	116	1,077
Securities lending expense	—	—	2	2	14
Investment earnings	(6,958)	(250)	(1,381)	(8,589)	(760)
Securities lending income	—	—	(5)	(5)	(21)
Financing income	—	(2,304)	—	(2,304)	—
Interest expense	—	1,906	24	1,930	496
Other revenue	775	4	—	779	8,854
Arbitrage rebate tax	—	(1)	—	(1)	—
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	565	51	(4,335)	(3,719)	(1,891)
Decr (Incr) in due from other funds	—	—	(11)	(11)	19
Decr (Incr) in due from component units	—	—	—	—	(36)
Decr (Incr) in due from other governments	16	—	39	55	1
Decr (Incr) in inventories	—	—	636	636	(584)
Decr (Incr) in other assets	—	(5)	187	182	600
Incr (Decr) in accounts payable	(94)	(2)	4,872	4,776	(4,458)
Incr (Decr) in due to other funds	—	—	101	101	(116)
Incr (Decr) in due to other governments	—	—	9	9	—
Incr (Decr) in lottery prizes payable	—	—	230	230	—
Incr (Decr) in unearned revenue	—	—	197	197	(150)
Incr (Decr) in compensated absences payable	—	—	(5)	(5)	41
Incr (Decr) in total OPEB liability	—	(68)	(152)	(220)	32
Incr (Decr) in estimated claims	—	—	(1,280)	(1,280)	(846)
Incr (Decr) in other payables	—	(4)	(181)	(185)	7,191
Incr (Decr) in net pension liability and related accounts	—	25	1,384	1,409	3,678
Net cash provided by (used for) operating activities	$ 9,106	$ (704)	$ 38,155	$ 46,557	$ 9,665
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	$ —	$ —	$ 3,474	$ 3,474	$ 80
Incr (Decr) in fair value of investments	—	14	294	308	862
Total noncash transactions	$ —	$ 14	$ 3,768	$ 3,782	$ 942

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

Fiduciary
Fund Financial Statements

Pension (and Other Employee Benefit) Trust Funds— account for provided retirement, disability, death, and lump-sum payments to public employee retirement system members.

Private-Purpose Trust Funds— 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 Funds— account for the receipt of monies held by Montana Board of Investments for investment in external investment pools, and the distribution of related investment earnings, for local government agencies.

Agency Funds— 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, 2018
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 297,410	$ 85,549	$ 1,221,292	$ 11,097
Receivables (net):				
Accounts receivable	28,248	—	—	607
Interest	437	33	2,180	—
Due from primary government	32,014	—	—	—
Due from other PERB plans	673	—	—	—
Long-term loans/notes receivable	16	—	—	—
Total receivables	61,388	33	2,180	607
Investments at fair value:				
Equity in pooled investments (Note 3)	11,308,857	—	12,028	—
Other investments (Note 3)	738,309	164,815	—	—
Total investments	12,047,166	164,815	12,028	—
Securities lending collateral (Note 3)	73,608	—	167	—
Capital Assets:				
Land	35	—	—	—
Buildings/improvements	186	—	—	—
Equipment	96	—	—	—
Construction work in progress	787	—	—	—
Accumulated depreciation	(242)	—	—	—
Intangible assets	6,477	—	—	—
Total capital assets	7,339	—	—	—
Other assets	—	37,607	—	302
Total assets	12,486,911	288,004	1,235,667	12,006
DEFERRED OUTFLOWS OF RESOURCES	569	—	—	—
LIABILITIES				
Accounts payable	38,708	1	2,145	673
Due to other PERB plans	673	—	—	—
Unearned revenue	440	—	—	—
Amounts held in custody for others	—	—	—	11,333
Securities lending liability (Note 3)	73,608	—	167	—
Compensated absences payable	600	—	—	—
Net pension liability (Note 6)	1,777	—	—	—
Total OPEB liability (Note 7)	224	—	—	—
Total liabilities	116,030	1	2,312	12,006
DEFERRED INFLOWS OF RESOURCES	89	—	—	—
NET POSITION				
Held in trust for pension benefits and other purposes	$ 12,371,361	$ 288,003	$ 1,233,355	$ —

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 253,455	$ —	$ —
Employee	240,153	—	—
Other contributions	114,862	16,743	1,516,370
Net investment earnings:			
Investment earnings	1,078,508	9,620	17,429
Administrative investment expense	(71,584)	—	—
Securities lending income	2,220	—	3
Securities lending expense	(886)	—	(1)
Charges for services	601	—	—
Other additions	886	4,993	—
Total additions	1,618,215	31,356	1,533,801
DEDUCTIONS			
Benefits	881,509	—	—
Refunds	24,731	—	—
Distributions	—	33,030	1,346,652
Administrative expenses:			
Personal services	4,924	—	—
Contractual services	5,287	822	—
Supplies/materials	145	—	—
Depreciation	10	—	—
Amortization	1,238	—	—
Utilities/rent	375	—	—
Communications	238	—	—
Travel	55	—	—
Repair/maintenance	26	—	—
Other operating expenses	391	—	—
Local assistance	11	—	—
Transfers to MUS-RP	198	—	—
Transfers to PERS-DCRP	2,069	—	—
Total deductions	921,207	33,852	1,346,652
Change in net position	697,008	(2,496)	187,149
Net position - July 1 - as previously reported	11,673,439	290,499	1,046,206
Adjustments to beginning net position (Note 2)	914	—	—
Net position - July 1 - as adjusted	11,674,353	290,499	1,046,206
Net position - June 30	$ 12,371,361	$ 288,003	$ 1,233,355

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

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

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

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

for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

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

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

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

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

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

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

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

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

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

Teachers' Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to benefit recipients of Montana's public teaching profession. The plan is funded from employer and employee contributions, investment earnings, and the State's General Fund. The benefit payments and administrative costs of the Teachers'

Retirement System are paid from the same funding sources. The system is audited annually by the State's Legislative Audit Division. Further detail related to the Teachers' Retirement System is provided in Note 6.

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

Governmental Fund Financial Statements
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to

have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue available if it is expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences, claims, and judgments are recorded only when payment is due.

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

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

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

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts for activities funded from state resources used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately an $86.2 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $23.5 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

Proprietary Funds
Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government. One specific fund is defined in statute as an Enterprise Fund, however, per GASB 34, this fund should be reported within Internal Service Funds. The respective effect on net position is approximately a $4.4 million increase.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Equity in Pooled Investments

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

I. Investments

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

J. Capital Assets

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

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

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

K. Deferred Outflows, Deferred Inflows, and Unearned Revenue

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

L. Long-term Obligations

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

M. Capital Leases

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

N. Bond Discounts/Premiums/Issuance Costs

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

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2017, was 20,984 hours. For fiscal year 2018, 795 sick leave hours, 176 annual leave hours, and 1,859 excess annual leave hours were contributed to the sick leave pool, and 4,504 hours were withdrawn, leaving a balance of 19,310 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

P. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

Q. Fund Balance/Net Position

Fund Balance

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

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

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

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. There is not a projected spend down for fiscal year 2019, thus a related assignment of fund balance is not reported at 2018 fiscal year-end.

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

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

General Fund - Fund Balance

As of June 30, 2018, the State did not maintain a stabilization fund. However, based on fiscal year 2018 unaudited General Fund revenue totals, $45.7 million was transferred into the Budget Stabilization Reserve Fund during fiscal year 2019, in accordance with 2017 Special Session Senate Bill 9. Additionally, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

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

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

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $3.4 billion.

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

R. Property Taxes

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

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

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

S. Other Taxes

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

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	$ 24,430	$ 33,259	$ —	$ 20	$ 57,709
Agriculture	—	10,774	—	—	10,774
Car Rental	3,644	1,215	—	—	4,859
Cigarette/tobacco/etc.	33,792	44,830	1,600	—	80,222
Contractors gross receipts	4,267	—	—	—	4,267
Energy tax	8,042	145	—	—	8,187
Fire protection	—	3,824	—	—	3,824
Hospital benefit assessment	4,351	—	—	—	4,351
Insurance premium	75,239	31,017	—	—	106,256
Light vehicle registration	—	4,280	—	—	4,280
Liquor tax	5,452	2,203	—	28,826	36,481
Livestock	—	9,749	—	—	9,749
Other taxes	218	932	—	—	1,150
Public service commission	—	3,994	—	—	3,994
Railroad car companies	3,629	—	—	—	3,629
Telephone license	16,068	—	—	—	16,068
Video gaming	60,324	9	—	—	60,333
Total other taxes	$ 239,456	$ 146,231	$ 1,600	$ 28,846	$ 416,133

T. Tax Abatements

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

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

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

During the fiscal year ended June 30, 2018, basic sector business entities made total user fee payments of $3.5 million, representing $2.4 million of principal and $1.1 million in interest. During the fiscal year ended June 30, 2018, a total of $1.4 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2018 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed

	Tax Year 2017	Tax Year 2016	Total
Corporate income tax	$ —	$ 706	$ 706
Individual income tax	66	624	690
Total amount claimed	$ 66	$ 1,330	$ 1,396

U. Irrevocable Split Interest Agreements

Irrevocable split-interest agreements are used by donors to provide resources to two or more beneficiaries, including governments. These agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. The University of Montana campuses have three irrevocable split interest agreements during the fiscal year ended June 30, 2018. Further detail related to these agreements are provided in Note 3.

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The objective of this Statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves the information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. An actuarial valuation of the total OPEB liability is required at least biennially for all plans. Montana State Fund (MSF), a discretely presented component unit of the State of Montana, has a December 31 year-end. Therefore, MSF financial information related to OPEB is reported under GASB 45 in this report. MSF will implement GASB 75 for their December 31, 2018 reporting period.

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). This Statement requires recognition of resources by a government in the following circumstances: (1) A government, acting as the intermediary, recognizes assets, liabilities to other beneficiaries, and deferred inflows of resources at the inception of the agreement when the government receives the resources pursuant to an irrevocable split-interest agreement; (2) A government recognizes assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, and deferred inflow, when the government becomes aware of the agreement and has sufficient information to measure the beneficial interest; (3) A government recognizes revenue for the amount reported as deferred inflows of resources at the termination of the irrevocable split-interest agreement or applicable reporting period.

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to (1) blending component units in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) reporting amounts previously reported as goodwill and “negative” goodwill, (3) measuring certain money market investments and participating interest earning investment contracts at amortized cost, and (4) postemployment benefits (pensions and other postemployment benefits OPEB).

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). The objective of this Statement is to provide guidance for (1) transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt (in-substance defeasance of debt), (2) prepaid insurance on debt that is extinguished, and (3) notes disclosure to financial statements for debt that is defeased in substance. In financial statements using the economic resources measurement focus, governments should (1) no longer report the debt as a liability, and (2) recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. In financial statements using the current financial resources measurement focus, governments should recognize the reacquisition price as a debt service expenditure in the period of the defeasance. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the gain or loss.

For the year ended June 30, 2018, the Montana University Systems, discretely presented component units of the State of Montana, early implemented the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 replaces the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense or an expenditure in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus or the current financial resources measurement focus, respectively. This statement does not change the recording of interest costs incurred before the end of a construction period for financial statements prepared using the current financial resources measurement focus (modified accrual). As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported on the financial statements. The State of Montana did not early implement GASB 89 for the year ended June 30, 2018.

B. Adjustments to Beginning Net Position

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires a retroactive restatement of financial statements for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect of applying the statements is presented as a restatement of beginning net position for the earliest period restated. In accordance with GASB 75, the State of Montana restated OPEB liabilities beginning with the year ended June 30, 2018. A significant decrease of OPEB liabilities for the primary government has been reported in the amount of $245.0 million, creating an increase to beginning net position in the same amount. A significant decrease of OPEB liabilities for the discretely presented component units of the State of Montana aggregated has been reported in the amount of $82.0 million, creating an increase to beginning net position in the same amount.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$	3,799,431
Equity in pooled investments	$	13,649,012
Investments	$	3,294,000

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

A. General

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

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

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

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

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

To facilitate management of the UIP, BOI uses a combination of one internal investment pool, two external investment pools and the SMI to meet the financial goals and expectations of state and local government agencies and entities which entrust these funds to BOI. The investment activity reported within BOI's financial statements is included as part of the governmental, proprietary, and fiduciary fund financial statements within this report. Three pools and SMI are contained within the UIP:

- The Consolidated Pension Asset Pool (CAPP), an internal investment pool
- Trust Funds Investment Pool (TFIP), an external investment pool
- Short Term Investment Pool (STIP), an external investment pool
- Separately Managed Investments (SMI)

As of June 30, 2018, BOI separately managed investments outside of the pools on behalf of 16 participants. The investments are combined for reporting purposes in the SMI portion of the UIP. In prior years, the SMI portion of the UIP was referred to as All Other Funds (AOF). SMI participants include the State Treasurer's Cash Fund, State agency insurance reserves, and other State agencies. SMI participation is at the discretion of BOI staff for State agencies allowed to participate in the UIP.

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

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

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

BOI's separately issued Unified Investment Program financial statements include the activity for Montana State Fund (MSF) within SMI on a June 30, 2018, basis. MSF, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents and investments.

(a) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in STIP, cash held by trustees, undeposited cash held by individual State agencies, and investments categorized as cash equivalents. For the fiscal year ending June 30, 2018, BOI reevaluated the measurement of cash and cash equivalents, now reporting such investments at cost. Under GASB, cash equivalents can be reported under fair value or cost basis. BOI analyzed the immaterial difference of cash equivalents between their fair value and cost and determined the more relevant disclosure was under the cost method. The change did not cause a restatement of beginning net position due to the immaterial impact on beginning net position.

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

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

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

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

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

During fiscal year 2018, the custodial bank lent BOI's public securities and received as collateral: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2018. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2018 resulting from a borrower default. As of June 30, 2018, no securities were recalled and not yet returned.

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

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 10 days and the average weighted final maturity was 70 days within the Navigator portfolio.

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

CAPP

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

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

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

TFIP

The TFIP IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations, also known as Yankee bonds, and a 3% portfolio limit in non-agency mortgage pass-through (MBS) securities. TFIP invests primarily in investment grade, US dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

STIP

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

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

SMI

SMI invests primarily in investment grade, US dollar denominated fixed income securities. However, one participant portfolio has exposure to core real estate. The SMI portfolio also includes Veteran's Home Loan Mortgages (VHLM) and commercial loans.

The SMI Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by BOI and Montana Facility Finance Authority. The VHLM are also funded from the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust Fund loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and the MSTA portfolio was assigned to BOI.

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

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

As of June 30, 2018, all the public securities, as well as securities held by the separate public equity account managers, were registered in the nominee name for BOI and held in the possession of BOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. Concentration of credit risk for 2018 is addressed within all IPS as set by BOI.

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

around investment grade NRSRO ratings as appropriate. The US government guarantees its securities directly or indirectly. Obligations of the US government, or obligations explicitly guaranteed by the US government, are not considered to have credit risk and do not require disclosure of credit risk.

The CAPP's cash equivalents' position held at its custodial bank was unrated, with approximately $330.3 million held in Money Market Funds and an additional $4.3 million held by the CAPP's fiscal agent as of June 30, 2018. BOI determined that there was no significant credit quality risk associated with the cash equivalents.

As a matter of STIP investment policy, BOI can only purchase securities from a pre-approved Approved Issuer list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered US Treasury or US Government money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30, 2018, all the STIP money market investments were in US Governmental Money Markets. BOI determined that there was no significant credit quality risk associated with the cash equivalents and did not suffer a loss event on the cash equivalents as of June 30, 2018.

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

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

CAPP, TFIP, SMI, and STIP may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example the London Interbank Offered Rate (LIBOR).

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2018. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months or years) weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 46 days for the portfolio. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk.

Foreign Currency Risk

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

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

Other Policy Considerations

For other risk, BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the TIPS PAC, US Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage-Backed PAC, average duration will be maintained in a range within 20% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for SMI is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

Fair Value of Derivative Instruments
The UIP invests in currency forward contract, index futures (long duration) and rights which are classified as investment derivatives. The derivatives increase in fair value for the year ended June 30, 2018, by $170.0 thousand. The contracts had a fair value of $15.0 thousand, and the notional amount of the contracts was $818.0 thousand as of June 30, 2018.

STIP Reserve
In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to its participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. Prior to the year ending June 30, 2018, the STIP reserve was reported as a liability, instead of as a component of BOI's fiduciary net position in accordance with GAAP. BOI restated the liability as an increase to fiduciary net position of $24.2 million as of July 1, 2017. The STIP reserve for the year ending June 30, 2018, is detailed as follows:

STIP Reserve
(in thousands)

Beginning STIP Reserve	$	24,235
Additions		
Interest Income		350
Other income		
Transfer of daily STIP income		4,192
Recoveries from write offs		3,626
Perm Coal enhancement fees		162
Total additions		8,330
Total STIP Reserve Activity	$	8,330
Ending STIP reserve	$	32,565

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

For the fiscal year ending June 30, 2018, BOI reevaluated the measurement of cash and cash equivalents, now reporting such investments at cost. Under GASB, cash equivalents can be reported under fair value or cost basis. BOI analyzed the immaterial difference of cash equivalents between their fair value and cost and determined the more relevant disclosure was under the cost method. The change did not cause a restatement of beginning net position due to the immaterial impact on beginning net position.

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

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

Investments – As of June 30, 2018, EDB securities were recorded by the trustee in the name of BOI by specific account.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities, as well as, any repurchase agreements with a financial institution. As of June 30, 2018, STIP concentration risk was within the policy as set by BOI.

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

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

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

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

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2018. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. The credit quality ratings have been calculated excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as management of BOI determined that these securities did not contain these risk elements. There were no derivative transactions during the 2018 fiscal year for investments held by the trustee. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk and a loss event did not occur as of June 30, 2018.

B. Cash/Cash Equivalents

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

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$ 91,359
Uninsured and uncollateralized cash	8,214
Undeposited cash	512
Cash in US Treasury	316,605
Cash in MSU component units	8,065
Cash in UM component units	11,465
Less: outstanding warrants	(82,211)
	$ 354,009

As of June 30, 2018, the carrying amount of deposits for component units was $182.5 million as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value
Treasuries (1)	$ 92,881
Corporate commercial paper (2)	288,944
Corporate notes (2)	225,121
Certificate of deposit (2)	546,591
Money market fund unrated	152,372
STIP cash and cash equivalents (2)	2,250,669
Less: STIP included in pooled investment balance	(111,156)
Total cash equivalents	$ 3,445,422

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

As of June 30, 2018, local governments had invested $1.2 billion and component units of the State of Montana had invested $412.7 million in STIP.

STIP Cash Equivalent Credit Quality Ratings
(in thousands)

	Total Fixed Income Investments at Fair Value	Credit Quality Rating
Treasuries	$ 239,483	A-1+
Asset backed commercial paper	1,105,685	A-1
Corporate commercial paper	233,356	A-1+
Corporate notes	55,004	A-1+
Certificate of deposit	124,915	A-1
US government agency	351,707	A-1+
US Government money market funds	140,357	A-1+
Cash held at fiscal agent	162	NR
Total cash equivalents	$ 2,250,669	

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2018
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	$ 19,900	A-1+	97
Corporate:			
Commercial Paper	288,944	A-1	71
Notes	225,121	A-1+	67
Certificates of Deposit	546,591	A-1	42
Total STIP fixed income investments at fair value	$ 1,080,556		

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	Fair Value (1)
CAPP:	
Consolidated asset pension pool	$ 11,315,343
TFIP:	
Trust funds investment pool	2,333,070
Total pooled investments	13,648,413
Pool adjustments (net)	599
Total equity in pooled investments	$ 13,649,012

(1) Includes cash/cash equivalents and investments.

As of June 30, 2018, the fair value of the underlying securities on loan was $937.7 million. Collateral provided for the securities on loan totaled $957.5 million, consisting of $106.2 million in cash and $851.3 million in securities.

As of June 30, 2018, local governments invested $12.0 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2018, as required for applicable pools.

Credit Quality Rating and Effective Duration as of June 30, 2018
Fair Value (in thousands)

Security Investment Type	CAPP	TFIP	SMI	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Duration (Years)
Treasuries	$ 1,226,714	$ 536,787	$ 330,905	$ 2,094,406	AAA	3.61-7.59
Agency or Government Related	130,363	137,558	264,686	532,607	AAA	3.06-6.06
Asset Backed Securities	14,743	81,854	44,314	140,911	AAA	2.07-2.74
Mortgage Backed Securities:						
Noncommercial	480,163	446,905	38,563	965,631	AAA	5.11-5.82
Commercial	56,498	144,288	16,406	217,192	AAA	4.36-6.12
Corporate:						
Financial	261,035	275,280	250,987	787,302	BBB+, A-	3.15-4.46
Industrial	431,025	416,570	316,685	1,164,280	BB+, A	4.09-6.66
Utility	24,967	23,463	21,413	69,843	BBB, BBB+	2.75-4.69
High Yield Bond Fund	—	100,994	—	100,994	B	3.64
Total fixed income investments at fair value	$ 2,625,508	$ 2,163,699	$ 1,283,959	$ 6,073,166		

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

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

CAPP – Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraisal value.

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

Each of the investment pools and SMI have the following fair value measurements as of June 30, 2018:

Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 2,114,306	$ 2,114,306	$ —	$ —
Agency or Government Related	532,607	—	532,607	—
Asset Backed Securities	140,911	—	140,911	—
Mortgage Backed Securities	965,631	—	965,631	—
Commercial Mortgage Backed Securities	217,192	—	217,192	—
Corporate:				
Commercial Paper	288,944	—	288,944	—

Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Commercial Notes	225,121	—	225,121	—
Certificates of Deposit	546,591	—	546,591	
Financial	787,302	—	787,302	—
Industrial	1,164,280	—	1,164,280	—
Utility	69,843	—	69,843	—
Equity investments:				
Consumer Discretionary	269,082	269,082	—	—
Consumer Staples	71,850	71,850	—	—
Energy	108,933	108,933	—	—
Financials	267,097	267,097	—	—
Health Care	228,681	228,681	—	—
Industrials	274,462	274,462	—	—
Information Technology	444,999	444,999	—	—
Materials	90,942	90,942	—	—
Mutual Funds	2,233,394	2,233,394	—	—
Real Estate	41,022	41,022	—	—
Telecommunication Services	12,920	12,920	—	—
Utilities	30,738	30,738	—	—
International equity investments:				
Consumer Discretionary	111,748	111,748	—	—
Consumer Staples	84,360	84,360	—	—
Energy	50,331	50,331	—	—
Financials	154,819	154,819	—	—
Health Care	54,635	54,635	—	—
Industrials	116,210	116,210	—	—
Information Technology	128,410	128,410	—	—
Materials	37,300	37,300	—	—
Mutual Funds	270,338	270,338	—	—
Private Placement	1,239	1,239	—	—
Real Estate	13,427	13,427	—	—
Rights/Warrants	15	15	—	—
Telecommunication Services	12,031	12,031	—	—
Utilities	4,876	4,876	—	—
Direct Real Estate	19,185	—	—	19,185
Residential Mortgages	3,861	—	—	3,861
Total investments by fair value level	$ 12,189,633	$ 7,228,165	$ 4,938,422	$ 23,046
Investments measured at the net asset value (NAV)				
Commingled Equity Index Funds	1,116,165			
Private Equity – Private Equity Partnerships	1,365,239			
Core Real Estate	557,350			
Non-core Real Estate	396,524			
Timber	110,153			
High Yield Bond Fund	100,994			
Total investments measured at NAV	3,646,425			
Total investments measured at fair value	15,836,058			

Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments not required to be categorized				
Cash and cash equivalents held at custodial bank	2,585,318			
Montana Mortgages and Loans at cost	180,618			
Total investments not categorized	2,765,936			
Total investments	$ 18,601,994			

The investments measured at NAV for the year ended June 30, 2018, are detailed below.

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
CAPP				
Commingled Equity Index Funds	$ 936,139	$ —	Daily	1 day
Private Equity – Private Equity Partnerships	1,365,239	938,879		
Core Real Estate	329,903	80,000	Monthly, quarterly	45-90 days
Non-core Real Estate	396,524	285,064		
Timber	110,153	17,657		
Total investments measured at the NAV	$ 3,137,958	$ 1,321,600		
TFIP				
Core Real Estate	138,538		Monthly, quarterly	45-90 days
High Yield Bond Fund	100,994		Monthly	30 days
Total investments measured at NAV	$ 239,532			
SMI				
Core Real Estate	88,909		Monthly, quarterly	45-90 days
Commingled Equity Index Funds	180,026		Daily	1 day
Total investments measured at NAV	$ 268,935			

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

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

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

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

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

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

Private Equity Partnerships – This type includes investments in limited partnerships. Generally, the types of partnership strategies included in this portfolio are: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments 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.

As of the June 30, 2018, exchange date, BOI's foreign currency exposure by deposits and investment type are reported, in US dollars, at fair value in the table below. Excluded are the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Australian Dollar	$ —	$ 23,306	$ —	$ —
Brazilian Real	—	14,814	—	—
Canadian Dollar	65	53,456	—	—
Danish Krone	—	13,104	—	—
EMU – Euro	46	168,668	21,400	2,000
Hong Kong Dollar	1	37,984	—	—
Indonesian Rupiah	25	623	—	—
Korean Fortnit	4	15,946		
Japanese Yen	322	109,401	—	—
Malaysian Ringgit	16	2,626	—	—
Mexican Peso	2	2,430	—	—
New Israeli Sheqel	—	3,686	—	—
New Zealand Dollar	—	238	—	—
Norwegian Krone	—	11,022	—	—
Philippine Peso	1	1,201	—	—
Phillippine Piso	—	34		
Polish Zloty	3	2,161	—	—
Pound Stering	248	103,975		
Singapore Dollar	77	12,089	—	—
South African Rand	—	14,129	—	—
South Korean Won	—	25,224	—	—
Swedish Krona	—	22,659	—	—
Swiss Franc	—	32,240	—	—
New Taiwan Dollar	—	4,887	—	—
Thailand Baht	6	5,141	—	—
Yuan Renminbi	94	7,774	—	—
Total cash and securities	$ 910	$ 688,818	$ 21,400	$ 2,000

Investments in alternative equity are usually made through limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to CAPP alternative equity managers by pension asset class (PAC), as of June 30, 2018.

Commitments to Fund Managers
(in thousands)

Pool	Original Commitment	Commitment Remaining
Private Equities PAC	$ 2,580,722	$ 807,355
Real Estate PAC	1,655,262	365,064
Natural Resources PAC	420,000	149,181
Total	$ 4,655,984	$ 1,321,600

D. Investments

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

Long-term Investments

Department	Percent Administered
Board of Investments	50.97%
Universities	19.06
MPERA (Montana Public Employee Retirement Administration)	22.14
College Savings Plan	4.71
Montana Board of Housing	1.67
Other (1)	1.45
Total	100.00%

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

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

The PERS Defined Contribution Retirement Plan (DCRP) and the Deferred Compensation Plan's Montana Fixed Fund is a stable value investment option administered by outside vendors; Pacific Investment Management Company LLC (PIMCO), custodial bank State Street Bank and Trust Company (State Street), and third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). All money invested in the Montana Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The third party record keeper, Empower ™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
Investments by fair value level				
Treasuries (1)	$ 8,823	$ 8,823	$ —	$ —
Agency/Government Related (1)	47,962	—	47,962	—
Government Securities	5,958	3,867	2,091	—
Stocks	5,447	5,447	—	—
Other	19,166	—	19,166	—
Total investments at fair value	87,356	18,137	69,219	—
Investments at cost				
Montana Mortgages and Loans (3)	180,618			
Total investments at cost	180,618			
Total primary government	267,974			
Component units/fiduciary funds				

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Treasuries (1)	272,324	272,324	—	—
Agency/Government Related (1)	216,724	—	216,724	—
Asset Backed Securities (1)	44,314	—	44,314	—
Mortgage Backed Securities (1)	38,563	—	38,563	—
Commercial Mortgage Backed Securities (1)	16,406	—	16,406	—
Financial-Corporate (1)	250,987	—	250,987	—
Industrial-Corporate (1)	316,685	—	316,685	—
Utility-Corporate (1)	21,413	—	21,413	—
529 College Savings Plan	154,733	—	154,733	—
VEBA	6,956	—	6,956	—
State Auditor	10,082	—	10,082	—
MSU Component Unit Investments (2)	295,063	153,063	44,027	97,973
UM Component Unit Investments (2)	175,380	130,426	34,012	10,942
Board of Housing (2)	53,249	20,872	32,377	—
Total investments at fair value	1,872,879	576,685	1,187,279	108,915
Investments at net asset value (NAV)				
Core Real Estate	88,909			
Commingled Equity Index Funds	180,026			
Deferred Compensation (2)	501,608			
Defined Contribution (2)	225,634			
UM Component Unit Investments (2)	123,987			
UM Other Investments (2)	612			
UM Interest in Split Interest (2)	4,239			
Total investments at NAV	1,125,015			
Investments at cost				
MSU Component Unit Investments (2)	26,390			
Board of Housing (2)	1,742			
Total Investments at Cost	28,132			
Total component unit/fiduciary investments	3,026,026			
Total investments	$ 3,294,000			
Securities lending investment pool	$ 14,392			

(1) The credit quality rating and duration are included in above sections for the rated investments.
(2) For more detail, refer to component unit separately issued financial statements.
(3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included on SMI financial statements. This amount of $9.7 million is considered advances to other funds/component units and amounts due from component units in the Coal Tax Severance column of the governmental fund financial statements.

As of June 30, 2018, the fair value of the investments on loan was $131.4 million. Collateral provided for the investments on loan totaled $134.1 million consisting of $14.4 million in cash and $119.7 million in securities.

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

EDB – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2018
(in thousands)

Security Investment Type		Fair Value	Credit Quality Rating [1]	Effective Duration [1]
Short-term investments				
US Treasury obligations	$	3,182	AA	0.24
US Agency obligations		1,080	AA	0.63
Restricted investments				
US Treasury obligations		685	AA	2.42
Total investments	$	4,947		

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

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

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2018, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	$ —	$ 6,156	$ 1,054	$ 556	$ —	$ —	$ 10,416
Contributions/premiums	—	—	—	6,909	—	—	1,790
Grants/contracts/donations	—	11	—	—	—	—	351
Investment income	3,225	—	1,350	217	1,956	3,549	4,229
License and permits	—	—	—	—	—	—	7,785
Other receivables	—	49,019	8,133	—	—	—	146
Reimbursements/overpayments	—	133	14,587	—	—	—	14,919
Taxes	7,244	—	387,843	—	—	2,474	99,298
Total receivables	10,469	55,319	412,967	7,682	1,956	6,023	138,934
Less: allowance for doubtful accounts	—	(2,085)	(127,081)	(17)	—	—	(18,116)
Receivables, net	$ 10,469	$ 53,234	$ 285,886	$ 7,665	$ 1,956	$ 6,023	$ 120,818

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	$ —	$ 26,927	$ —
Contributions/premiums	—	5,017	5,662
Loans/investment income	10,675	191	—
Other receivables	263	80	—
Reimbursements/overpayments	—	—	1,819
Total receivables	10,938	32,215	7,481
Less: allowance for doubtful accounts	—	(495)	(3,363)
Receivables, net	$ 10,938	$ 31,720	$ 4,118

B. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred outflows [1]	$ —	$ 895	$ 58	$ —	$ —
Pension deferred outflows [2]	26	354,870	13,926	—	105
Refunding deferred outflows	—	—	—	3,006	—
Total deferred outflows	$ 26	$ 355,765	$ 13,984	$ 3,006	$ 105

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
OPEB deferred outflows [1]	$ —	$ 17
Pension deferred outflows [2]	90	3,904
Total deferred outflows	$ 90	$ 3,921

(1) Further detail regarding OPEB related deferred outflows of resources is provided in Note 7.
(2) Further detail regarding pension related deferred outflows of resources is provided in Note 6.

C. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued interest	$ 4	$ 369	$ 21	$ 2,267	$ 51
Payroll	7,714	21,139	3,760	37	20,882
Tax refunds	—	169,494	—	—	—
Vendors/individuals	280,290	68,069	10,932	2,408	156,870
Payables, net	$ 288,008	$ 259,071	$ 14,713	$ 4,712	$ 177,803

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued interest	$ 578	$ 4	$ —
Payroll	20	1,037	—
Vendors/individuals	6	19,868	2,204
Payables, net	$ 604	$ 20,909	$ 2,204

D. Deferred Inflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred inflows [1]	$ —	$ 4,358	$ 280	$ —	$ —
Pension deferred inflows [2]	1	66,962	1,389	—	24
Refunding deferred inflows	—	—	—	530	—
Total deferred inflows	$ 1	$ 71,320	$ 1,669	$ 530	$ 24

All deferred inflows of resources in the governmental fund financial statements consist of unavailable revenue.

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
OPEB deferred inflows [1]	$ 2	$ 84
Other deferred inflows	—	5
Pension deferred inflows [2]	15	725
Total deferred inflows	$ 17	$ 814

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

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

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2018, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases [(1)]	Decreases [(1)]	Ending Balance
Capital assets not being depreciated:				
Land	$ 694,036	$ 25,847	$ (800)	$ 719,083
Construction work in progress	835,991	337,733	(246,647)	927,077
Easements	181,017	11,570	—	192,587
Museum and art [(2)]	84,581	859	—	85,440
Other [(2)]	28,889	393	—	29,282
Total capital assets not being depreciated	1,824,514	376,402	(247,447)	1,953,469
Capital assets being depreciated:				
Infrastructure	5,273,579	273,138	(116,767)	5,429,950
Land improvements	62,272	3,236	—	65,508
Buildings/improvements	600,939	8,904	(18,549)	591,294
Equipment	379,018	31,349	(12,864)	397,503
Easements - amortized	1,523	—	(73)	1,450
Other	7,197	246	(2,041)	5,402
Total capital assets being depreciated	6,324,528	316,873	(150,294)	6,491,107
Less accumulated depreciation for:				
Infrastructure	(1,546,498)	(177,612)	108,261	(1,615,849)
Land improvements	(27,623)	(2,984)	176	(30,431)
Buildings/improvements	(374,600)	(19,762)	10,927	(383,435)
Equipment	(239,325)	(22,155)	7,856	(253,624)
Other	(5,825)	(226)	2,009	(4,042)
Total accumulated depreciation	(2,193,871)	(222,739)	129,229	(2,287,381)
Total capital assets being depreciated, net	4,130,657	94,134	(21,065)	4,203,726
Intangible assets	36,793	10,410	(13,705)	33,498
Governmental activities capital assets, net	$ 5,991,964	$ 480,946	$ (282,217)	$ 6,190,693

(1) The increases and decreases noted above include adjustments related to prior periods and correction of errors.
(2) The restatement of beginning balance from museum and art to other is due to a correction of prior period reclassification.

Business-type Activities	**Beginning Balance**	**Increases (1)**	**Decreases (1)**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 800	$ —	$ —	$ 800
Construction work in progress	4,615	3,375	(199)	7,791
Other	4,309	10	(68)	4,251
Total capital assets not being depreciated	9,724	3,385	(267)	12,842
Capital assets being depreciated:				
Infrastructure	1,175	—	—	1,175
Land improvements	3,830	—	—	3,830
Buildings/improvements	10,123	23	—	10,146
Equipment	9,375	309	(138)	9,546
Total capital assets being depreciated	24,503	332	(138)	24,697
Less accumulated depreciation for:				
Infrastructure	(708)	(19)	—	(727)
Land improvements	(1,766)	(149)	—	(1,915)
Buildings/improvements	(6,185)	(318)	—	(6,503)
Equipment	(6,362)	(552)	69	(6,845)
Total accumulated depreciation	(15,021)	(1,038)	69	(15,990)
Total capital assets being depreciated, net	9,482	(706)	(69)	8,707
Intangible assets	194	—	(116)	78
Business-type activities capital assets, net	$ 19,400	$ 2,679	$ (452)	$ 21,627

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

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

	Depreciation (2)
General government	$ 8,248
Public safety	7,474
Transportation, including depreciation of the highway system maintained by the State	180,824
Health and human services	2,768
Education	253
Natural resources, including depreciation of the state's dams	10,466
Depreciation on capital assets held by the internal service funds	12,706
Total depreciation expense – Governmental Activities	$ 222,739

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

	Depreciation (2)
Liquor Stores	$ 142
State Lottery	51
Prison Funds	559
West Yellowstone Airport	233
Other Enterprise Funds	53
Total depreciation expense – Business-type Activities	$ 1,038

(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). The PERB also oversees education funds related to the pension plans. All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be attained here: http://mpera.mt.gov/. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

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

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

Teachers' Retirement System

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

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

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2018, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	544	316	57	33	27	235	365
Nonemployer contributing entity	—	1	—	—	1	1	1	1
Total Participants	7	545	316	57	34	28	236	366

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

B. Summary of Significant Accounting Policies

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

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

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

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2018, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	JRS	HPORS (1)	GWPORS	PERS-DBRP(2)	SRS	MPORS (1)	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	55	233	1,010	28,646	1,429	787	691	2,029	19,267	2,690	4,904
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	3	14	123	3,793	129	78	41	815	1,772	559	4,484
Nonvested	1	23	382	17,973	539	153	66	—	13,967	724	—
Inactive members and beneficiaries currently receiving benefits:											
Service retirements(3)	64	319	298	21,901	629	748	623	1,469	15,933	97	—
Disability retirements	1	7	3	158	27	32	9	1	—	8	—
Survivor benefits(4)	5	12	11	497	25	32	20	4	—	2	—
Total Membership	129	608	1,827	72,968	2,778	1,830	1,450	4,318	50,939	4,080	9,388

(1) Includes DROP in the Active count.

(2) The inactive Nonvested count includes dormant accounts that were previously not counted.

(3) Includes "Alternative Payees" and "Death After Retirement" benefit payments. As of Fiscal Year 2018, the TRS plan stopped reporting separate benefit recipient categories.

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

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2018, based on a June 30, 2017, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/ (Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	$ 60,798	$ 96,653	$ (35,855)	(1,291)	$ 4,631	$ 1,172
HPORS	218,922	140,537	78,385	9,107	13,919	299
GWPORS	213,201	175,841	37,360	7,386	14,653	703
PERS-DBRP	3,936,327	2,903,127	1,033,200	127,773	230,916	21,056
SRS	19,767	16,071	3,696	50	3,404	5,410
FURS	11,360	8,835	2,525	458	1,051	19
TRS	161,230	113,003	48,227	12,062	29,886	1,820
Totals	$ 4,621,605	$ 3,454,067	$ 1,167,538	$ 155,545	$ 298,460	$ 30,479

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The

JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's current 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 until January 1, 2018, at which time the contribution rate is reduced to 0%.

Actuarial Assumptions

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

• Investment Return	7.65%
• Admin Expense as a % of Payroll	0.17%
• General Wage Growth	3.50%
• Inflation at	2.75%

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

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2103. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
JRS Net Pension (Asset)	$ (29,908)	$ (35,855)	$ (40,986)

Net Pension Asset

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

(dollars presented in thousands)

	Net Pension Liability (Asset) as of 6/30/16	Net Pension Liability (Asset) as of 6/30/17	Percent of Collective NPA
Employer's Proportionate Share	$ (33,852)	$ (35,855)	100%

At June 30, 2018, the employer reported a net pension asset of $35.9 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the JRS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality assumption was updated

Changes in benefit terms: The following changes to plan provisions were identified:

1. Refunds
    a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
    b. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
    c. Trust, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
2. Interest credited to member accounts
    a. Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.
3. Lump-sum payouts
    a. Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Other Items Related to and Changes in Net Pension Asset

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2016	$ 53,953	$ 87,805	$ (33,852)
Service Costs	1,628	—	1,628
Interest	4,044	—	4,044
Difference between Expected and Actual Experience	862	—	862
Changes of assumptions	3,865	—	3,865
Contributions – employer	—	1,800	(1,800)
Contributions – member	—	488	(488)
Net Investment Income	—	10,368	(10,368)
Benefit Payments	(3,554)	(3,554)	—
Administrative Expense	—	(254)	254
Net Changes	6,845	8,848	(2,003)
Balances at 6/30/2017	$ 60,798	$ 96,653	$ (35,855)

Pension Expense
At June 30, 2018, the employer recognized pension expense/(income) of $(1.3) million for the JRS.

Deferred Outflows and Inflows
At June 30, 2018, the employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $1.8 million.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between projected and actual earnings on pension plan investments	$ —	$ 243
Changes of assumptions	2,899	—
Differences between expected and actual experience	647	929
Contributions paid to JRS subsequent to the measurement date – FY 2018 Contributions	1,085	—
Totals	$ 4,631	$ 1,172

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

	(in thousands)
Year ended June 30:	**Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense**
2019	$ 16
2020	1,638
2021	1,443
2022	(723)
2023	—
Thereafter	—

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

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

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2018, was approximately $1.2 million.

Summary of Benefits

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

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

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

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

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

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

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

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

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

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

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.
Hired prior to July 1, 1997, and not electing GABA – Plan members are required to contribute 13.00%.
Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 13.05%.

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

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

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.28%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - If electing GABA or hired on or after July 1, 1997 – 3.00%
  - Hired on or after July 1, 2013 – 1.50%

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

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
HPORS Net Pension Liability	$ 108,542	$ 78,385	$ 53,937

Net Pension Liability

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Employer's Proportionate Share	$ 71,779	$ 78,385	100%

At June 30, 2018, the employer reported a liability of $78.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the HPORS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality was updated.
5. The salary merit scale was updated.

Changes in benefit terms: The following changes in plan provisions were identified:

1. Working Retiree Limitations - Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
    a. Members who return for less than 480 hours in a calendar year:
        i. may not become an active member in the system; and
        ii. are subject to a $1 reduction in their retirement benefit for each $3 earned in excess of $5,000 in the calendar year.
    b. Members who return for 480 or more hours in a calendar year;
        i. must become an active member of the system;
        ii. will stop receiving a retirement benefit from the system; and
        iii. will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
    c. Employee, employer and state contributions apply as follows:
        i. Employer contributions and state contributions (if any) must be paid on all working retirees;
        ii. Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.
2. Second Retirement Benefit - Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
    a. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
        i. is not awarded service credit for the period of reemployment;
        ii. is refunded the accumulated contributions associated with the period of reemployment;
        iii. starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
        iv. does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following second retirement.
    b. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
        i. is awarded service credit for the period of reemployment;
        ii. starting the first month following termination of service, receives:

1. the same retirement benefit previously paid to the member; and
2. a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and

iii. does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:

1. on the initial retirement benefit in January immediately following second retirement; and
2. on the second retirement benefit starting in January after receiving that benefit for at least 12 months

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

3. Refunds
   a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
   b. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
   c. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
4. Interest credited to member accounts
   a. Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%
5. Lump-sum payout
   a. Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Other Items Related to and Changes in Net Pension Liability

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	$ 200,752	$ 128,973	$ 71,779
Service Costs	3,665	—	3,665
Interest	15,121	—	15,121
Difference expected and actual experience	2,774	—	2,774
Changes in assumptions	7,892	—	7,892
Contributions – employer	—	5,782	(5,782)
Contributions – non-employer	—	263	(263)
Contributions – member	—	1,950	(1,950)
Net Investment Income	—	15,099	(15,099)
Refund of Contributions	(245)	(245)	—
Benefit Payments	(11,037)	(11,037)	—
Administrative Expense	—	(248)	248
Net Changes	18,170	11,564	6,606
Balances at 6/30/2017	$ 218,922	$ 140,537	$ 78,385

Pension Expense
At June 30, 2018, the employer recognized pension expense of 9.1 million for the HPORS.

Deferred Outflows and Inflows
At June 30, 2018, the employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $5.7 million.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources related to the HPORS are from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,156	$ —
Changes of assumptions	5,920	—
Net difference between projected and actual earnings on pension plan investments	—	299
Contributions paid to HPORS subsequent to the measurement date – FY 2018 Contributions	5,843	—
Totals	$ 13,919	$ 299

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 1,881
2020	3,867
2021	3,077
2022	(1,048)
2023	—
Thereafter	—

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

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

Summary of Benefits

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

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

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

Vesting
5 years of membership service.

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

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

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

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

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

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

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

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

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

Discount Rate

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

Target Allocations

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

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

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Primary Government GWPORS Net Pension Liability	$ 66,423	$ 35,297	$ 10,179
Discretely Presented Component Units GWPORS Net Pension Liability	3,632	2,063	557
Total Employer GWPORS Net Pension Liability	$ 70,055	$ 37,360	$ 10,736

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 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Primary Government Employer Proportionate Share	$ 31,020	$ 35,297	94.815012%
Discretely Presented Component Unit Share	1,829	2,063	5.184988%
Total Employer GWPORS Proportionate Share	$ 32,849	$ 37,360	100%

At June 30, 2018, the employer reported a total liability of $37.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of GWPORS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:
1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.

The following changes in method was identified:
1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes in plan terms were identified:
1. Working Retiree Limitation applies to retirement system members who return on or after July 1, 2017, to covered employment in the system from which they retired.
2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.

3. Beneficiaries of GWPORS members who die prior to retirement are eligible for either a lump-sum benefit or a monthly survivor benefit. The monthly survivor benefit may be paid out as an option 1, 2, 3 or 4, at the survivor's discretion. Previously, statute provided for lump-sum payments only.
4. Refunds
   a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
   b. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
   c. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
5. Interest credited to member accounts increased from 0.25% to 0.77%.
6. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

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

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	$ 176,947	$ 145,928	$ 31,019
Service Costs	8,176	—	8,176
Interest	13,529	—	13,529
Difference between Expected and Actual Experience	3,549	—	3,549
Changes in assumptions	5,573	—	5,573
Contributions – employer	—	4,231	(4,231)
Contributions – member	—	5,004	(5,004)
Net Investment Income	—	17,626	(17,626)
Benefit Payments	(5,508)	(5,508)	—
Administrative Expense	—	(312)	312
Refunds of Contributions	(982)	(982)	—
Net Changes	24,337	20,059	4,278
Balances at 6/30/2017	$ 201,284	$ 165,987	$ 35,297

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

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	$ 10,587	$ 8,757	$ 1,830
Service Costs	446	—	446
Interest	740	—	740
Difference between Expected and Actual Experience	193	—	193
Changes in assumptions	305	—	305
Contributions - employer	—	231	(231)
Contributions - member	—	274	(274)
Net Investment Income	—	963	(963)
Benefit Payments	(300)	(300)	—
Administrative Expense	—	(17)	17
Refunds of Contributions	(54)	(54)	—
Net Changes	1,330	1,097	233
Balances at 6/30/2017	$ 11,917	$ 9,854	$ 2,063

Pension Expense

At June 30, 2018, the employer recognized a total pension expense of $7.4 million for its proportionate share of the GWPORS pension expense: $7.0 million related to the primary government and $361.4 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2018, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $4.2 million. As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,945	$ —
Net difference between projected and actual earnings on pension plan investments	—	514
Changes in assumptions	4,458	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	162	75
Contributions paid to GWPORS subsequent to the measurement date – FY 2018 Contributions	4,340	—
Totals	$ 13,905	$ 589

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 1,483
2020	3,566
2021	2,722
2022	1,118
2023	—
Thereafter	—

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $229.6 thousand.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 270	$ —
Net difference between projected and actual earnings on pension plan investments	—	28
Changes in assumptions	244	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	86
Contributions paid to GWPORS subsequent to the measurement date – FY 2018 Contributions	234	—
Totals	$ 748	$ 114

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 81
2020	195
2021	149
2022	61
2023	—
Thereafter	—

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

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

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

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

Summary of Benefits

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

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

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

Early retirement, actuarially reduced:
Hired prior to July 1, 2011 –
Age 50, 5 years of membership service; or
Any age, 25 years of membership service.
Hired on or after July 1, 2011 – Age 55, 5 years of membership service.

Second retirement (all require 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 (.77%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

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

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

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

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

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011 –
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 –
Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

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

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

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

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

Employer contributions to the system
State and University System employers are required to contribute 8.57% of member compensation.
Local government entities are required to contribution 8.47% of member compensation.
School district employers contributed 8.20% of member compensation.

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

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

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

Non-Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.
The State contributes 0.37% of member compensation on behalf of school district entities.
The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund. Funding provided for the year ended June 30, 2018, totaled $31.4 million.

Actuarial Assumptions

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

	(in thousands)		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an Employer in PERS-DBRP – Net Pension Liability	$ 1,504,767	$ 1,033,200	$ 637,355
State as a Nonemployer Contributing Entity to PERS-DBRP – Net Pension Liability	28,577	19,622	12,104

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

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

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 906,880	$ 1,033,200	53.049189%
State's Proportionate Share as a Nonemployer Contributing Entity	16,287	19,622	1.007464%
State of Montana Totals	$ 923,167	$ 1,052,822	54.056653%

At June 30, 2018, the State reported a liability of $1.1 billion for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2016, through June 30, 2017, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Decreased administrative expense load from 0.27% to 0.26%.

The following changes in method was identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following benefit changes were identified:

1. Interest credited to member accounts increased from 0.25% to 0.77%.
2. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses
At June 30, 2018, the State as an employer recognized a pension expense of $127.8 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of $1.0 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2018, were $128.8 million.

Support Revenue
As of the fiscal year ended June 30, 2018, the State as an employer recognized grant revenue of $14.8 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows
At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $55.6 million.

As of the fiscal year ended June 30, 2018, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 25,444	$ 1,495
Net difference between projected and actual earnings on pension plan investments	—	6,939
Change of assumptions	141,228	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,360	12,622
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2018 Contributions	54,884	—
Totals	$ 230,916	$ 21,056

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 36,598
2020	80,792
2021	62,838
2022	(21,990)
2023	—
Thereafter	—

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $28.8 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 483	$ 28
Net difference between projected and actual earnings on pension plan investments	—	132
Change of assumptions	2,682	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	546	—
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2018 Contributions	34,706	—
Totals	$ 38,417	$ 160

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2019.

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

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	$ 695
2020	1,534
2021	1,193
2022	(417)
2023	—
Thereafter	—

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

Summary of Benefits

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

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

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

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

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

Contributions to the Plan

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

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

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

Actuarial Assumptions

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

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.21%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
    - ◦ 3.00% for members hired prior to July 1, 2007
    - ◦ 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

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

Target Allocations

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

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

Sensitivity Analysis

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer's SRS Net Pension Liability	$ 6,526	$ 3,696	$ 1,380

Net Pension Liability

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Employer Proportionate Share	$ 9,582	$ 3,696	4.856692%

At June 30, 2018, the State as an employer reported a liability of $3.7 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of SRS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.17% to 0.21%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

The following changes in contributions were identified:

1. Employee contributions increased from 9.245% to 10.495% of a members' compensation.
2. Employer additional contributions increased from 0.58% to 3.58% for a total rate of 13.115%
3. Employee contributions will return to 9.245% and employer contributions will return to 9.535% when reducing the employee rate and terminating additional employer contributions will not cause the amortization period to exceed 25 years.

Changes in benefit terms: The following benefit changes were identified:

1. Interest credited to member accounts increased from 0.25% to 0.77%.
2. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Pension Expense

At June 30, 2018, the employer recognized a pension expense of $50.0 thousand for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $368.0 thousand.

As of the fiscal year ended June 30, 2018, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 24	$ 11
Net difference between projected and actual earnings on pension plan investments	—	45
Changes of Assumptions	2,884	4,718
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	636
Contributions paid to SRS subsequent to the measurement date – FY 2018 contributions	496	—
Totals	$ 3,404	$ 5,410

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:		Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$	(549)
2020		(326)
2021		(413)
2022		(578)
2023		—
Thereafter		—

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

Deferred Retirement Option Plan (DROP)

Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2018, the balance held by MPERA for DROP participants was approximately $14.5 million.

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

Summary of Benefits

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

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

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

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

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

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

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

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

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

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2018:
- If hired prior to July 1, 1975, member contributions as a percentage of salary are 5.80%
- If hired after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.00%;
- If hired after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.50%; and,
- If hired on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary are 9.00%.

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

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

Actuarial Assumptions

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a Nonemployer Entity Net Pension Liability	$ 173,784	$ 119,354	$ 75,713

Net Pension Liability

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

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State as a Nonemployer Contributing Entity – Proportionate Share	$ 119,708	$ 119,354	67.085433%

At June 30, 2018, the State as a nonemployer contributing entity reported a liability of $119.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2016, through June 30, 2017, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.20% to 0.24%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes to benefit terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or after July 1, 2017, to covered employment in the system from which they retired.
2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.
3. Interest credited to member accounts increased from 0.25% to 0.77%.
4. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Grant Expense Related to Special Funding

The State recognized grant expense of $14.5 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $13.2 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 4,072
Net difference between projected and actual earnings on pension plan investments	104	—
Change of assumptions	8,056	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	391	—
Contributions paid to MPORS subsequent to the measurement date – FY 2018 Contributions	15,283	—
Totals	$ 23,834	$ 4,072

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	$ (170)
2020	3,404
2021	2,614
2022	(1,760)
2023	—
Thereafter	—

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

Summary of Benefits

Member's compensation

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

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

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

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

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

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

Monthly benefit formula
Members hired prior to July 1, 1981, and not electing GABA are entitled to the greater of:
2.5% of HMC per year of service; **or**

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

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

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

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

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

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating Employer. For members:
Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;
Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

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

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

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

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.23%

- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases
  - GABA
    Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
  - Minimum Benefit Adjustment (non-GABA)
    Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an Employer in FURS – Net Pension Liability	$ 4,196	$ 2,525	$ 1,175
State as a Nonemployer Contributing Entity to FURS – Net Pension Liability	127,496	76,724	35,703

Net Pension Liability

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

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 2,583	$ 2,525	2.233929%
State's Proportionate Share as a Nonemployer Contributing Entity	77,448	76,724	67.876338%
State of Montana Totals	$ 80,031	$ 79,249	70.110267%

At June 30, 2018, the State reported a liability of $79.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2016, through June 30, 2017, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.19% to 0.23%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes to benefit terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or

after July 1, 2017, to covered employment in the system from which they retired.

2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.
3. Interest credited to member accounts increased from 0.25% to 0.77%.
4. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense
At June 30, 2018, the State as an employer recognized pension expense of $458.1 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of $11.5 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2018, was $12.0 million.

Deferred Outflows and Inflows
At June 30, 2018, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $472.0 thousand.

As of the fiscal year ended June 30, 2018, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 17	$ 19
Net difference between projected and actual earnings on pension plan investments	2	—
Change of assumptions	315	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	199	—
Contributions paid to FURS subsequent to the measurement date – FY 2018 Contributions	518	—
Totals	$ 1,051	$ 19

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 26
2020	134
2021	87
2022	2
2023	66
Thereafter	—

At June 30, 2018, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2017 contributions of $14.0 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 505	$ 580
Net difference between projected and actual earnings on pension plan investments	63	—
Change in assumptions	9,568	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	5	—
Contributions paid to FURS subsequent to the measurement date – FY 2018 Contributions	15,272	—
Totals	$ 25,413	$ 580

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	$ 775
2020	4,065
2021	2,647
2022	55
2023	2,014
Thereafter	—

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

Summary of Benefits

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

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

Vesting
10 years of credited service.

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

Contributions to the Plan

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

Actuarial Assumptions

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2109. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a Nonemployer Entity Net Pension Liability	$ 14,675	$ 10,087	$ 6,202

Net Pension Liability

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

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State as a Nonemployer Proportionate Share	$ 10,599	$ 10,087	100%

At June 30, 2018, the State reported a liability of $10.1 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2016, through June 30, 2017, relative to total contributions received.

Changes in actuarial assumptions and methods: The following changes have been made to the actuarial assumptions:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The non-disabled mortality and withdrawal assumptions were updated.

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

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

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of $1.3 million for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $2.1 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 908
Change of assumptions	1,521	—
Net difference between projected and actual earnings on pension plan investments	103	—
Contributions paid to VFCA subsequent to the measurement date – FY 2018 Contributions	2,207	—
Totals	$ 3,831	$ 908

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

	(in thousands)
Year ended June 30:	**Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense**
2019	$ (39)
2020	858
2021	147
2022	(250)
2023	—
Thereafter	—

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

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

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

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

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

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

Contributions to the System

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

All State and University employers are required to contribute 11.25% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.87% of an active, nonreemployed, member's compensation to the System.

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

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

Actuarial Assumptions

The total pension liability as of June 30, 2017, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017, valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total wage increases (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, 2017, is summarized in the table below:

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

Sensitivity Analysis

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

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS – Net Pension Liability	$ 66,458	$ 48,227	$ 32,872
State as a Nonemployer Contributing Entity to TRS – Net Pension Liability	886,016	642,958	438,252

Net Pension Liability

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's as an Employer Entity	$ 57,016	$ 48,227	2.860298%
State's as a Nonemployer Entity	707,527	642,958	38.133267%
State of Montana Totals	$ 764,543	$ 691,185	40.993565%

At June 30, 2018, the State reported a liability of $691.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2016, through June 30, 2017, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: Since the previous measurement date, there have been no changes in actuarial assumptions or methods.

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

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

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2018, the State as an employer recognized a pension expense of $12.1 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of $31.5 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension related expenses for fiscal year 2018 was $43.6 million.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $17.4 million.

As of the fiscal year ended June 30, 2018, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 177	$ 72
Net difference between projected and actual earnings on pension plan investments	—	191
Change of assumptions	—	202
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,411	1,355
Contributions paid to TRS subsequent to the measurement date – FY 2018 Contributions	17,298	—
Totals	$ 29,886	$ 1,820

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 4,971
2020	4,603
2021	2,047
2022	(853)
2023	—
Thereafter	—

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $43.0 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,365	$ 961
Net difference between projected and actual earnings on pension plan investments	—	2,544
Changes of assumptions	—	2,688
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,375	32,164
Contributions paid to TRS subsequent to the measurement date – FY 2018 Contributions	43,718	—
Totals	$ 52,458	$ 38,357

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

(in thousands)

Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	$ (23,280)
2020	3,570
2021	1,441
2022	(11,348)
2023	—
Thereafter	—

D. Legal Actuarial Status of Plans

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

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), and the Teachers' Retirement System (TRS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP.

Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2018, is $6.9 million and contribution forfeitures were $746.1 thousand.

Local government entities contribute 8.47% of member compensation. School district employers contributed 8.20% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.57% of member compensation.

The total contribution rate of 8.57%, referenced in the preceding paragraph, is allocated as follows: 8.23% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

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

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

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

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association (TIAA). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.47% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA. Total contributions made to the plan by the employer were $16.9 million and the total employee contributions were $19.5 million for the fiscal year ended June 30, 2018.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at either fair value or cost, depending on the underlying investment type. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of direct real estate investments is based on appraised value. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of “1-for-5” additional service. In fiscal year 2018, there were 254 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2018 totaled $261.8 thousand. The outstanding balance at June 30, 2018, totaled $16.0 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson & Williams PC, in Great Falls, Montana and MPERA legal counsel. The State responded and filed an amended answer to the complaint before filing a motion and brief to change venue and/or to dismiss the matter for lack of subject matter jurisdiction. Following a hearing on June 1, 2017, the State’s motions were denied. Discovery requests and responses have been served by both parties. The plaintiff’s motion for class certification was filed October 31, 2017. A third set of discovery requests resulted in plaintiff expanding the issues to include conversion of a disability benefit to a service retirement benefit at normal retirement age. A supplemental set of briefs were filed as of October 2018 and the parties await a ruling from Judge Pinski on plaintiff’s motion for class certification.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information Non-trust Plans

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

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

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

B. Plan Descriptions

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

The State and MUS pay for post employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

As of December 31, 2017, the State OPEB plan's administratively established retiree medical premiums vary between \$439.00 and \$1,633.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and \$70.00 and vision hardware premiums vary between \$7.64 and \$22.26, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

As of June 30, 2018, the MUS OPEB plan's administratively established retiree medical premiums vary between $327.00 and $2,403.00 per month. Retiree dental premiums vary between $52.00 and $156.00 per month while vision premiums vary from $9.71 to $28.31, depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

C. Basis of Accounting

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

Both OPEB plans state, "An employee enrolled in the State OPEB plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD), within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the State OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost," and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2018.

The number of State Plan participants as of March 31, 2018, follows:

	State Plan Participants						
Enrollment	State (1)	Facility Finance Authority (2)	Montana Board of Housing (2)	Public Employee Retirement Board (2)	Montana State Fund (2)	Teachers Retirement System (2)	Total
Active employees	12,210	1	15	46	293	20	12,585
Retired employees, spouses, and surviving spouses	2,846	2	3	1	14	7	2,873
Total	15,056	3	18	47	307	27	15,458

The number of MUS Plan participants as of March 31, 2018, follows:

	MUS Plan Participants									
Enrollment	MSU-GFC (2)	UM-HC (2)	MSU-Billings (2)	MSU-Bozeman (2)	MSU-Northern (2)	OCHE (1)	UM-Missoula (2)	UM-MT Tech (2)	UM-Western (2)	Total
Active employees	120	97	462	3,094	176	61	2,143	437	188	6,778
Retired employees, spouses, and surviving spouses	7	20	136	578	42	23	579	102	61	1,548
Total	127	117	598	3,672	218	84	2,722	539	249	8,326

(1) Primary Government
(2) Discrete Component Units of Primary Government

D. Schedule of Changes in Total OPEB liability

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

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

	State Plan			MUS Plan		
	Primary Government OPEB liability	Discrete Component Unit OPEB liability	Total State Plan	Primary Government OPEB liability	Discrete Component Unit OPEB liability	Total MUS Plan
Balances at 6/30/2017 (Restated)	$ 48,914	$ 955	$ 49,869	$ 421	$ 33,837	$ 34,258
Changes for the year:						
Service Cost	1,775	114	1,889	(12)	1,966	1,954
Interest	1,889	125	2,014	17	1,393	1,410
Difference between Expected and Actual Experience	(4,430)	(293)	(4,723)	(15)	(1,308)	(1,323)
Changes of assumptions or other inputs	(277)	(18)	(295)	(2)	(180)	(182)
Benefit Payments	1,599	106	1,705	(8)	(671)	(679)
Net Changes	556	34	590	(20)	1,200	1,180
Balances at 6/30/2018	$ 49,470	$ 989	$ 50,459	$ 401	$ 35,037	$ 35,438

E. Actuarial Methods and Assumptions

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

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

The State's OPEB Plan TOL in December 31, 2017, rolled forward to March 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Other Postemployment Benefits
State Single Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$ 13,572	$ 5,268
After Medicare eligibility	5,271	4,403
Actuarial valuation date	December 31, 2017	
Actuarial measurement date (1)	March 31, 2018	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.89%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

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

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

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

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Medical plans moved from Cigna to Allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.

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

Other Postemployment Benefits
MUS Single Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$ 11,264	$ 4,728
After Medicare eligibility	4,806	3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date [(1)]	March 31, 2018	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 year period	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.89%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

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

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

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

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017, and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements, lapse rates were removed to reflect a return to standard retiree contribution levels, added employees covered by the MUS-RP, changes in revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Increased deductible, increased out-of-pocket limits for Medical and RX, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retirees became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services and massage therapy moved into rehabilitation benefit.

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	State OPEB plan (in thousands)		
	1.0% Decrease (2.89%)	Current Discount Rate (3.89%)	1.0% Increase (4.89%)
Primary Government	$ 60,653	$ 49,470	$ 40,919
Discrete Component Units	1,269	989	778
Total OPEB liability	$ 61,922	$ 50,459	$ 41,697

	MUS OPEB plan (in thousands)		
	1.0% Decrease (2.89%)	Current Discount Rate (3.89%)	1.0% Increase (4.89%)
Primary Government	$ 487	$ 401	$ 335
Discrete Component Units	42,264	35,037	29,416
Total OPEB liability	$ 42,751	$ 35,438	$ 29,751

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

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current healthcare cost trend rates:

	State Plan (in thousands)		
	1.0% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% Increase (8.5%)
Primary Government	$ 40,684	$ 49,470	$ 61,332
Discrete Component Unit	774	989	1,285
Total OPEB liability	$ 41,458	$ 50,459	$ 62,617

	MUS Plan (in thousands)		
	1.0% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% Increase (8.5%)
Primary Government	$ 330	$ 401	$ 495
Discrete Component Unit	28,790	35,037	42,278
Total OPEB liability	$ 29,120	$ 35,438	$ 42,773

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended June 30, 2018, the State OPEB plan's OPEB expense is $3.9 million and MUS OPEB plan's OPEB expense is $3.3 million.

At June 30, 2018, the State OPEB plan deferred outflows and inflows of resources are from the following sources:

	State Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government		
Difference between expected and actual experience	$ —	$ 4,430
Changes of assumptions or other inputs	—	277
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	968	—
Total	$ 968	$ 4,707
Discrete Component Units		
Difference between expected and actual experience	$ 114	$ 407
Changes of assumptions or other inputs	7	25
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	24	—
Total	$ 145	$ 432

At June 30, 2018, MUS OPEB plan deferred outflows and inflows of resources are from the following sources:

	MUS Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government		
Difference between expected and actual experience	$ —	$ 15
Changes of assumptions or other inputs	—	2
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	1	—
Total	$ 1	$ 17
Discrete Component Units		
Difference between expected and actual experience	$ —	$ 1,308
Changes of assumptions or other inputs	—	180
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	100	—
Total	$ 100	$ 1,488

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

	Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense		
	State Plan (in thousands)		
Year ended June 30	**Primary Government**	**Discrete Component Units**	**State Plan Total**
2019	$ (388)	$ (26)	$ (414)
2020	(388)	(26)	(414)
2021	(388)	(26)	(414)
2022	(388)	(26)	(414)
2023	(388)	(26)	(414)
Thereafter	(2,832)	(116)	(2,948)

	Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense		
	MUS Plan (in thousands)		
Year ended June 30	**Primary Government**	**Discrete Component Units**	**MUS Plan Total**
2019	$ (1)	$ (124)	$ (125)
2020	(1)	(124)	(125)
2021	(1)	(124)	(125)
2022	(1)	(124)	(125)
2023	(1)	(124)	(125)
Thereafter	(10)	(867)	(877)

F. General Information Trust Plan

General Information

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

Plan Description

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

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

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

G. Termination Benefits

During the year ended June 30, 2018, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for fifty-two employees provided for up to eighteen months, one-time lump-sum incentive payments for fifty employees, and paid administrative leave for four employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2018, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for one hundred fifteen employees.

During the year ended June 30, 2018, the cost of termination benefits for the fiscal year was $867.3 thousand and $6.1 million for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 764 policies during the 2018 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2018 growing season, with an 85% share of premiums and losses allotted to the Reinsurer and a 15% share of each allotted to the State Hail Insurance. The fund recorded a liability of $34.5 thousand which is 15% of the estimated claims ($209.0 thousand) plus adjustment expenses through June 30, 2018. The amount deducted from the estimated claims as of June 30, 2018, for reinsurance was $177.7 thousand (85% of estimated claims). The premiums ceded to the reinsurer through June 30, 2018 were $1.3 million which was 85% of total premiums of $1.6 million.

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

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and Navitus is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be $10.2 million as of June 30, 2018, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750.0 thousand per occurrence ($500.0 thousand for claims occurring prior to July 1, 2013) and $1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1.0 million above the self-insured amount of $750.0 thousand ($500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2018, the program ceded $323.5 thousand in premiums to reinsurers.

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

The fund recorded a liability of $5.8 million for estimated claims at June 30, 2018. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

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

The Employment Relations Division sets the assessment and surcharge rates annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Covered employers share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers for April 1st, of the previous fiscal year, through March 31st of the recent year.

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

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2018, the amount of this liability was estimated to be $2.9 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2018	2017	2018	2017	2018	2017
Unpaid claims and claim adjustment expenses at beginning of year	$ 2	$ 134	$ 10,000	$ 9,100	$ 7,298	$ 7,764
Incurred claims and claim adjustment expenses: provision for insured events of the current year	120	819	86,485	84,186	2,794	3,096
Less excess insurance reimbursement	-	-	-	-	-	-
Increase (decrease) in provision for insured events of prior years	12	434	-	-	(1,273)	(1,368)
Total incurred claims and claim adjustment expenses	132	1,253	86,485	84,186	1,521	1,728
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(85)	(817)	(86,285)	(83,286)	(605)	(940)
Claims and claim adjustment expenses attributable to insured events of prior years	(14)	(568)	-	-	(2,383)	(1,254)
Total payments	(99)	(1,385)	(86,285)	(83,286)	(2,988)	(2,194)
Total unpaid claims and claim adjustment expenses at end of year	$ 35	$ 2	$ 10,200	$ 10,000	$ 5,831	$ 7,298

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and State-administered foreclosure of housing units. The State self-insures the $2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below $2.0 million of value, with State agencies paying the first $1.0 thousand. Commercial property insurance protects approximately $5.5 billion of State-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2.0 million for earthquake and $2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Willis Towers Watson Company, and issued for the accident period July 1, 2008, through June 30, 2018, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2018, estimated claims liability was $15.2 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. Navitus is the administrator for the pharmacy program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2018, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $17.7 million as provided by Actuaries Northwest, a consulting actuarial firm. In fiscal year 2019, $17.5 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Willis Towers Watson, as of June 30, 2018, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2018, $31.1 million of unpaid claims and claim adjustment expenses were reported at face value.

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

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2018	2017	2018	2017	2018	2017
Amount of claims liabilities at the beginning of each fiscal year	$ 16,054	$ 15,444	$ 17,696	$ 17,873	$ 32,212	$ 38,410
Incurred claims:						
Provision for insured events of the current year	4,714	4,786	171,930	159,835	-	-
Increase (decrease) in provision for insured events of prior years	11,070	17,592	(4,013)	518	6,002	1,554
Total incurred claims	15,784	22,378	167,917	160,353	6,002	1,554
Payments:						
Claims attributable to insured events of the current year	(1,852)	(1,681)	(154,468)	(142,173)	-	-
Claims attributable to insured events of prior years	(14,806)	(20,087)	(13,422)	(18,357)	(7,105)	(7,752)
Total payments	(16,658)	(21,768)	(167,890)	(160,530)	(7,105)	(7,752)
Total claims liability at end of each fiscal year	$ 15,180	$ 16,054	$ 17,723	$ 17,696	$ 31,109	$ 32,212

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2018, the Department of Transportation had contractual commitments of approximately $280.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2018, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $38.3 million for capital projects construction. The primary government will fund $7.7 million of these projects, with the remaining $30.6 million funding coming from the Montana University System.

At June 30, 2018, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately $4.5 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2018, BOI had committed, but not yet purchased, $29.4 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $5.9 million for loans as of June 30, 2018. As of June 30, 2018, another $3.5 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2018, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2018, totaled $38.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2018, the outstanding tax-exempt bonds distributed by the Facility Finance Authority were issued in the amount of $14.3 million of which $1.9 million in principal payments are scheduled to be paid by June 30, 2019. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds.

E. Department of Labor and Industry Commitments

At June 30, 2018, Department of Labor and Industry, had $3.2 million contractual commitments for Montana State AmeriCorps Programs and a $0.8 million commitment for IT contracts. The funding for these programs is federal grants and state special funds.

F. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

Enterprise Funds	Amount
HUD Section 8	$ 69
Liquor Warehouse	25
Other Enterprise	4
Prison Industries	3
West Yellowstone Air	18
Subtotal - Enterprise funds	$ 119
Internal Service Funds	
Buildings & Grounds	$ 180
Labor Central Services	628
Print and Mail	1
SABHRS Finance and Budget Bureau	19
Warrant Processing	19
Subtotal - Internal Service funds	$ 847

G. Encumbrances

As of June 30, 2018, 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	$ 20,335	$ 7,998	$ 68	$ 51,126	$ 79,527

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2018, were as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2019	$ 3,594	$ 219
2020	3,406	18
2021	3,066	—
2022	2,355	—
2023	1,273	—
2024 - 2028	570	—
Total minimum payments	14,264	237
Less: interest	(566)	(6)
Present value of minimum payments	$ 13,698	$ 231

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

Asset Class	
Buildings	$ 1,988
Equipment	18,990
Less: Accum Depreciation	(5,025)
Net Book Value	$ 15,953

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2018 totaled $27.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2019	$ 23,965	$ 752
2020	19,240	572
2021	15,228	450
2022	14,189	453
2023	12,001	461
2024 - 2028	40,705	1,672
2029 - 2033	17,613	—
Thereafter	9,364	—
Total future rental payments	$ 152,305	$ 4,360

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

During fiscal year 2018, the State issued two bond anticipation notes. The proceeds of Water/Wastewater 2017B and Drinking Water 2017C will be used to fund water and wastewater system improvements and rehabilitation. As of June 30, 2018, no bond anticipation notes have been authorized but not issued. The State issued three bond anticipation notes during fiscal year 2016, two of which were paid off during fiscal year 2018 and one that is still active. The State issued one bond anticipation note in 2017 that is still active as of the end of fiscal year 2018. Drinking Water 2017C replaced Drinking Water 2016D. The following schedule summarizes the activity for the year ended June 30, 2018 (in thousands):

BANS	Beginning Balance	Additions	Reductions	Ending Balance
Coal Severance Tax – 2015A	$ 1,250	$ —	$ 1,250	$ —
Drinking Water – 2015B	1,540	1,000	2,190	350
Water/Wastewater – 2016C	825	1,000	1,825	—
Coal Severance Tax – 2016E (1)	1,034	346	200	1,180
Water/Wastewater – 2017B (1)	—	1,900	1,450	450
Drinking Water – 2017C (1)	—	900	—	900

(1) These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2018, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2018
2000	$ 15,000	$ 14,255
2003	15,000	14,330
2004	18,500	18,000
2007	15,000	14,695
2010	12,000	11,900
2013	12,000	11,970
2017	20,000	19,960
		$ 105,110

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2018 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$ 107,880	$ —	$ 2,770	$ 105,110

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2018, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments: Fiscal Year 2019	Principal Payments: In Year of Maturity (2)	Balance June 30, 2018
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 160	200 (2023)	$ 900
CERCLA Program (6)	2005D	2,000	3.25-4.3	105	140 (2026)	980
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	295	330 (2022)	1,250
Long-Range Bldg Program	2008D	3,100	3.375-4.35	145	220 (2028)	1,790
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	655	710 (2021)	2,050
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	495	110 (2026)	2,245
Trust Land (Taxable)	2010F	21,000	1.55-4.9	940	1,450 (2031)	15,175
Long-Range Bldg Program	2010G	550	1.5-2.7	60	60 (2021)	180
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	110	70 (2021)	290
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	625	720 (2023)	3,360
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	635	115 (2025)	4,315
Water Pollution Control Revolving Fund (Taxable)(3)	2013D	1,035	0.4-3.7	100	120 (2024)	655
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	500	575 (2024)	3,210
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	1,940	820 (2028)	21,530
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,380	1,260 (2020)	3,640
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	835	1,860 (2036)	22,890
Total general obligation bonds		$140,605		$ 9,980		$ 84,460
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,570	1,820 (2022)	$ 6,775
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	170	215 (2024)	1,155
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	80	115 (2031)	1,225
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	380	170 (2031)	4,315
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	10,590	11,040 (2020)	21,630
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	135	185 (2029)	1,735
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	200	290 (2029)	2,620
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	3,070	3,740 (2023)	16,980
Total special revenue bonds		$116,465		$ 16,195		$ 56,435

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2019	Principal Payments In Year of Maturity (2)	Balance June 30, 2018
Notes Payable					
Middle Creek Dam Project (10)	$ 3,272	8.125	$ 88	225 (2034)	$ 2,033
Tongue River Dam Project (11)	11,300	—	290	290 (2038)	5,795
ITSD Software Licenses	2,890	2.41	494	494 (2019)	494
ITSD IBM Mainframes Maintenance	500	1.07	126	127 (2020)	253
ITSD IBM Professional Services	758	0.19	159	72 (2023)	732
Total notes payable	$ 18,720		$ 1,157		$ 9,307
Subtotal governmental activities, before unamortized balances					150,202
Unamortized discount					(8)
Unamortized premium					9,095
Total governmental activities	$275,790		$ 27,332		$ 159,289

(1) The interest range is over the life of the obligation.
(2) Year of maturity refers to fiscal year.
(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.
(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.
(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
(10) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.
(11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2018, were as follows (in thousands):

	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
Year Ended June 30:	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 9,980	$ 3,350	$ 16,195	$ 2,234	$ 1,157	$ 63
2020	9,170	3,030	16,915	1,595	671	54
2021	8,120	2,735	6,160	947	552	48
2022	7,320	2,424	6,445	738	560	45
2023	7,085	2,117	4,860	518	466	41
2024 - 2028	25,975	6,772	4,575	756	2,041	204
2029 - 2033	11,490	2,589	1,285	70	2,185	204
2034 - 2038	5,320	408	—	—	1,675	41
Total	$ 84,460	$ 23,425	$ 56,435	$ 6,858	$ 9,307	$ 700

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2018, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$ 98,625	$ —	$ 14,165	$ 84,460	$ 9,980	$ 74,480
Special revenue bonds	73,550	—	17,115	56,435	16,195	40,240
Notes payable	10,004	1,258	1,955	9,307	1,157	8,150
	182,179	1,258	33,235	150,202	27,332	122,870
Unamortized discount	(9)	1	—	(8)	—	(8)
Unamortized premium	11,202	—	2,107	9,095	—	9,095
Total bonds/notes payable (2)	193,372	1,259	35,342	159,289	27,332	131,957
Other liabilities						
Lease/installment purchase payable	6,537	9,778	2,617	13,698	3,352	10,346
Operating lease rent holiday	27	—	10	17	9	8
Pension benefits payable	4	—	—	4	2	2
Compensated absences payable (1)	103,565	53,794	55,600	101,759	55,317	46,442
Arbitrage rebate tax payable (1)	83	—	—	83	—	83
Estimated insurance claims (1)	65,962	189,703	191,652	64,013	29,396	34,617
Pollution remediation	208,781	3,021	13,157	198,645	22,162	176,483
Net pension liability	1,789,810	114,395	73,904	1,830,301	—	1,830,301
Total OPEB liability (3)	48,403	527	—	48,930	—	48,930
Total other liabilities	2,223,172	371,218	336,940	2,257,450	110,238	2,147,212
Total governmental activities long-term liabilities	$ 2,416,544	$ 372,477	$ 372,282	$ 2,416,739	$ 137,570	$ 2,279,169
Business-type activities						
Lease/installment purchase payable	$ 415	$ —	$ 184	$ 231	$ 213	$ 18
Compensated absences payable	2,047	1,029	1,034	2,042	1,033	1,009
Arbitrage rebate tax payable	23	—	6	17	—	17
Estimated insurance claims	20,242	88,138	89,420	18,960	13,877	5,083
Net pension liability	14,293	2,686	521	16,458	—	16,458
Total OPEB liability (3)	937	5	—	942	—	942
Total business-type activities long-term liabilities	$ 37,957	$ 91,858	$ 91,165	$ 38,650	$ 15,123	$ 23,527

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

(2) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

(3) The total OPEB liability beginning balances were restated due to the implementation of GASB Statement No. 75. For more detail, see Note 7.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make two prepayments: $350.0 thousand and $165.0 thousand on Series 2005F general obligation bonds resulting in a payoff.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)
BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2018, QZAB debt outstanding aggregated $5.0 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2018, QSCB debt outstanding aggregated $5.1 million.

Beginning Farm Loan Program
The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2018, was as follows: Hershberger Project, outstanding $27.6 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2018, was $198.6 million. Of this liability, $11.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $181.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI receives a credit enhancement fee at FFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. BOI and FFA have entered into an agreement detailing repayment to BOI. The credit enhancement fee received during the fiscal year was $449.0 thousand. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2018 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$ 71,416	$ 36,470	$ 26,435	$ 81,451

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments' INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2018, consisted of the following (in thousands):

	Due to Other Funds							
	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	$ —	$ —	$ —	$ —	$ —	$ 6	$ —	$ 6
Economic Development Bonds	—	—	—	1,700	—	1,615	—	3,315
Federal Special Revenue	—	—	1,917	—	—	—	663	2,580
General Fund	—	819	—	18	13,354	—	14,648	28,839
Internal Service Funds	1	—	8	—	—	—	4	13
Nonmajor Enterprise Funds	—	—	—	—	—	—	11	11
Nonmajor Governmental Funds (1)	—	197	—	—	—	—	131	328
State Special Revenue (2)	—	—	430	—	—	562	—	992
Total	$ 1	$ 1,016	$ 2,355	$ 1,718	$ 13,354	$ 2,183	$ 15,457	$ 36,084

(1) Total due from other funds to the non-major governmental funds on the financial statements is reported as $1.5 million. The difference of $1.2 million between the amount reported above of $328.0 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as $10.6 million. The difference of $9.6 million between the amount reported above of $992.0 thousand and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as $13.6 million. The difference of $291.3 thousand between the amount reported above of $13.4 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide statement and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2018, consisted of the following (in thousands):

	Interfund Loans Payable												
		Coal Severance Tax		Federal Special Revenue		Internal Service Funds		Nonmajor Governmental Funds		State Special Revenue		Land Grant	Total
Interfund Loans Receivable													
General Fund	$	1,689	$	65,260	$	—	$	303	$	5,215	$	—	$ 72,467
Internal Service Funds		—		35		—		—		—		—	35
State Special Revenue		—		60,204		12		—		—		6	60,222
Total	$	1,689	$	125,499	$	12	$	303	$	5,215	$	6	$132,724

C. Advances To/From Other Funds

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

Advances to/from other funds at June 30, 2018, consisted of the following (in thousands):

	Advances from Other Funds									
		Federal Special Revenue		Internal Service Funds		Nonmajor Governmental Funds		State Special Revenue		Total
Advances to Other Funds										
Coal Severance Tax	$	—	$	—	$	1,935	$	—	$	1,935
Economic Development Bonds		—		4,206		1,350		—		5,556
General Fund		300		—		—		189		489
Nonmajor Governmental Funds		—		—		—		7,471		7,471
State Special Revenue		35,296		—		4,293		—		39,589
Total	$	35,596	$	4,206	$	7,578	$	7,660	$	55,040

Additional detail for certain advance balances at June 30, 2018, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program		
Departmental Function		Balance
Natural Resources and Conservation	$	1,350
Transportation		4,206
Total	$	5,556

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2018, consisted of the following (in thousands):

	Transfers Out								
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds (1)	Land Grant	Nonmajor Enterprise Funds (2)	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers In									
Coal Severance Tax	$ —	$ —	$ —	$ —	$ —	$ —	$ 656	$ —	$ 656
Federal Special Revenue	—	—	81	—	—	—	—	2,437	2,518
General Fund	17,938	418	—	—	5	45,118	5,450	73,513	142,442
Internal Service Funds	—	—	1,194	—	—	—	—	529	1,723
Land Grant	—	—	—	—	—	—	—	5	5
Nonmajor Enterprise Funds	—	—	—	69	—	—	—	693	762
Nonmajor Governmental Funds	551	16,328	12,366	160	2,496	—	2,744	13,558	48,203
State Special Revenue	25,700	15,635	45,514	3	59,634	7,318	21,908	—	175,712
Total	$ 44,189	$ 32,381	$ 59,155	$ 232	$ 62,135	$ 52,436	$ 30,758	$ 90,735	$ 372,021

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $904.0 thousand. The difference of $672.0 thousand between the amount reported above of $232.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as $52.4 million. The difference of $3.0 thousand between the amount reported above of $52.4 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2018, as follows (in thousands):

Fund Type/Fund	Deficit [1]
Governmental Funds	
Federal Special Revenue [2]	$ (10,069)
Internal Service Funds	
Information Tech Services	$ (13,046)
Admin Insurance	(417)
Building and Grounds	(594)
Admin Central Services	(1,617)
Labor Central Services	(4,982)
Commerce Central Services	(1,280)
OPI Central Services	(2,070)
DEQ Indirect Cost Pool	(4,223)
Payroll Processing	(1,837)
Investment Division	(3,286)
Aircraft Operation	(309)
Justice Legal Services	(438)
Personnel Training	(257)
Other Internal Services	(469)
Enterprise Fund	
State Lottery	$ (1,877)
Subsequent Injury	(1,573)
Local Government Audits	(137)

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

(2) The primary reason causing fund deficit in Federal Special Revenue Fund is due to CY2017 fire season federally reimbursable costs. The federal fund reimbursement was unavailable to receive within 60 days of 6/30/2018, creating a deferred inflow and a fund deficit in the same amount.

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2018.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 73,544	$ 41,795	$ 22,009	$ 1,824	$ 159	$ 81,567	$ 220,898
Taxes	219,789	4,289	258,926	—	(1)	20,651	503,654
Charges for services	39,658	13,878	4,299	32,194	1,882	17,935	109,846
Investment earnings	554	1,287	206	134	186	7,215	9,582
Securities lending income	—	38	—	1	4	71	114
Sale of documents/ merchandise/property	2,208	2,830	104	100	17	4,741	10,000
Rentals/leases/royalties	317	20	438	48	5	406	1,234
Contributions/premiums	27,471	—	—	—	—	—	27,471
Grants/contracts/donations	1,705	693	561	11,896	5,378	4,041	24,274
Federal	6,944	36	2	2,356	—	—	9,338
Federal indirect cost recoveries	—	—	43,953	62	—	4,992	49,007
Other revenues	1,990	517	284	126	148	100	3,165
Transfers in	48,932	4,207	1,564	7,132	543	113,334	175,712
Total State Special Revenue	$ 423,112	$ 69,590	$ 332,346	$ 55,873	$ 8,321	$ 255,053	$ 1,144,295

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Taxes	$ —	$ —	$ —	$ —	$ —	$ 1	$ 1
Charges for services	812	26	—	5,561	11,896	—	18,295
Investment earnings	212	9	—	—	127	99	447
Grants/contracts/donations	—	—	—	18	—	—	18
Federal	97,025	14,614	441,953	1,924,357	191,216	99,492	2,768,657
Federal indirect cost recoveries	9	—	—	66,546	94	697	67,346
Other revenues	3	6	—	499	3	5	516
Transfers in	81	1,403	—	1,034	—	—	2,518
Total Federal Special Revenue	$ 98,142	$ 16,058	$ 441,953	$ 1,998,015	$ 203,336	$ 100,294	$ 2,857,798

Governmental Fund Balance By Function, June 30, 2018
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances:							
Nonspendable							
Inventory	$ 3,798	$ 21,030	$ —	$ —	$ —	$ —	$ 24,828
Permanent fund principal	—	500	—	561,938	710,197	334,376	1,607,011
Long-term notes/receivables	489	—	—	—	—	—	489
Prepaid expense	327	346	57	—	—	—	730
Total nonspendable	4,614	21,876	57	561,938	710,197	334,376	1,633,058
Restricted							
General government	—	18,273	—	—	—	5,942	24,215
Public safety	—	219,315	—	—	—	1	219,316
Transportation	—	85,046	—	—	—	—	85,046
Health and human services	—	3,438	—	—	—	6,329	9,767
Education	—	13,040	—	—	—	20	13,060
Natural resources	—	703,893	—	—	—	8,986	712,879
Total restricted	—	1,043,005	—	—	—	21,278	1,064,283
Committed							
General government	—	122,732	—	528,012	—	40,481	691,225
Public safety	—	48,094	—	—	—	—	48,094
Transportation	—	16,583	—	—	—	—	16,583
Health and human services	—	40,628	—	—	—	—	40,628
Education	—	16,094	—	—	—	—	16,094
Natural resources	—	292,048	—	—	—	32,491	324,539
Total committed	—	536,179	—	528,012	—	72,972	1,137,163
Assigned							
General government	—	—	—	—	—	23	23
Public safety	—	—	—	—	—	592	592
Encumbrance	7,998	—	—	—	—	—	7,998
Total assigned	7,998	—	—	—	—	615	8,613
Unassigned	186,707	—	(10,126)	—	—	—	176,581
Total fund balance	$ 199,319	$ 1,601,060	$ (10,069)	$ 1,089,950	$ 710,197	$ 429,241	$ 4,019,698

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans, prior to transferring its portfolio, owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees and its business operations are managed by the Student Assistance Foundation (SAF). A Board of Regents board member is also a MHESAC Board of Directors member, an Office of the Commissioner of Higher Education staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board.

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

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT, from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013 and ending June 30, 2021. The annual lease amount is currently set at $21.3 thousand.

The relative of a member of Montana Department of Transportation's (MDT) Management Team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration and state agencies are required to use the DOA issued term contracts for such supplies. Statewide, MDT purchased supplies from this business in the amount of $112.6 thousand for the fiscal year ended June 30, 2018.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. Department-wide, MDT purchased services in the amount of $9.4 thousand for the fiscal year ended June 30, 2018.

MDT has proper conflict of interest procedures and internal controls in place for identified related party transactions.

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the department is eligible to issue GO bonds for the purpose of making private sale loans. Department of Natural Resources and Conservation has applied and received "recycled loan funds" from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for fiscal year 2018 was $4.3 million. The loans have interest rates ranging from 3.0% to 4.3% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

Per ARM 17.58.101, the Montana Petroleum Tank Release Compensation Board (Board) is an independent board that is attached to Department of Environmental Quality (DEQ) for administrative purposes only. Board members are required to follow Montana's code of ethics, that includes recusing oneself in matters related to a conflict of interest. To ensure we are following state law, all contracts are required to go through a competitive bidding process.

Four Board members were identified as having related party transactions with DEQ. These relationships include members who are: 1) an employee of a company that had a release and is receiving funds; 2) an agent for an insurer that covered a station tank release and is receiving funds; 3) a shareholder in a bank that receives funds; and 4) a contractor for DEQ, the agency responsible for clean-up oversite, who is also a shareholder of a separate company that receives funds. Total payments to all related parties were direct payments to the contractors in the amount of $164.5 thousand with a matching Board amount of $9.0 thousand and indirect payments to the bank and insurance company in the amount of $93.6 thousand and $15.9 thousand, respectively, for the fiscal year ended June 30, 2018.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1.0 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a settlement amount calculated annually on cigarette sales by Participating Manufacturers in perpetuity. The base amount was augmented by $90.0 million in 1999 for a strategic contribution portion for those states instrumental in obtaining the settlement, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017. Multiple other tobacco product manufacturers joined the MSA after the initial signing period. Collectively, the signing manufacturers are known as "Participating Manufacturers."

The settlement provides that the tobacco product manufacturers may potentially offset, against their payment in any year, certain amounts of money if it is found that the Participating Manufacturers have lost more than 2% of their national market share (from 1997) to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "Qualifying Statute" and diligently enforced the statute during the year in question. Montana enacted such a Qualifying Statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the Participating Manufacturers had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its Qualifying Statute during 2003. The Participating Manufacturers moved to compel arbitration of the question. The First Judicial District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically articulated that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 and 2004 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2005-2017, for which years the Participating Manufacturers have already received a determination that MSA terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

The Participating Manufacturers conceded that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect during 2005-2016 and thereafter to date. Factual arguments exist to show that Montana diligently enforced its Qualifying Statute during 2005-2017. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2005-2017, which would be recouped through an offset of payments due to Montana in future years. The Participating Manufacturers will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and Participating Manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration; this arbitration continues.

Montana filed a Declaratory Judgment Motion in 2017 for the 2004 NPM Adjustment to have its MSA Court (First Judicial District) declare that Montana had a qualifying statute in place and diligently enforced its Qualifying Statute for the 2004 calendar year. The Participating Manufacturers conceded that Montana has a Qualifying Statute. As part of this action, Montana successfully obtained a ruling from its MSA Court on the burden of proof whereby the Participating Manufacturers must prove that Montana did not diligently enforce its Qualifying Statute to succeed under the NPM Adjustment. Montana is the only state party to the MSA with this ruling on the burden of proof. On the eve of trial, the Participating Manufacturers settled with Montana for all of the 2004 NPM Adjustment funds previously withheld plus interest and earnings. The settlement does not provide precedent for future NPM Adjustment proceedings with the exception of the ruling on the burden of proof. A portion of tobacco litigation proceeds are to be received through an agreement made subsequent to the balance sheet date. Refer to Note 17 - *Subsequent Events* for additional information.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost $41.0 million for past use of the riverbeds.

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

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael

McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

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

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1.2 million for PPL's costs relating to the appellate proceedings. All, but approximately $31.0 thousand, relate to premiums that PPL paid for a supersedeas bond in support of staying the $41.0 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31.3 thousand. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgement. Several procedural motions have taken place since the prior fiscal year-end, but none that require the State to revise its earlier held opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

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

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately $1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision is expected to be issued in early 2018.

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

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

As of June 30, 2018, the State paid Plaintiffs $1.7 million in base payments plus interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Lair, et al. v. Mangan, et al. is a challenge to the State's campaign contribution limits. The case has been ongoing for several years and the same case has been referred to as Lair v. Bullock and Lair v. Motl through its progression. The state won at the Ninth Circuit Court of Appeals, but the plaintiffs have petitioned for certiorari at the United States Supreme Court, which is pending. If the Court grants certiorari and the State were to ultimately lose the case, the plaintiffs' claim for attorney fees would likely be over $1.0 million, although the State would contest that amount.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at the Department of Corrections' (Department), Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the Department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the Department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. On June 19, 2018, the Federal District Court accepted the revised Class Action Settlement Agreement, which includes the Department's agreement to pay attorney's fees. The parties are currently in the process of attempting to negotiate a resolution to the attorney's fees requested. At the moment, the Class attorneys indicated they would be seeking in the neighborhood of $1.5 million in attorney's fees for a period spanning from 2008 until the present. The Department will likely contest that amount before the Court. That projected sum does not include the anticipated two-year monitoring period as well. At this time, the Department can state that it will have a financial obligation in excess of $700.0 thousand for past attorney's fees and costs, but cannot be more specific about the anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. The District Court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The Department of Corrections (Department) has exchanged settlement proposals and has met with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff's chances of success of getting the lower court's decision overturned are fair, given the current political climate in the Ninth Circuit as it relates to placing seriously mentally ill inmates in restrictive housing. The Plaintiff has made a number of unreasonable demands that would cost the Department millions of dollars and at least $800.0 thousand in attorney's fees and undisclosed expert witness fees. At this time the Department cannot specify an anticipated amount of financial obligation.

Michael Jackson v. Montana Department of Corrections (Department), Montana State Prison (MSP) (Cause # DV-18-70) is a case pending in Powell County District Court. Mr. Jackson is a current employee, suing the Department for allowing race discrimination at MSP and creating a hostile work environment. He is seeking lost wages, humiliation, and emotional distress damages as well as attorney's fees and costs. The Human Rights Bureau found no reasonable cause in his claims. His chances of success are poor to fair. The Department has hired outside legal counsel to represent it in this matter. At this time, the Department cannot specify an anticipated amount of financial obligation.

Kila Sheperd v. Montana Department of Corrections (Department) is a Step III Grievance proceeding, in accordance with 2.21.8017, Administrative Rules of Montana (ARM), and the Department has hired outside counsel to represent it regarding Ms. Sheperd's termination from her position at the Department. Ms. Sheperd seeks in excess of $1.0 million for punitive damages, lost wages, loss of benefits, emotional distress, and attorney's fees.

Montana Health Care Association, et al, v. Department of Public Health and Human Services (Cause # DDV-2018-565) is a case filed by a group of Medicaid nursing facility providers, alleging a violation of the Montana Administrative Procedure Act and other related allegations. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates. The potential liability for this case is estimated to be between $3.0 and $3.2 million. An unfavorable outcome is reasonably possible.

Smith, et al. v. State of Montana (Cause # BDV-2018-804) is a case filed by a group of Medicaid recipients as well as a group of Medicaid providers. The allegations include violations of the Montana Administrative Procedure Act and other related allegations. The complaint also includes an alleged violation of the Americans with Disabilities Act based on a reduction in rates and resulting reductions in services. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates, as well as a reduction in rates for targeted Case Management. The potential liability in this case is estimated to be between $19.0 and $21.0 million. An unfavorable outcome is reasonably possible.

Moody's Market, Inc. et al. v. Montana State Fund, Montana Board of Investments, and State of Montana (Cause # DV-18-12) is a case filed by a group of Montana State Fund (MSF) policyholders, in Lake County District Court, in an effort to prevent the Board of Investments (BOI) from charging a 3% management fee on any single investor whose average portfolio balance held by BOI is greater than $1.0 billion. This fee was allowed to be assessed in accordance with Senate Bill 4 passed during the Special Legislative Session of November 2017. The legislation required the BOI fee to be deposited into the fire suppression fund of the State of Montana (State). As of June 30, 2018, a total of $14.7 million in MSF assets had been transferred. No action beyond procedural activities have taken place in relation to this proceeding and no additional updates are available at this time.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Sheriffs' Retirement System (SRS). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has four items of litigation, in addition to the case listed above, in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2018, the State distributed $1.1 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $10.4 million in commodities in fiscal year 2018. The value at June 30, 2018, of commodities stored at the State's warehouse is $2.1 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2018, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling $186.6 million. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $105.1 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $81.5 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2018, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	$ 14,613

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2018. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2018, these include $5.2 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2018. As of June 30, 2018, these include $1.9 million of protested property taxes recorded in the General Fund and $2.2 million recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2018, the Board of Investments (BOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of $5.9 million.

On July 6, 2018, the BOI terminated one manager in the Domestic Equity Asset within Consolidated Asset Pension Pool (CAPP). The approximate market value of the transition was $80.0 million.

In August based on Board action, the BOI approved an additional loan guarantee from the Coal Severance Tax Permanent Fund to Montana Facility Finance Authority totaling $11.0 million. The BOI also directed the Trust Fund Investment Pool (TFIP) purchase of the Montana direct real estate owned within CAPP for $19.4 million.

On September 28, 2018, the BOI sold PEPAC limited partnerships to an outside 3rd party in a secondary sale. The proceeds of these sales were $50.0 million.

The BOI's Executive Director retired September 28, 2018 and a new Executive Director started September 29, 2018.

On October 16, 2018, the BOI reallocated assets in the Domestic Equity Asset Class within CAPP from a commingled fund to a new manager. The approximate market value of the transition was $500.0 million.

Since June 30, 2018, the BOI has committed an additional $200.0 million to alternative equity partnerships within CAPP, including allocations of: $80.0 million within the Private Equity Asset Class; $40.0 million within the Natural Resource Asset Class; and $80.0 million within the Real Estate Asset Class.

Since June 30, 2018, the BOI has received an additional $16.7 million in loan reservations from Montana Lenders and committed to $435.0 thousand in loans from the Coal Severance Tax Permanent Fund.

During fiscal year 2017, the BOI requested a 100% redemption in the amount of $174.0 million from one manager, pertaining to investments from CAPP, TFIP, and Separately Manged Investments (SMI). Since June 30, 2017, total redemptions in the amount of $116.4 million have been received, of which $10.6 million was received since June 30, 2018. The BOI is confident that the full redemption will be received over a reasonable time period.

Since June 30, 2018, the BOI has received recovery payments associated with the recovery of previously written off losses in the amount of $1.8 million and $270.0 thousand interest.

Other Subsequent Events

On July 18, 2018, the State and Participating Manufacturers, who are parties to the case of the State of Montana v. Phillip Morris, Inc. disclosed in Note 16 - *Contingencies*, have entered into a settlement agreement in the amount $27.0 million, including $3.4 million in back payments and interest, in relation to the State's 2004 NPM adjustment.

On October 15, 2018, the court, in relation to the Smith, et al. v. State of Montana disclosed in Note 16 - *Contingencies,* issued an order dismissing all counts as moot.

On October 29, 2018, another order was received by the parties in the Smith case vacating the previous order and dismissing most counts as moot. The remaining counts include an allegation that the Department of Health Human and Human Services (DPHHS) failed to allow meaningful participation in the decision-making process. In addition, the court issued a separate order, in relation to the Montana Health Care Association, et al., v. DPHHS disclosed in Note 16, dismissing nearly all counts. The two remaining counts include an allegation that the DPHHS has failed to use a bed tax fee appropriately, reducing the reimbursement rate the Plaintiffs would otherwise be receiving, and an allegation that the DPHHS failed to allow meaningful participation in the decision-making process.

In accordance with 2017 Special Legislative Session Senate Bill 9 and based on fiscal year 2018 unaudited General Fund revenue totals, $45.7 million was transferred into the Budget Stabilization Reserve Fund during fiscal year 2019. In addition, $45.7 million was returned to State agency fiscal year 2019 budget appropriations and $21.3 million will remain in the General Fund.

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2018 (in thousands):

Condensed Statement of Net Position

Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund [(1)]	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$ 617,012	$ 7,956	$ 1,664,968	$ 660,979	$ 542,772	$ 3,493,687
Due from primary government	—	—	—	393	790	1,183
Due from component units	—	—	—	1	270	271
Capital assets (net) (Note 18C)	1	—	28,219	512,638	387,258	928,116
Total assets	617,013	7,956	1,693,187	1,174,011	931,090	4,423,257
Deferred Outflows of Resources	826	45	6,114	40,675	31,266	78,926
Liabilities:						
Accounts payable and other liabilities	9,106	22	116,294	72,797	67,264	265,483
Due to primary government	—	10	—	4,058	2,320	6,388
Due to component units	—	—	—	270	1	271
Advances from primary government	—	—	—	16,737	19,434	36,171
Long-term liabilities (Note 18I)	455,133	214	1,043,687	384,652	245,451	2,129,137
Total liabilities	464,239	246	1,159,981	478,514	334,470	2,437,450
Deferred Inflows of Resources	81	37	229	2,406	8,622	11,375
Net Position:						
Net investment in capital assets	1	—	28,219	341,185	281,439	650,844
Restricted	153,518	—	—	307,122	335,535	796,175
Unrestricted	—	7,718	510,872	85,459	2,290	606,339
Total net position	$ 153,519	$ 7,718	$ 539,091	$ 733,766	$ 619,264	$ 2,053,358

(1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2017.

Condensed Statement of Activities

Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Expenses	$ 20,996	$ 515	$ 227,078	$ 584,734	$ 447,609	$ 1,280,932
Program Revenues:						
Charges for services	1,516	613	166,768	280,592	189,675	639,164
Operating grants and contributions	19,336	2,208	—	176,777	150,945	349,266
Capital grants and contributions	—	—	—	5,219	191	5,410
Total program revenues	20,852	2,821	166,768	462,588	340,811	993,840
Net (expense) program revenues	(144)	2,306	(60,310)	(122,146)	(106,798)	(287,092)
General Revenues:						
Unrestricted grants and contributions	—	—	—	111	—	111
Unrestricted investment earnings	—	—	73,073	8,899	17,108	99,080
Transfer from primary government	—	—	—	126,803	101,843	228,646
Gain (loss) on sale of capital assets	—	—	(50)	378	—	328
Miscellaneous	—	—	1,085	—	—	1,085
Contributions to term and permanent endowments	—	—	—	10,587	10,786	21,373
Total general revenues and contributions	—	—	74,108	146,778	129,737	350,623
Change in net position	(144)	2,306	13,798	24,632	22,939	63,531
Total net position – July 1 – as previously reported	153,328	5,270	525,304	663,615	560,251	1,907,768
Adjustments to beginning net position	335	142	(11)	45,519	36,074	82,059
Total net position – July 1 – as restated	153,663	5,412	525,293	709,134	596,325	1,989,827
Total net position – June 30	$ 153,519	$ 7,718	$ 539,091	$ 733,766	$ 619,264	$ 2,053,358

(1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2017.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 8,323	$ 8,306	$ 1,139	$ 17,768
Construction work in progress	52,380	26,503	1,385	80,268
Capitalized collections	9,856	18,342	—	28,198
Livestock for educational purposes	3,913	—	—	3,913
Total capital assets not being depreciated	74,472	53,151	2,524	130,147
Capital assets being depreciated:				
Infrastructure	44,999	9,904	—	54,903
Land improvements	26,048	16,370	—	42,418
Buildings/Improvements	688,048	617,047	27,941	1,333,036
Equipment	162,718	94,009	7,268	263,995
Livestock	—	255	—	255
Library books	67,779	62,341	—	130,120
Leasehold improvements	3,810	—	—	3,810
Total capital assets being depreciated	993,402	799,926	35,209	1,828,537
Total accumulated depreciation	(570,732)	(469,360)	(9,633)	(1,049,725)
Total capital assets being depreciated, net	422,670	330,566	25,576	778,812
Intangible assets	2,182	941	120	3,243
MSU Component Unit capital assets, net	13,314	—	—	13,314
UM Component Unit capital assets, net	—	2,600	—	2,600
Discretely Presented Component Units capital assets, net	$ 512,638	$ 387,258	$ 28,220	$ 928,116

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

Montana State Fund (MSF), prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, MSF is currently reporting the OPEB liability within GASB 45 valuation requirements. For note disclosure requirements for MSF under GASB 45, please refer to Note 1 for how to attain separately issued financial statements.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2017, approximately 24,000 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2017, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2017, $919.7 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2017, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to $100.0 million in which MSF retains the first $5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5.0 million on any one life.

The term of the current aggregate stop loss contract is January 1, 2017 through December 31, 2019. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $9.8 million during the year ended December 31, 2017.

Estimated claim reserves were reduced by $1.4 million as of December 31, 2017, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional $12.0 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

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

	Year Ended December 31, 2017	Year Ended December 31, 2016 (1)
Unpaid claims and claim adjustments expenses at beginning of year	$ 921,532	$ 900,296
Incurred claims and claim adjustment expenses:		
Provision for insured event of the current year	137,222	139,240
Increase (decrease) in provision for insured events of prior years	(14,195)	(7,986)
Total incurred claims and claim adjustment expenses	123,027	131,254
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(24,597)	(23,086)
Claims and claim adjustment expenses attributable to insured events of prior years	(100,272)	(86,932)
Total payments	(124,869)	(110,018)
Total unpaid claims and claim adjustment expenses at end of year	$ 919,690	$ 921,532

(1) Changes in claims liabilities for the year ended December 31, 2016 are restated. In prior years, they were provided on a statutory accounting basis rather than the governmental accounting basis.

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2018, were as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2019	$ 198
2020	134
2021	91
2022	47
2023	8
Total minimum payments	478
Less: interest	(42)
Present value of minimum payments	$ 436

G. Operating Leases

Future rental payments under operating leases at June 30, 2018, are as follows (in thousands):

Fiscal Year Ending June 30:		Discretely Presented Component Units
2019	$	4,588
2020		4,754
2021		4,081
2022		3,175
2023		7,950
Thereafter		10,795
Total future rental payments	$	35,343

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2018, were as follows (in thousands):

Year Ended June 30:	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 14,265	$ 14,943	$ 11,880	$ 7,817	$ 9,350	$ 3,429
2020	15,845	14,508	10,612	7,475	9,765	3,058
2021	16,335	14,149	10,504	7,111	10,125	2,656
2022	16,645	13,739	10,893	6,753	10,611	2,238
2023	17,200	13,275	6,721	6,436	11,277	1,811
2024 - 2028	96,885	57,655	36,108	27,870	29,787	4,636
2029 - 2033	100,075	40,472	31,130	20,808	11,275	1,670
2034 - 2038	81,955	23,329	30,477	13,878	3,645	314
2039 - 2043	59,975	10,588	29,561	7,702	—	—
2044 - 2048	24,375	2,607	19,264	1,540	—	—
2049 - 2053	1,970	51	—	—	—	—
Total	$ 445,525	$ 205,316	$ 197,150	$ 107,390	$ 95,835	$ 19,812

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2018, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	$ 446,617	$ 80,004	$ 74,752	$ 451,869	$ 14,265	$ 437,604
Montana State University (MSU)	160,167	58,601	11,903	206,865	11,880	194,985
University of Montana (UM)	92,046	14,125	9,053	97,118	9,385	87,733
Total bonds/notes payable (1)	698,830	152,730	95,708	755,852	35,530	720,322
Other liabilities						
Lease/installment purchase payable	456	93	113	436	173	263
Compensated absences payable	63,868	30,557	31,342	63,083	31,257	31,826
Arbitrage rebate tax payable	561	395	304	652	40	612
Estimated insurance claims	921,531	123,029	124,870	919,690	124,359	795,331
Due to federal government	32,509	260	951	31,818	—	31,818
Derivative instrument liability	4,188	—	1,108	3,080	—	3,080
Reinsurance funds withheld	75,739	11,969	1,838	85,870	—	85,870
Unearned compensation	391	—	—	391	—	391
Net pension liability	206,646	30,850	14,704	222,792	—	222,792
Total OPEB liability (2)	76,289	2,897	37,191	41,995	—	41,995
Total other liabilities	1,382,178	200,050	212,421	1,369,807	155,829	1,213,978
	$ 2,081,008	$ 352,780	$ 308,129	$ 2,125,659	191,359	1,934,300
Long-term liabilities of Montana University System component units (4)					(118)	3,596
Total discretely presented component units' long-term liabilities					$ 191,241	$ 1,937,896

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.
(2) The total OPEB liability beginning balances were restated due to the implementation of GASB No. 75.
(3) Beginning balances are taken from component unit financial statements.
(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Refunded Debt
On July 25, 2017, Montana State University issued Series D 2017 bonds in the amount of $21.0 million, to refund $8.3 million of the Series K 2006 and $12.7 million of the Series M 2011 bonds. As of June 30, 2018, the portion of the Series M 2011 bonds not refunded totaled $0.9 million.

Defeased Debt Outstanding
The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2018, $85.2 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)
FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2018, revenue bonds and notes outstanding aggregated $995.0 million.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)
MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2018, bonds outstanding aggregated $23.4 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2018 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$ 71,416	$ 36,470	$ 26,435	$ 81,451

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2018. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2018, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option's value included intrinsic value and time value. The option's intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2018, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2018, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2018 (in thousands):

		Activity During 2018		Fair Values at June 30, 2018	
Cash flow hedges:	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**
Cash flow hedge –					
Pay fixed interest rate swap	$ 19,800	Interest expense	$ 20	Loan receivable	$ 230
		Investment income	—	Derivative liability	3,080
		Deferred outflow	(1,108)		
Investment derivative –					
Basis swap	$ 19,800	Investment loss	$ 412	Investment (excluding interest accrued)	$ 56

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2018, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$ 19,800	7/21/2005	11/15/2035	$ —	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2018, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2018, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the years ended June 30, 2018, $237.8 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(c)3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM. UM does not provide office space or other services to MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $1.2 million during 2018 and Friends of KEMC Public Radio provided $848.6 thousand during 2018 in support of MSU's television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund is based on a Petition for Hearing filed before the Workers' Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of $2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson v. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

Mak and Sons Concrete Construction Service v. Montana State Fund is a matter filed in the First Judicial District Court and involves the issue of whether the Montana State Fund breached its contract to provide workers' compensation insurance coverage. The Montana State Fund canceled Mak and Sons' policy of insurance due to not receiving timely payment of premium. During the uninsured period, several employees of Mak and Sons were involved in a motor vehicle accident. As a result, Mak and Sons sued the Montana State Fund seeking to have coverage for the injuries as well as for breach of the contract of insurance and breach of the covenant of good faith and fair dealing.

P. Subsequent Events

In November 2017, the Board of Regents authorized the issuance of up to $4.5 million in Intercap debt to fund the construction of a student activity complex on the Montana State University (MSU) Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt. Funds had not yet been drawn as of June 30, 2018, but the University expects to draw $4.0 million during the year ending June 30, 2019.

In July 2018, MSU received authorization to refinance the Series J 2005 bonds with the issuance of Series F variable rate debt in the same principal amount of $19.8 million.

In August 2018, Single Family Mortgage Bonds, 2018 Series B, were issued by the Board of Housing for $50.0 million to be used for the purpose of acquiring additional mortgage loans in Montana.

On September 11, 2018, a resolution to issue Single Family Mortgage Bonds, Single Family Program Bonds, or Single Family Homeownership Bonds, in one or more series or subseries in an aggregate principle amount not to exceed $75.0 million with fixed or variable rates was passed by the Board of Housing.

In September 2018, MSU Billings received revised authorization to expend up to $17.1 million for design, renovation and construction of its Yellowstone Science and Allied Health Building. The 63rd Legislature had appropriated $10.0 million to the project dependent upon a $5.0 million match at the local level for a total authority of $15.0 million. The $5.0 million gift funding has now been committed by the MSU Billings Foundation, and a portion of the project will also be funded with student fees as was approved by student resolution.

In September 2018, the Department of Education informed the University of Montana (UM) that it was imposing a fine of $966.6 thousand for its failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) in Section 485 (f) of the Higher Education Act of 1965, 20 U.S.C., Section 1092 (f). UM is appealing the imposed fine through the appeal process, outlined in 34 C.F.R., Part 668, Subpart G.

In November 2018, MSU Bozeman notified the Board of Regents of its intent to plan for the construction of a new academic facility, American Indian Hall, to create additional classrooms and student support space. In October 2018, the MSU Alumni Foundation announced an anonymous gift of $12.0 million, which, added to previous donations, totals nearly $16.0 million in private funds. The Associated Students of Montana State University also approved the use of $2.0 million in student building fees for the project in October 2018. The University intends to request approval both to expend the $2.0 in student building fees and approval to expend a maximum of $20.0 million for the project as a whole at the May 2019 meeting.

On November 16, 2018, a loan in the amount of $300.0 thousand was made to Ouellette Place Limited Partnerships from the Board of Housing's Multifamily funds. The funds will be used for financing of a housing development in Lewistown, Montana.

Q. Commitments

Montana State Fund (MSF or New Fund) is in the first phase of a multi-year project to replace its legacy policy management system. The total system replacement and change management cost is estimated to be almost $20.0 million. Vendor payments are based on successful completion of terms and an agreed payment schedule. Phase I payments are estimated to be about $10.0 million with milestones scheduled from January 2018 to September 2019. Costs during the application development phase will be capitalized and recorded as construction work in process until the system is deployed.

As of June 30, 2018, Montana State University (MSU) had issued purchase orders committing the expenditure of approximately $9.1 million for equipment, supplies and services which had not yet been received.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP), and the Teachers' Retirement System (TRS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2018.

State of Montana

Required Supplementary Information

BUDGETARTY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 126,502	$ 126,502	$ 126,637	$ 135
Taxes:				
Natural resource	68,268	68,268	86,090	17,822
Individual income	1,320,808	1,320,808	1,285,132	(35,676)
Corporate income	168,763	168,763	166,393	(2,370)
Property	278,473	278,473	277,127	(1,346)
Fuel	—	—	—	—
Other	239,607	239,607	237,112	(2,495)
Charges for services/fines/forfeits/settlements	37,674	37,674	35,776	(1,898)
Investment earnings	—	—	12,805	12,805
Sale of documents/merchandise/property	337	337	334	(3)
Rentals/leases/royalties	7	7	7	—
Contributions/premiums	5,232	5,232	5,250	18
Grants/contracts/donations	4,020	4,020	10,856	6,836
Federal	21,068	21,068	21,154	86
Federal indirect cost recoveries	186	186	257	71
Other revenues	6,008	6,008	400	(5,608)
Total revenues	2,276,953	2,276,953	2,265,330	(11,623)
EXPENDITURES				
Current:				
General government	361,887	361,887	350,591	11,296
Public safety	321,098	321,098	311,184	9,914
Transportation	—	—	—	—
Health and human services	540,387	540,387	517,528	22,859
Education	1,016,098	1,016,098	1,007,891	8,207
Natural resources	33,290	33,290	31,394	1,896
Debt service (Note RSI-1):				
Principal retirement	—	—	22	(22)
Interest/fiscal charges	—	—	283	(283)
Capital outlay (Note RSI-1)	—	—	1,381	(1,381)
Total expenditures	2,272,760	2,272,760	2,220,274	52,486
Excess of revenue over (under) expenditures	4,193	4,193	45,056	40,863
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	—	—	—	—
General capital asset sale proceeds	110	110	96	(14)
Energy conservation loans	—	—	—	—
Transfers in (Note 12)	77,412	77,412	142,443	65,031
Transfers out (Note 12)	(251,893)	(251,893)	(59,155)	192,738
Total other financing sources (uses)	(174,371)	(174,371)	83,384	257,755
Net change in fund balances (Budgetary basis)	(170,178)	(170,178)	128,440	298,618
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	—	—	1	1
2. Securities lending costs	—	—	—	—
3. Inception of lease/installment contract	—	—	—	—
4. Adjustments for nonbudgeted activity	—	—	—	—
(GAAP basis)	(170,178)	(170,178)	128,441	298,619
Fund balance - July 1	—	—	66,984	66,984
Prior period adjustments	—	—	4,625	4,625
Increase (decrease) in inventories	—	—	(734)	(734)
Fund balances - June 30	$ (170,178)	$ (170,178)	$ 199,316	$ 369,494

The notes to the required supplementary information are an integral part of this schedule.
Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.
The original and final budget figures reflect adjustments to the original budget for various reasons, including legislative and executive changes.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 215,742	$ 215,742	$ 220,889	$ 5,147	$ —	$ —	$ —	$ —
73,861	73,861	82,085	8,224	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
18,257	18,257	18,284	27	—	—	—	—
301,245	301,245	258,920	(42,325)	—	—	—	—
144,681	144,681	146,245	1,564	7	7	1	(6)
113,026	113,026	105,587	(7,439)	16,409	16,409	18,295	1,886
—	—	6,775	6,775	—	—	448	448
13,123	13,123	9,899	(3,224)	2	2	—	(2)
919	919	967	48	—	—	—	—
26,908	26,908	27,421	513	—	—	—	—
12,239	12,239	11,285	(954)	49	49	18	(31)
7,646	7,646	7,859	213	2,811,215	2,811,215	2,768,657	(42,558)
52,032	52,032	48,945	(3,087)	65,362	65,362	67,345	1,983
5,512	5,512	2,795	(2,717)	966	966	516	(450)
985,191	985,191	947,956	(37,235)	2,894,010	2,894,010	2,855,280	(38,730)
314,817	314,817	199,816	115,001	234,735	234,735	92,685	142,050
90,542	90,542	72,333	18,209	42,070	42,070	15,824	26,246
331,293	331,293	220,366	110,927	514,017	514,017	111,201	402,816
171,562	171,562	153,331	18,231	2,237,129	2,237,129	1,997,224	239,905
90,975	90,975	75,176	15,799	282,062	282,062	209,620	72,442
367,883	367,883	220,970	146,913	167,567	167,567	92,184	75,383
—	—	634	(634)	—	—	32	(32)
—	—	355	(355)	—	—	5	(5)
—	—	55,971	(55,971)	—	—	328,856	(328,856)
1,367,072	1,367,072	998,952	368,120	3,477,580	3,477,580	2,847,631	629,949
(381,881)	(381,881)	(50,996)	330,885	(583,570)	(583,570)	7,649	591,219
247	247	299	52	—	—	—	—
144	144	1,787	1,643	24	24	31	7
—	—	1,589	1,589	—	—	—	—
277,830	277,830	171,578	(106,252)	17,379	17,379	2,517	(14,862)
(87,410)	(87,410)	(85,206)	2,204	(70,148)	(70,148)	(32,381)	37,767
190,811	190,811	90,047	(100,764)	(52,745)	(52,745)	(29,833)	22,912
(191,070)	(191,070)	39,051	230,121	(636,315)	(636,315)	(22,184)	614,131
—	—	113	113	—	—	—	—
—	—	(65)	(65)	—	—	—	—
—	—	312	312	—	—	—	—
—	—	(20,665)	(20,665)	—	—	—	—
(191,070)	(191,070)	18,746	209,816	(636,315)	(636,315)	(22,184)	614,131
—	—	1,581,457	1,581,457	—	—	12,078	12,078
—	—	1,691	1,691	—	—	39	39
—	—	(834)	(834)	—	—	—	—
$ (191,070)	$ (191,070)	$ 1,601,060	$ 1,792,130	$ (636,315)	$ (636,315)	$ (10,067)	$ 626,248

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2018, reverted governmental fund appropriations were as follows: $14.9 million in the General Fund, $117.0 million in the State Special Revenue Fund, and $196.7 million in the Federal Special Revenue Fund. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	$ 1,628	$ 1,578	$ 1,653	$ 1,594
Interest	4,044	3,986	3,934	3,824
Differences between expected and actual experience	862	(1,341)	(1,032)	—
Changes of assumptions	3,865	—	—	—
Benefit payments	(3,554)	(3,416)	(3,041)	(3,023)
Net change in total pension liability	6,845	807	1,514	2,395
Total pension liability – beginning	53,953	53,146	51,632	49,237
Total pension liability – ending	$ 60,798	$ 53,953	$ 53,146	$ 51,632
Plan Fiduciary Net Position				
Contributions – employer	$ 1,800	$ 1,806	$ 1,684	$ 1,651
Contributions – member	488	729	534	481
Net investment income	10,368	1,779	3,843	12,421
Benefit payments	(3,554)	(3,416)	(3,041)	(3,023)
Administrative expense	(254)	(197)	(136)	(100)
Other	—	(3)	—	—
Net change in plan fiduciary net position	8,848	698	2,884	11,430
Plan fiduciary net position - beginning	87,805	87,107	84,223	72,793
Plan fiduciary net position - ending	$ 96,653	$ 87,805	$ 87,107	$ 84,223
Net Pension (Asset) – Beginning	$ (33,852)	$ (33,961)	$ (32,591)	$ (23,556)
Net Pension (Asset) – Ending	$ (35,855)	$ (33,852)	$ (33,961)	$ (32,591)
Plan fiduciary net position as a percentage of TPL	159%	163%	164%	163%
Covered payroll	$ 6,974	$ 6,920	$ 6,525	$ 6,355
Net pension (asset) as a percentage of covered payroll	(514)%	(489)%	(521)%	(513)%

Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 1,085	$ 1,800	$ 1,786	$ 1,684
Contributions made in relation to the contractually required contributions	1,085	1,800	1,786	1,684
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 7,291	$ 6,974	$ 6,920	$ 6,525
Contributions as a percentage of covered payroll	15%	26%	26%	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in eligibility for survivor's benefits. Assumptions in reporting year 2018 were updated in relation to refunds and related termination benefit amounts and for economic/market trends.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	$ 3,665	$ 3,799	$ 3,598	$ 3,464
Interest	15,121	14,545	14,113	13,518
Changes in benefits	—	—	1,856	—
Difference between expected and actual experience	2,774	18	267	—
Changes of assumptions	7,892	—	—	—
Benefit payments	(11,037)	(10,482)	(10,001)	(9,443)
Refunds of contributions	(245)	(94)	—	—
Net change in total pension liability	18,170	7,786	9,833	7,539
Total pension liability – beginning	200,752	192,966	183,133	175,594
Total pension liability – ending	$ 218,922	$ 200,752	$ 192,966	$ 183,133
Plan Fiduciary Net Position				
Contributions – employer	$ 5,782	$ 5,916	$ 5,840	$ 5,736
Contributions – non-employer	263	243	—	—
Contributions – member	1,950	1,917	1,624	1,458
Net investment income	15,099	2,605	5,738	18,677
Benefit payments	(11,037)	(10,482)	(10,001)	(9,443)
Administrative expense	(248)	(197)	(144)	(109)
Refunds of Contributions	(245)	(94)	—	—
Other	—	(2)	—	—
Net change in plan fiduciary net position	11,564	(94)	3,057	16,319
Plan fiduciary net position – beginning	128,973	129,067	126,010	109,691
Plan fiduciary net position – ending	$ 140,537	$ 128,973	$ 129,067	$ 126,010
Net Pension Liability – Beginning	$ 71,779	$ 63,899	$ 57,123	$ 65,903
Net Pension Liability – Ending	$ 78,385	$ 71,779	$ 63,899	$ 57,123
Plan fiduciary net position as a percentage of TPL	64%	64%	67%	69%
Covered payroll	$ 14,779	$ 15,276	$ 14,549	$ 14,149
Net pension liability as a percentage of covered payroll	530%	470%	439%	404%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 5,843	$ 5,706	$ 6,161	$ 5,782
Contributions in relation to the contractually required contributions	5,843	5,706	6,161	5,782
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 15,251	$ 14,779	$ 15,276	$ 14,549
Contributions as a percentage of covered payroll	38%	39%	40%	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.28%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in DROP participation and related assumptions. Amounts for reporting year 2018 reflect changes in working retiree, second retirement benefit, and refund requirements in addition to updates in underlying market and economic factors.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	$ 8,623	$ 8,403	$ 8,008	$ 7,850
Interest	14,269	12,911	12,398	11,258
Difference between expected and actual experience	3,743	2,705	731	—
Changes of assumptions	5,878	—	—	—
Benefit payments	(5,810)	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,036)	(1,066)	—	—
Net change in total pension liability	25,667	17,885	15,785	13,879
Total pension liability – beginning	187,534	169,649	153,864	139,985
Total pension liability – ending	$ 213,201	$ 187,534	$ 169,649	$ 153,864
Plan Fiduciary Net Position				
Contributions - employer	$ 4,464	$ 4,278	$ 4,088	$ 3,762
Contributions - member	5,278	5,036	4,924	4,462
Net investment income	18,590	3,167	6,435	20,069
Benefit payments	(5,810)	(5,068)	(5,352)	(5,229)
Administrative expense	(329)	(269)	(200)	(162)
Refunds of contributions	(1,036)	(1,066)	—	—
Other	(1)	(31)	—	—
Net change in plan fiduciary net position	21,156	6,047	9,895	22,902
Plan fiduciary net position – beginning	154,685	148,638	138,743	115,841
Plan fiduciary net position – ending	$ 175,841	$ 154,685	$ 148,638	$ 138,743
Net Pension Liability – Beginning	$ 32,849	$ 21,011	$ 15,121	$ 24,144
Net Pension Liability – Ending	$ 37,360	$ 32,849	$ 21,011	$ 15,121
Plan fiduciary net position as a percentage of TPL	82%	82%	87%	90%
Covered payroll	$ 49,381	$ 47,108	$ 44,885	$ 41,637
Net pension liability as a percentage of covered payroll	76%	70%	47%	36%

Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 4,574	$ 4,447	$ 4,240	$ 4,040
Contributions in relation to the contractually required contributions	4,574	4,447	4,240	4,040
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 50,823	$ 49,381	$ 47,108	$ 44,885
Contributions as a percentage of covered payroll	9%	9%	9%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in survivor benefits from 2.0% to 2.5% of HAC, and requires membership election within 90 days. Amounts presented in reporting year 2018 reflect changes to limitations on working retirees and their related second retirement benefit. Assumptions in reporting year 2018 were also updated in relation to refunds and survivor benefit payment options.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	53.049189%	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	$ 1,033,200	$ 906,880	$ 749,414	$ 663,174
Employer's covered payroll	$ 648,671	$ 621,755	$ 620,286	$ 597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	159%	146%	121%	111 %
Plan fiduciary net position as a percentage of the total pension liability	74%	75%	78%	80%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 54,844	$ 56,256	$ 59,073	$ 58,575
Contributions in relation to the contractually required contributions	54,844	56,256	59,073	58,575
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 640,177	$ 648,671	$ 621,755	$ 620,286
Contributions as a percentage of covered payroll	9%	9%	10%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, includes inflation
Salary increases	0% to 4.80%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.26%

Changes of assumptions: Since reporting year 2016, assumptions for GABA, second retirements, and defined contribution (DC) law have been updated to match current law and plan provisions. Since reporting year 2018, assumptions for working retirees, terminations, refunds, disabled DC members, and special funding have been updated to reflect changes in law and plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	1.007464%	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	$ 19,622	$ 16,287	$ 13,365	$ 11,978
Plan fiduciary net position as a percentage of the total pension liability	74%	75%	78%	80%

Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 34,706	$ 28,763	$ 30,800	$ 32,397
Contributions in relation to the contractually required contributions	34,706	28,763	30,800	32,397
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Changes of assumptions: Since the 2018 reporting date, assumptions related to special funding provided have changed and may affect trends.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	4.856692%	5.454386%	5.637055%	5.535%
Employer's proportionate share of the net pension liability	$ 3,696	$ 9,582	$ 5,434	$ 2,304
Employer's covered payroll	$ 3,634	$ 3,850	$ 3,836	$ 3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	102%	249%	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	81%	63%	75%	87%

Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 496	$ 368	$ 389	$ 388
Contributions in relation to the contractually required contributions	496	368	389	388
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 3,781	$ 3,634	$ 3,850	$ 3,836
Contributions as a percentage of covered payroll	13%	10%	10%	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage Inflation	3.50%, includes inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, set back 1 year for males
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.21%

Changes of assumptions: Since the 2018 reporting date, assumptions related second retirement benefit payments, refund payment options to terminated employees, and funding requirements have been updated to reflect current plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.085433%	66.499650%	66.954111 %	66.888728%
Nonemployer's proportionate share of the net pension liability	$ 119,354	$ 119,708	$ 110,756	$ 105,106
Plan fiduciary net position as a percentage of the total pension liability	68%	66%	67%	67%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 15,283	$ 13,215	$ 13,752	$ 13,433
Contributions in relation to the contractually required contributions	15,283	13,215	13,752	13,433
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

> The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.233929%	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	$ 2,525	$ 2,583	$ 2,454	$ 1,806
Employer's covered payroll	$ 1,022	$ 974	$ 986	$ 735
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	247%	265%	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	77%	77%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 518	$ 472	$ 475	$ 142
Contributions in relation to the contractually required contributions	518	472	475	142
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 1,103	$ 1,022	$ 974	$ 986
Contributions as a percentage of covered payroll	47%	46%	49%	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Inflation	2.75%
Salary increases	0% to 6.30%
Investment rate of return	7.65%, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin as a % of payroll	0.23%

Changes of assumptions: Since the 2018 reporting date, changes in assumptions for working retiree limitations and effects on second retirement benefits, plan member election and participation, terminating employee provisions, and refund assumptions have been updates to reflect current plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.876338%	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	$ 76,724	$ 77,448	$ 68,892	$ 66,384
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	77%	77%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 15,272	$ 14,042	$ 13,635	$ 13,573
Contributions in relation to the contractually required contributions	15,272	14,042	13,635	13,573
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	$ 10,087	$ 10,599	$ 10,504	$ 5,089
Plan fiduciary net position as a percentage of the total pension liability	78%	76%	76%	87%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 2,207	$ 2,054	$ 2,024	$ 1,913
Contributions in relation to the contractually required contributions	2,207	2,054	2,024	1,913
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: Since the 2016 reporting year, benefit terms were updated to reflect plan provisions. In reporting year 2018, discount, inflation, mortality, and withdrawal assumptions were updated to better reflect market conditions and actual experience.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.860298%	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	$ 48,227	$ 57,016	$ 56,230	$ 72,168
Employer's covered payroll	$ 26,944	$ 28,915	$ 31,252	$ 32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	179%	197%	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	69%	70%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 17,298	$ 17,396	$ 16,946	$ 16,234
Contributions in relation to the contractually required contributions	17,298	17,396	16,946	16,234
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 24,275	$ 26,944	$ 28,915	$ 31,252
Contributions as a percentage of covered payroll	71%	65%	58%	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of assumptions: Since reporting year 2015, assumptions about mortality, inflation, wage growth, and investment expenses were adjusted to more closely match actual experience and benefit statutes. Since reporting year 2016, termination benefits, assumed rate of university member retirements, load factors for university members, and COLA assumptions for Tier 2 members were updated to more closely reflect actual experience. Since reporting year 2017, the normal cost method was updated to align the most appropriate allocation of plan costs.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	38.133267%	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	$ 642,958	$ 707,527	$ 647,092	$ 596,724
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	69%	70%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 43,718	$ 43,028	$ 42,400	$ 42,806
Contributions in relation to the contractually required contributions	43,718	43,028	42,400	42,806
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a $25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for the State of Montana OPEB plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years [(1)]
(in thousands)

Total OPEB Liability		2018
Service cost	$	1,889
Interest		2,014
Changes of benefit terms		—
Difference between expected and actual experience		(4,723)
Changes of assumptions or other inputs		(295)
Benefit payments		1,705
Net change in total OPEB liability		590
Total OPEB liability - Beginning		49,869
Total OPEB Liability - Ending	$	50,459
State and discretely presented component units' proportion of the collective total OPEB liability		100%
Covered employee payroll	$	675,661
Total OPEB liability as a percentage of covered employee payroll		7.47%

(1) Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, the medical plan coverage moved from Cigna to Allegiance as of January 1, 2016, the State plan implemented reference-based pricing hospital contracts effective July 1, 2016, the pharmacy plan moved from

URx to Navitus as of January 1, 2017, and the State plan implemented an employer group waiver program for Medicare retirees effective January 1, 2017.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for MUS plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years (1)
(in thousands)

Total OPEB Liability		2018
Service cost	$	1,954
Interest		1,410
Changes of benefit terms		—
Difference between expected and actual experience		(1,323)
Changes of assumptions or other inputs		(182)
Benefit payments		(679)
Net change in total OPEB liability		1,180
Total OPEB liability - Beginning		34,258
Total OPEB liability - Ending	$	35,438
State and discretely presented component units' proportion of the collective total OPEB liability		95.62%
Covered employee payroll (2)	$	434,243
Total OPEB liability as a percentage of covered employee payroll		8.53%

(1) Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.
(2) Amount reported is for the whole MUS plan, Community Colleges are included due to lack of ability to separate covered employee payroll.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, MUS plan increased the deductible, increased out-of pocket limits for Medical and Rx, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retires became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services, and massage therapy moved into rehabilitation benefit.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

State of Montana Hail Insurance Program
Claims Development Information

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. **Premiums and investment revenue**										
Earned	$ 4,320	$ 5,918	$ 7,446	$ 8,309	$ 8,029	$ 7,101	$ 7,034	$ 6,710	$ 6,866	$ 6,846
Ceded	3,255	4,771	6,346	2,049	—	—	—	—	—	—
Net earned	1,065	1,147	1,100	6,260	8,029	7,101	7,034	6,710	6,866	6,846
2. **Unallocated expenses including overhead**	$ 448	$ 455	$ 424	$ 1,124	$ 1,033	$ 3,562	$ 2,308	$ 1,545	$ 2,637	$ 3,593
3. Estimated losses and expenses end of accident year	$ 120	$ 819	$ 324	$ 6,660	$ 13,511	$ 2,221	$ 4,608	$ 6,309	$ 3,961	$ 2,601
4. **Net paid (cumulative) as of:**										
End of policy year	$ 85	$ 817	$ 189	$ 6,643	$ 13,285	$ 1,881	$ 3,857	$ 6,144	$ 3,723	$ 2,248
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	$ 120	$ 819	$ 324	$ 6,660	$ 13,511	$ 2,221	$ 4,608	$ 6,309	$ 3,961	$ 2,601
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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. **Premiums and investment Revenue**	$ 99,369	$ 100,693	$ 84,297	$ 80,764	$ 79,257	$ 76,505	$ 75,911	$ 73,078	$ 62,851	$ 59,573
2. **Unallocated expenses including overhead**	$ 5,111	$ 5,196	$ 5,129	$ 5,198	$ 4,787	$ 3,938	$ 4,063	$ 4,663	$ 3,629	$ 3,123
3. Estimated losses and expenses end of accident year	$ 90,427	$ 85,802	$ 87,233	$ 87,353	$ 71,877	$ 69,325	$ 64,331	$ 64,919	$ 65,575	$ 60,928
4. **Net paid (cumulative) as of:**										
End of policy year	$ 80,393	$ 75,601	$ 76,400	$ 79,388	$ 63,317	$ 61,964	$ 56,981	$ 57,018	$ 58,989	$ 54,121
One year later		$ 84,575	85,796	88,943	69,073	67,988	62,937	63,495	66,991	60,203
Two years later			85,894	89,261	69,074	68,024	62,968	63,538	67,022	60,260
Three years later				89,264	69,076	68,024	62,974	63,539	67,041	60,261
Four years later					69,076	68,024	62,974	63,539	67,041	60,261
Five years later						68,024	62,974	63,539	67,042	60,262
Six years later							62,974	63,539	67,042	60,262
Seven years later								63,539	67,042	60,262
Eight years later									67,042	60,262
Nine years later										60,262
5. **Re-estimated ceded losses and expenses**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	$ 90,427	$ 85,802	$ 87,233	$ 87,353	$ 71,877	$ 69,325	$ 64,331	$ 64,919	$ 65,575	$ 60,928
One year later		84,567	86,148	88,824	71,700	68,349	63,446	63,941	67,006	60,208
Two years later			85,894	89,261	69,074	68,024	62,968	63,538	67,022	60,260
Three years later				89,264	69,076	68,024	62,974	63,539	67,041	60,261
Four years later					69,076	68,024	62,974	63,539	67,041	60,261
Five years later						68,024	62,974	63,539	67,042	60,262
Six years later							62,974	63,539	67,042	60,262
Seven years later								63,539	67,042	60,262
Eight years later									67,042	60,262
Nine years later										60,262
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ —	$ (1,236)	$ (1,339)	$ 1,912	$ (2,800)	$ (1,302)	$ (1,357)	$ (1,380)	$ 1,467	$ (666)

State of Montana

Supplementary Information

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2018
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 9,714	$ 41,454	$ 5,933	$ 57,101
Receivables (net)	3,242	1,841	929	6,012
Due from other funds	1,213	328	—	1,541
Due from component units	—	2,223	—	2,223
Equity in pooled investments	—	—	340,464	340,464
Long-term loans/notes receivable	24,402	—	—	24,402
Advances to other funds	7,471	—	—	7,471
Investments	2,870	—	—	2,870
Securities lending collateral	—	—	4,749	4,749
Total assets	$ 48,912	$ 45,846	$ 352,075	$ 446,833
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	$ —	$ 2,442	$ 3	$ 2,445
Interfund loans payable	—	—	303	303
Due to other funds	1,621	—	562	2,183
Advances from other funds	7,577	—	—	7,577
Securities lending liability	—	—	4,749	4,749
Total liabilities	9,198	2,442	5,617	17,257
DEFERRED INFLOWS OF RESOURCES	334	—	—	334
Fund balances:				
Nonspendable	—	—	334,376	334,376
Restricted	8,851	9,123	3,304	21,278
Committed	30,505	33,689	8,779	72,973
Assigned	23	592	—	615
Total fund balances	39,379	43,404	346,459	429,242
Total liabilities, deferred inflows of resources, and fund balances	$ 48,911	$ 45,846	$ 352,076	$ 446,833

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Taxes:				
Natural resource	$ 1,864	$ 7,513	$ —	$ 9,377
Other	—	1,600	—	1,600
Charges for services/fines/forfeits/settlements	119	625	10,101	10,845
Investment earnings	10,780	298	958	12,036
Securities lending income	—	—	72	72
Sale of documents/merchandise/property	1,074	—	—	1,074
Total revenues	13,837	10,036	11,131	35,004
EXPENDITURES				
Current:				
General government	—	99	—	99
Public safety	—	608	—	608
Health and human services	62	310	—	372
Education	—	—	24	24
Natural resources	—	477	—	477
Debt service:				
Principal retirement	31,280	—	—	31,280
Interest/fiscal charges	7,445	—	—	7,445
Capital outlay	—	22,226	24	22,250
Securities lending	—	—	36	36
Total expenditures	38,787	23,720	84	62,591
Excess of revenue over (under) expenditures	(24,950)	(13,684)	11,047	(27,587)
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	—	—	1	1
Transfers in	33,024	15,060	120	48,204
Transfers out	(12,677)	(7,811)	(10,270)	(30,758)
Total other financing sources (uses)	20,347	7,249	(10,149)	17,447
Net change in fund balances	(4,603)	(6,435)	898	(10,140)
Fund balances - July 1 - as previously reported	43,982	49,815	345,561	439,358
Adjustments to beginning fund balances	—	25	—	25
Fund balances - July 1 - as adjusted	43,982	49,840	345,561	439,383
Fund balances - June 30	$ 39,379	$ 43,405	$ 346,459	$ 429,243

Nonmajor Debt Service Funds

Debt service funds are used to account for the accumulation resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax Fund— accounts for payments on special revenue renewable resources program (Coal Severance Tax) bonds.

Long-Range Building Fund— accounts for payments on general obligation long-range building program bonds.

Water & Wastewater Development 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 Fund— accounts for payments on the special revenue bonds for Montana State Hospital and Montana Developmental Center.

Energy Conservation Program Fund— accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

Environmental Reclamation Fund— accounts for payments on general obligation bonds for hard rock mining reclamation and the CERCLA program.

Highway Fund— accounts for payments on the US Highway 93 GARVEES special revenue bonds.

Trust Lands Fund— accounts for payments on taxable trust lands bonds.

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	HEALTH CARE
ASSETS				
Cash/cash equivalents	$ 2,159	$ 23	$ 7,055	$ 199
Receivables (net)	261	—	2,428	—
Due from other funds	—	—	—	—
Long-term loans/notes receivable	15,153	—	9,250	—
Advances to other funds	5,908	—	1,563	—
Investments	—	—	—	2,870
Total assets	$ 23,481	$ 23	$ 20,296	$ 3,069
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Due to other funds	$ 1,236	$ —	$ 385	$ —
Advances from other funds	1,935	—	5,643	—
Total liabilities	3,171	—	6,028	—
DEFERRED INFLOWS OF RESOURCES	170	—	163	—
Fund balances:				
Restricted	—	—	5,782	3,069
Committed	20,139	—	8,322	—
Assigned	—	23	—	—
Total fund balances	20,139	23	14,104	3,069
Total liabilities, deferred inflows of resources and fund balances	$ 23,480	$ 23	$ 20,295	$ 3,069

ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ 134	$ 144	$ 9,714
28	525	3,242
1,213	—	1,213
—	—	24,403
—	—	7,471
—	—	2,870
$ 1,375	$ 669	$ 48,913
$ —	$ —	$ 1,621
—	—	7,578
—	—	9,199
—	—	333
—	—	8,851
1,374	669	30,504
—	—	23
1,374	669	39,378
$ 1,374	$ 669	$ 48,910

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	HEALTH CARE
REVENUES				
Taxes:				
Natural resource	$ —	$ —	$ 595	$ —
Charges for services/fines/forfeits/settlements	—	—	—	—
Investment earnings	776	—	9,823	178
Sale of documents/merchandise/property	1,074	—	—	—
Total revenues	1,850	—	10,418	178
EXPENDITURES				
Current:				
Health and human services	—	—	—	62
Debt service:				
Principal retirement	2,210	9,920	3,125	1,495
Interest/fiscal charges	469	1,617	1,820	418
Total expenditures	2,679	11,537	4,945	1,975
Excess of revenue over (under) expenditures	(829)	(11,537)	5,473	(1,797)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,418	11,537	217	1,662
Transfers out	(4,861)	(297)	(6,414)	—
Total other financing sources (uses)	(2,443)	11,240	(6,197)	1,662
Net change in fund balances	(3,272)	(297)	(724)	(135)
Fund balances - July 1 - as previously reported	23,412	319	14,828	3,204
Fund balances - June 30	$ 20,140	$ 22	$ 14,104	$ 3,069

ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TRUST LANDS	TOTAL
$ —	$ 1,269	$ —	$ —	$ 1,864
119	—	—	—	119
2	—	—	—	10,779
—	—	—	—	1,074
121	1,269	—	—	13,836
—	—	—	—	62
280	255	13,080	915	31,280
60	88	2,336	637	7,445
340	343	15,416	1,552	38,787
(219)	926	(15,416)	(1,552)	(24,951)
222	—	15,416	1,552	33,024
(250)	(856)	—	—	(12,678)
(28)	(856)	15,416	1,552	20,346
(247)	70	—	—	(4,605)
1,620	599	—	—	43,982
$ 1,373	$ 669	$ —	$ —	$ 39,377

Nonmajor Capital Projects Funds

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental capital assets. A brief description of each capital project fund follows:

Long-Range Building Program Fund— accounts 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 Fund— accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Capital Land Grant 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, 2018
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
ASSETS				
Cash/cash equivalents	$ 28,053	$ 7,165	$ 6,237	$ 41,455
Receivables (net)	1,841	—	—	1,841
Due from other funds	328	—	—	328
Due from component units	2,223	—	—	2,223
Total assets	$ 32,445	$ 7,165	$ 6,237	$ 45,847
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,846	$ 337	$ 259	$ 2,442
Total liabilities	1,846	337	259	2,442
Fund balances:				
Restricted	3,146	—	5,978	9,124
Committed	27,453	6,236	—	33,689
Assigned	—	592	—	592
Total fund balances	30,599	6,828	5,978	43,405
Total liabilities and fund balances	$ 32,445	$ 7,165	$ 6,237	$ 45,847

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
REVENUES				
Taxes:				
Natural resource	$ 7,513	$ —	$ —	$ 7,513
Other	1,600	—	—	1,600
Charges for services/fines/forfeits/settlements	625	—	—	625
Investment earnings	298	—	—	298
Total revenues	10,036	—	—	10,036
EXPENDITURES				
Current:				
General government	15	84	—	99
Public safety	—	608	—	608
Health and human services	237	73	—	310
Natural resources	—	477	—	477
Capital outlay	18,177	2,562	1,487	22,226
Total expenditures	18,429	3,804	1,487	23,720
Excess of revenue over (under) expenditures	(8,393)	(3,804)	(1,487)	(13,684)
OTHER FINANCING SOURCES (USES)				
Transfers in	12,564	—	2,496	15,060
Transfers out	(7,811)	—	—	(7,811)
Total other financing sources (uses)	4,753	—	2,496	7,249
Net change in fund balances	(3,640)	(3,804)	1,009	(6,435)
Fund balances - July 1 - as previously reported	34,214	10,632	4,968	49,814
Adjustments to beginning fund balances	25	—	—	25
Fund balances - July 1 - as adjusted	34,239	10,632	4,968	49,839
Fund balances - June 30	$ 30,599	$ 6,828	$ 5,977	$ 43,404

Nonmajor Permanent Funds

Permanent funds are used to account for 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 Fund— accounts for taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals. Only the net earnings of the trust may be appropriated until the principal reaches $100.0 million. Interest earnings are expended from the State Special Revenue Fund. This fund is administered by the Department of Revenue.

Cultural Trust Fund— accounts for a portion of coal severance taxes credited to this fund by the Department of Revenue. The Montana Arts Council uses income from the trust for the protection of works of art in the State Capitol and for other cultural projects.

Noxious Weed Management Fund— accounts for revenues and interest earned on fees charged for the control of noxious weeds by the Department of Agriculture. Funds in this trust were established as permanent funds by the legislature have been reclassified within the State Special Revenue Fund.

Historical Society Trust Fund— accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trusts: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

Tobacco Settlement Fund— accounts for the principal, and holds the interest earned by investing, of the Tobacco Settlement.

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
ASSETS			
Cash/cash equivalents	$ 23	$ 69	$ —
Receivables (net)	303	—	—
Equity in pooled investments	108,779	—	10,002
Securities lending collateral	1,515	—	148
Total assets	$ 110,620	$ 69	$ 10,150
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ —	$ —	$ —
Interfund loans payable	303	—	—
Due to other funds	—	—	2
Securities lending liability	1,515	—	148
Total liabilities	1,818	—	150
Fund balances:			
Nonspendable	100,000	66	10,000
Restricted	23	3	—
Committed	8,779	—	—
Total fund balances	108,802	69	10,000
Total liabilities and fund balances	$ 110,620	$ 69	$ 10,150

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	TOTAL
$ 16	$ 5,825	$ 5,933
4	622	929
1,319	220,365	340,465
18	3,068	4,749
$ 1,357	$ 229,880	$ 352,076
$ 3	$ —	$ 3
—	—	303
—	560	562
18	3,068	4,749
21	3,628	5,617
1,318	222,992	334,376
17	3,260	3,303
—	—	8,779
1,335	226,252	346,458
$ 1,356	$ 229,880	$ 352,075

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
REVENUES			
Taxes:			
Charges for services/fines/forfeits/settlements	$ —	$ —	$ —
Investment earnings	300	1	—
Securities lending income	24	—	—
Total revenues	324	1	—
EXPENDITURES			
Current:			
Education	—	3	—
Capital outlay	—	—	—
Securities lending	12	—	—
Total expenditures	12	3	—
Excess of revenue over (under) expenditures	312	(2)	—
OTHER FINANCING SOURCES (USES)			
General capital asset sale proceeds	—	—	—
Transfers in	—	—	—
Transfers out	(3,618)	—	—
Total other financing sources (uses)	(3,618)	—	—
Net change in fund balances	(3,306)	(2)	—
Fund balances - July 1 - as previously reported	112,107	71	10,000
Fund balances - June 30	$ 108,801	$ 69	$ 10,000

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	TOTAL
$ —	$ 10,101	$ 10,101
4	653	958
—	48	72
4	10,802	11,131
21	—	24
24	—	24
—	23	35
45	23	83
(41)	10,779	11,048
1	—	1
—	120	120
—	(6,653)	(10,271)
1	(6,533)	(10,150)
(40)	4,246	898
1,375	222,007	345,560
$ 1,335	$ 226,253	$ 346,458

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 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 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. Producers engaged in the growing of crops subject to damage by hail may participate in the hail insurance program.

State Lottery Fund— accounts for the operations of Montana's lottery.

Prison Industries Fund— accounts for resources that 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 Fund— accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation Fund— accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury 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 Fund— accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications 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 Fund— accounts for Department of Administration intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport Fund— accounts for operations of the airport at West Yellowstone and is administered by the Department of Transportation. User airlines are assessed rental and landing fees.

Local Government Audits 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 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 Fund— accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds— includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 5,453	$ 3,611	$ 2,610	$ 2,222
Receivables (net)	23,799	2,583	1,796	432
Due from other governments	—	—	—	—
Due from other funds	—	—	—	—
Inventories	180	—	476	2,826
Securities lending collateral	—	—	—	—
Other current assets	20	—	35	1
Total current assets	29,452	6,194	4,917	5,481
Noncurrent assets:				
Long-term investments	—	—	—	—
Long-term notes/loans receivable	—	—	—	—
Other long-term assets	—	—	886	292
Capital assets:				
Land	—	—	—	690
Land improvements	—	—	—	731
Buildings/improvements	2,190	—	99	6,210
Equipment	961	—	582	6,107
Infrastructure	—	—	—	1,175
Construction in progress	—	—	—	54
Intangible assets	—	—	—	—
Other capital assets	—	—	—	4,250
Less accumulated depreciation	(2,566)	—	(447)	(9,542)
Total capital assets	585	—	234	9,675
Total noncurrent assets	585	—	1,120	9,967
Total assets	30,037	6,194	6,037	15,448
DEFERRED OUTFLOWS OF RESOURCES	861	63	487	243
LIABILITIES				
Current liabilities:				
Accounts payable	7,578	3,998	759	920
Lottery prizes payable	—	—	3,047	—
Due to other governments	—	—	—	—
Due to other funds	12,491	—	1,154	—
Unearned revenue	1,218	479	115	13
Current lease liability	—	—	—	202
Amounts held in custody for others	20	—	—	—
Securities lending liability	—	—	—	—
Estimated insurance claims	—	35	—	—
Compensated absences payable	195	10	159	167
Total current liabilities	21,502	4,522	5,234	1,302
Noncurrent liabilities:				
Lottery prizes payable	—	—	754	—
Long term lease liability	—	—	—	17
Estimated insurance claims	—	—	—	—
Compensated absences payable	173	5	48	275
Net pension liability	2,592	246	2,201	1,270
Total OPEB liability	164	15	123	145
Total noncurrent liabilities	2,929	266	3,126	1,707
Total liabilities	24,431	4,788	8,360	3,009
DEFERRED INFLOWS OF RESOURCES	498	3	41	69
NET POSITION				
Net investment in capital assets	585	—	234	9,456
Restricted for:				
Other purposes	—	1,465	—	—
Unrestricted	5,383	—	(2,112)	3,158
Total net position	$ 5,968	$ 1,465	$ (1,878)	$ 12,614

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 58,113	$ 12,714	$ 1,170	$ 3,543	$ 439
2,411	47	154	8	28
—	—	—	1	—
—	—	—	—	—
—	—	—	16	471
139	66	—	—	1
—	—	—	—	—
60,663	12,827	1,324	3,568	939
16,802	4,770	—	—	46
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	386	—
—	—	—	—	—
—	—	—	1,727	—
—	—	—	—	—
—	—	—	—	—
—	—	—	(335)	—
—	—	—	1,778	—
16,802	4,770	—	1,778	46
77,465	17,597	1,324	5,346	985
222	—	—	1,248	55
6,284	141	—	335	38
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
185	—	—	—	104
—	—	—	—	—
—	—	—	10	—
139	66	—	—	1
10,200	2,189	1,454	—	—
40	7	—	171	26
16,848	2,403	1,454	516	169
—	—	—	—	—
—	—	—	—	—
—	3,641	1,442	—	—
59	2	—	168	52
1,238	—	—	4,589	277
71	9	—	179	20
1,368	3,652	1,442	4,936	349
18,216	6,055	2,896	5,452	518
21	—	—	54	5
—	—	—	1,777	—
59,451	11,544	—	—	—
—	—	(1,573)	(691)	519
$ 59,451	$ 11,544	$ (1,573)	$ 1,086	$ 519

CONTINUES

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS				
Current assets:				
Cash/cash equivalents	$ 236	$ 791	$ 231	$ 3,826
Receivables (net)	31	77	32	4
Due from other governments	—	—	—	—
Due from other funds	—	—	—	—
Inventories	672	—	—	—
Securities lending collateral	—	—	—	—
Other current assets	—	—	—	—
Total current assets	939	868	263	3,830
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	249	939	—	—
Infrastructure	—	—	—	—
Construction in progress	—	6,009	—	—
Intangible assets	—	—	78	—
Other capital assets	—	—	—	—
Less accumulated depreciation	(218)	(2,651)	—	—
Total capital assets	149	8,994	78	—
Total noncurrent assets	149	8,994	78	—
Total assets	1,088	9,862	341	3,830
DEFERRED OUTFLOWS OF RESOURCES	77	38	91	—
LIABILITIES				
Current liabilities:				
Accounts payable	31	32	48	349
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	24	16	—
Total current liabilities	53	56	64	350
Noncurrent liabilities:				
Lottery prizes payable	—	—	—	—
Long term lease liability	—	—	—	—
Estimated insurance claims	—	—	—	—
Compensated absences payable	25	8	53	—
Net pension Liability	346	181	427	—
Total OPEB liability	20	8	20	—
Total noncurrent liabilities	391	197	500	—
Total liabilities	444	253	564	350
DEFERRED INFLOWS OF RESOURCES	7	9	8	—
NET POSITION				
Net investment in capital assets	148	8,995	78	—
Restricted for:				
Other purposes	—	—	—	3,480
Unrestricted	566	643	(216)	—
Total net position	$ 714	$ 9,638	$ (138)	$ 3,480

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 9,178	$ 2,530	$ 106,667
64	252	31,718
94	—	95
—	11	11
—	211	4,852
—	—	206
27	1	84
9,363	3,005	143,633
—	—	21,618
11	—	11
—	—	1,178
—	—	800
—	—	3,830
—	40	10,145
10	310	9,544
—	—	1,175
—	—	7,790
—	—	78
—	—	4,250
(10)	(219)	(15,988)
—	131	21,624
11	131	44,431
9,374	3,136	188,064
336	199	3,920
109	288	20,910
—	—	3,047
83	—	83
—	—	13,645
—	81	2,196
—	11	213
—	—	30
—	—	206
—	—	13,878
107	56	1,000
299	436	55,208
—	—	754
—	1	18
—	—	5,083
49	63	980
1,543	1,128	16,038
88	63	925
1,680	1,255	23,798
1,979	1,691	79,006
63	35	813
—	120	21,393
6,066	2	82,008
1,601	1,485	8,763
$ 7,667	$ 1,607	$ 112,164

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 98,822	$ —	$ 56,400	$ 7,733
Investment earnings	—	22	23	—
Securities lending income	—	—	—	—
Contributions/premiums	—	1,065	—	—
Grants/contracts/donations	—	—	—	—
Other operating revenues	278	1	2	10
Total operating revenues	99,100	1,088	56,425	7,743
Operating expenses:				
Personal services	3,243	348	2,112	2,830
Contractual services	124	20	8,528	224
Supplies/materials	81,747	8	1,151	3,719
Benefits/claims	287	161	291	151
Depreciation	142	—	50	559
Amortization	—	—	—	—
Utilities/rent	189	10	242	159
Communications	72	8	738	17
Travel	24	13	35	10
Repair/maintenance	231	—	21	521
Lottery prize payments	—	—	32,551	—
Securities lending expense	—	—	—	—
Interest expense	9	—	—	14
Other operating expenses	48	9	189	685
Total operating expenses	86,116	577	45,908	8,889
Operating income (loss)	12,984	511	10,517	(1,146)
Nonoperating revenues (expenses):				
Tax revenues	28,846	—	—	—
Non-employer pension revenue	33	4	31	17
Gain (loss) on sale of capital assets	—	—	13	(235)
Increase (decrease) value of livestock	—	—	—	4
Total nonoperating revenues (expenses)	28,879	4	44	(214)
Income (loss) before contributions and transfers	41,863	515	10,561	(1,360)
Capital contributions	15	—	—	—
Transfers in	—	—	—	—
Transfers out	(41,266)	—	(10,699)	(6)
Change in net position	612	515	(138)	(1,366)
Total net position - July 1 - as previously reported	4,522	856	(2,390)	13,369
Adjustments to beginning net position	836	94	651	613
Total net position - July 1 - as adjusted	5,358	950	(1,739)	13,982
Total net position - June 30	$ 5,970	$ 1,465	$ (1,877)	$ 12,616

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ —	$ —	$ —	$ 6,716	$ 878
925	215	15	31	—
4	1	—	—	—
100,532	—	1,368	—	—
—	—	—	—	—
3,558	—	—	8	14
105,019	216	1,383	6,755	892
781	100	—	3,065	343
7,043	629	—	1,345	63
29	1	—	132	279
80,111	1,513	1,299	747	34
—	—	—	17	—
—	—	—	—	—
60	8	—	248	26
91	—	—	130	32
53	1	—	45	10
—	—	—	1	7
—	—	—	—	—
2	1	—	—	—
—	—	—	—	—
743	486	—	236	60
88,913	2,739	1,299	5,966	854
16,106	(2,523)	84	789	38
—	—	—	—	—
18	—	—	66	4
—	—	—	—	(1)
—	—	—	—	—
18	—	—	66	3
16,124	(2,523)	84	855	41
—	—	—	—	—
—	—	—	—	—
—	—	(53)	(410)	(3)
16,124	(2,523)	31	445	38
43,650	14,056	(1,605)	(482)	413
(322)	10	1	1,126	69
43,328	14,066	(1,604)	644	482
$ 59,452	$ 11,543	$ (1,573)	$ 1,089	$ 520

CONTINUES

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:				
Charges for services	$ 530	$ 165	$ 626	$ 141
Investment earnings	—	—	—	14
Securities lending income	—	—	—	—
Contributions/premiums	—	—	—	11,116
Grants/contracts/donations	—	42	—	—
Other operating revenues	—	304	94	—
Total operating revenues	530	511	720	11,271
Operating expenses:				
Personal services	327	180	584	—
Contractual services	126	40	105	451
Supplies/materials	621	9	5	—
Benefits/claims	46	23	56	11,458
Depreciation	18	233	—	—
Amortization	—	—	59	—
Utilities/rent	11	34	17	—
Communications	20	5	8	—
Travel	2	2	3	—
Repair/maintenance	6	31	—	—
Lottery prize payments	—	—	—	—
Securities lending expense	—	—	—	—
Interest expense	—	—	—	—
Other operating expenses	23	8	46	13
Total operating expenses	1,200	565	883	11,922
Operating income (loss)	(670)	(54)	(163)	(651)
Nonoperating revenues (expenses):				
Tax revenues	—	—	—	—
Non-employer pension revenue	5	3	6	—
Gain (loss) on sale of capital assets	—	—	—	—
Increase (decrease) value of livestock	—	—	—	—
Total nonoperating revenues (expenses)	5	3	6	—
Income (loss) before contributions and transfers	(665)	(51)	(157)	(651)
Capital contributions	651	2,808	—	—
Transfers in	69	318	—	—
Transfers out	—	—	—	—
Change in net position	55	3,075	(157)	(651)
Total net position - July 1 - as previously reported	563	6,530	(38)	4,130
Adjustments to beginning net position	97	34	58	—
Total net position - July 1 - as adjusted	660	6,564	20	4,130
Total net position - June 30	$ 715	$ 9,639	$ (137)	$ 3,479

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ —	$ 3,493	$ 175,504
122	14	1,381
—	—	5
—	—	114,081
48,028	9	48,079
—	32	4,301
48,150	3,548	343,351
1,464	1,294	16,671
1,601	805	21,104
42	659	88,402
43,211	142	139,530
—	18	1,037
—	58	117
251	93	1,348
54	18	1,193
60	50	308
74	130	1,022
—	—	32,551
—	—	3
—	1	24
324	492	3,362
47,081	3,760	306,672
1,069	(212)	36,679
—	—	28,846
22	19	228
—	(4)	(227)
—	—	4
22	15	28,851
1,091	(197)	65,530
—	—	3,474
—	375	762
—	—	(52,437)
1,091	178	17,329
6,318	1,400	91,292
259	29	3,555
6,577	1,429	94,847
$ 7,668	$ 1,607	$ 112,176

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 97,688	$ 1,042	$ 56,565	$ 7,716
Payments to suppliers for goods and services	(81,172)	—	(10,513)	(4,310)
Payments to employees	(3,342)	(349)	(2,258)	(2,878)
Grant receipts (expenses)	—	—	—	—
Cash payments for claims	(1)	(96)	—	—
Cash payments for prizes	—	—	(32,320)	—
Other operating revenues	278	—	2	10
Other operating payments	(48)	(9)	(189)	(685)
Net cash provided by (used for) operating activities	13,403	588	11,287	(147)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	28,846	—	—	—
Transfer to other funds	(41,266)	—	(10,699)	(6)
Transfer from other funds	—	—	—	—
Payment of principal and interest on bonds and notes	(9)	—	—	(14)
Proceeds from nonemployer pension contributions	33	4	31	17
Net cash provided by (used for) noncapital financing activities	(12,396)	4	(10,668)	(3)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(113)	—	(4)	(39)
Net cash provided by (used for) capital and related financing activities	(113)	—	(4)	(39)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	—	—	—	—
Proceeds (loss) from securities lending transactions/investments	—	—	—	—
Interest and dividends on investments	—	22	23	—
Payment of securities lending costs	—	—	—	—
Net cash provided by (used for) investing activities	—	22	23	—
Net increase (decrease) in cash and cash equivalents	894	614	638	(189)
Cash and cash equivalents, July 1	4,563	2,997	1,973	2,410
Cash and cash equivalents, June 30	$ 5,457	$ 3,611	$ 2,611	$ 2,221

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ 98,704	$ (19)	$ 1,351	$ 6,712	$ 878
(4,790)	(580)	—	(1,786)	(443)
(890)	(99)	—	(3,448)	(289)
—	—	—	—	—
(79,760)	(2,979)	(1,345)	—	—
—	—	—	—	—
3,558	—	—	8	14
(743)	(484)	—	(236)	(60)
16,079	(4,161)	6	1,250	100
—	—	—	—	—
—	—	(53)	(410)	(3)
—	—	—	—	—
—	—	—	—	—
18	—	—	66	4
18	—	(53)	(344)	1
—	—	—	(108)	—
—	—	—	(108)	—
(5,340)	145	—	—	2
4	1	—	—	—
925	215	15	31	—
(2)	(1)	—	—	—
(4,413)	360	15	31	2
11,684	(3,801)	(32)	829	103
46,432	16,515	1,200	2,714	335
$ 58,116	$ 12,714	$ 1,168	$ 3,543	$ 438

CONTINUES

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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	$ 535	$ 128	$ 619	$ 11,254
Payments to suppliers for goods and services	(868)	(118)	(144)	(400)
Payments to employees	(364)	(188)	(573)	—
Grant receipts (expenses)	—	42	—	—
Cash payments for claims	—	—	—	(11,458)
Cash payments for prizes	—	—	—	—
Other operating revenues	—	304	94	—
Other operating payments	(23)	(8)	(46)	(13)
Net cash provided by (used for) operating activities	(720)	160	(50)	(617)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	—	—	—	—
Transfer to other funds	—	—	—	—
Transfer from other funds	69	318	—	—
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	74	321	6	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	564	(312)	—	—
Net cash used for capital and related financing activities	564	(312)	—	—
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	—	—	—	—
Proceeds (loss) from securities lending transactions/investments	—	—	—	—
Interest and dividends on investments	—	—	—	14
Payment of securities lending costs	—	—	—	—
Net cash provided by (used for) investing activities	—	—	—	14
Net increase (decrease) in cash and cash equivalents	(82)	169	(44)	(603)
Cash and cash equivalents, July 1	322	622	274	4,428
Cash and cash equivalents, June 30	$ 240	$ 791	$ 230	$ 3,825

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 19	$ 3,237	$ 286,429
(2,057)	(1,629)	(108,810)
(1,570)	(1,294)	(17,542)
48,067	9	48,118
(43,017)	—	(138,656)
—	—	(32,320)
—	32	4,300
(324)	(492)	(3,360)
1,118	(137)	38,159
—	—	28,846
—	—	(52,437)
—	375	762
—	(1)	(24)
22	19	228
22	393	(22,625)
—	(70)	(82)
—	(70)	(82)
—	—	(5,193)
—	—	5
122	14	1,381
—	—	(3)
122	14	(3,810)
1,262	200	11,642
7,916	2,326	95,027
$ 9,178	$ 2,526	$ 106,669

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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)	$ 12,984	$ 510	$ 10,517	$ (1,146)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:				
Depreciation	142	—	50	559
Amortization	—	—	—	—
Securities lending expense	—	—	—	—
Investment earnings	—	(22)	(23)	—
Securities lending income	—	—	—	—
Interest expense	9	—	—	14
Change in assets, deferred outflows, liabilities, and deferred inflows :				
Decr (Incr) in accounts receivable	(1,134)	(1,028)	(46)	(16)
Decr (Incr) in due from other funds	—	—	—	—
Decr (Incr) in due from other governments	—	—	—	—
Decr (Incr) in inventories	(22)	—	36	674
Decr (Incr) in other assets	—	—	211	—
Incr (Decr) in accounts payable	750	832	473	(106)
Incr (Decr) in due to other funds	428	—	(326)	—
Incr (Decr) in due to other governments	—	—	—	—
Incr (Decr) in lottery prizes payable	—	—	231	—
Incr (Decr) in unearned revenue	57	240	19	(34)
Incr (Decr) in compensated absences payable	15	6	5	16
Incr (Decr) in total OPEB liability	2	—	2	1
Incr (Decr) in estimated claims	—	33	—	—
Incr (Decr) in other payables	—	—	—	(194)
Incr (Decr) in net pension liability and related accounts	170	17	138	87
Net cash provided by (used for) operating activities	$ 13,401	$ 588	$ 11,287	$ (145)
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	$ 15	$ —	$ —	$ —
Incr (Decr) in fair value of investments	—	—	—	—
Total noncash transactions	$ 15	$ —	$ —	$ —

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ 16,106	$ (2,523)	$ 84	$ 789	$ 38
—	—	—	17	—
—	—	—	—	—
2	1	—	—	—
(925)	(215)	(15)	(31)	—
(4)	(1)	—	—	—
—	—	—	—	—
(1,828)	(19)	(17)	(4)	—
—	—	—	—	—
—	—	—	—	—
—	—	—	7	20
—	—	—	—	—
2,508	61	—	43	18
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
(20)	—	—	—	(46)
(33)	—	—	(67)	58
(3)	—	—	2	—
200	(1,466)	(46)	—	—
—	—	—	—	—
76	—	—	493	16
$ 16,079	$ (4,162)	$ 6	$ 1,249	$ 104
$ —	$ —	$ —	$ —	$ —
145	147	—	—	1
$ 145	$ 147	$ —	$ —	$ 1

CONTINUES

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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)	$ (670)	$ (54)	$ (163)	$ (651)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:				
Depreciation	18	233	—	—
Amortization	—	—	59	—
Securities lending expense	—	—	—	—
Investment earnings	—	—	—	(14)
Securities lending income	—	—	—	—
Interest expense	—	—	—	—
Change in assets, deferred outflows, liabilities, and deferred inflows:				
Decr (Incr) in accounts receivable	5	(37)	(6)	(3)
Decr (Incr) in due from other funds	—	—	—	—
Decr (Incr) in due from other governments	—	—	—	—
Decr (Incr) in inventories	(80)	—	—	—
Decr (Incr) in other assets	—	—	—	—
Incr (Decr) in accounts payable	(5)	5	18	52
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	—	—	—	—
Incr (Decr) in compensated absences payable	(12)	—	19	—
Incr (Decr) in total OPEB liability	—	(1)	1	—
Incr (Decr) in estimated claims	—	—	—	—
Incr (Decr) in other payables	—	—	—	—
Incr (Decr) in net pension liability and related accounts	23	14	26	—
Net cash provided by (used for) operating activities	$ (721)	$ 160	$ (46)	$ (616)
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	$ 651	$ 2,808	$ —	$ —
Incr (Decr) in fair value of investments	—	—	—	—
Total noncash transactions	$ 651	$ 2,808	$ —	$ —

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 1,069	$ (212)	$ 36,678
—	18	1,037
—	58	117
—	—	3
(122)	(14)	(1,381)
—	—	(5)
—	1	24
42	(244)	(4,335)
—	(11)	(11)
39	—	39
—	—	635
(23)	—	188
27	198	4,874
—	—	102
9	—	9
—	—	231
—	(20)	196
(12)	—	(5)
1	(157)	(152)
—	—	(1,279)
—	10	(184)
87	240	1,387
$ 1,117	$ (133)	$ 38,168
$ —	$ —	$ 3,474
1	—	294
$ 1	$ —	$ 3,768

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 Fund– accounts for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment Fund– accounts for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits Fund– receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan.

Information Technology Services Fund– accounts for fees assessed to State agencies and private users for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance Fund– Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Motor Pool Fund– Department of Transportation provides State employee 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 Fund– accounts for fees assessed to agencies for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds Fund– accounts for rental proceeds from State agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Fund– 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 Fund– accounts 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 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 Fund– accounts for the payments received from State agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division 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 Fund– accounts for fees charged to users of state aircraft and is used by the Department of Natural Resources and Conservation.

Justice Legal Services Fund– accounts for fees the Attorney General's Office and the Department of Justice charge other State agencies for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training 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 Fund – accounts for fees charged for the collection of bad debts.

Prison Industries Fund– provides training and employment for inmates, where the products produced are primarily sold to other State agencies.

Other Internal Services Funds– includes several small internal service funds administered by various State agencies.

SABHRS Finance and Budget Bureau 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, 2018
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,300	$ 4,766	$ 51,222	$ 2,961	$ 16,122
Receivables (net)	—	149	7,099	133	28
Interfund loans receivable	—	—	—	22	—
Due from other funds	—	—	—	12	—
Due from component units	—	—	—	26	—
Inventories	—	2,335	—	—	—
Securities lending collateral	—	—	270	—	—
Other current assets	—	—	—	578	—
Total current assets	1,300	7,250	58,591	3,732	16,150
Noncurrent assets:					
Long-term investments	—	—	46,020	—	—
Capital assets:					
Land	—	—	—	—	—
Land improvements	—	—	—	—	—
Buildings/improvements	—	—	—	—	—
Equipment	15,622	174,727	—	28,141	8
Construction in progress	—	3,993	—	—	—
Intangible assets	—	—	216	142	958
Less accumulated depreciation	(8,014)	(107,943)	—	(12,553)	(8)
Total capital assets	7,608	70,777	216	15,730	958
Total noncurrent assets	7,608	70,777	46,236	15,730	958
Total assets	8,908	78,027	104,827	19,462	17,108
DEFERRED OUTFLOWS OF RESOURCES	34	1,852	350	3,771	353
LIABILITIES					
Current liabilities:					
Accounts payable	72	1,008	6,699	2,229	704
Interfund loans payable	—	—	—	—	—
Due to other funds	—	—	18	—	—
Unearned revenue	—	—	1,434	10	—
Lease/installment purchase payable	—	—	—	3,036	—
Bonds/notes payable	—	—	—	779	—
Amounts held in custody for others	—	—	—	—	—
Securities lending liability	—	—	270	—	—
Estimated insurance claims	—	—	17,546	—	4,483
Compensated absences payable	10	492	81	962	113
Total current liabilities	82	1,500	26,048	7,016	5,300
Noncurrent liabilities:					
Advances from other funds	—	—	—	—	—
Lease/installment purchase payable	—	—	—	9,768	—
Bonds/notes payable	—	—	—	699	—
Estimated insurance claims	—	—	177	—	10,697
Compensated absences payable	22	468	47	924	225
Net pension liability	151	8,499	1,557	16,926	1,566
Total OPEB liability	13	457	67	658	60
Total noncurrent liabilities	186	9,424	1,848	28,975	12,548
Total liabilities	268	10,924	27,896	35,991	17,848
DEFERRED INFLOWS OF RESOURCES	2	228	27	287	26
NET POSITION					
Net investment in capital assets	7,608	70,777	216	2,927	958
Unrestricted	1,065	(2,051)	77,036	(15,972)	(1,373)
Total net position	$ 8,673	$ 68,726	$ 77,252	$ (13,045)	$ (415)

MOTOR POOL	PRINT & MAIL SERVICES	BUILDING & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 1,941	$ 1,537	$ 1,775	$ 743	$ 3,544	$ 535	$ 128
—	8	3	—	—	—	—
—	—	—	—	—	13	—
—	—	—	—	—	—	—
—	—	—	—	—	10	—
2	115	—	—	—	—	—
—	—	—	—	—	—	—
—	366	—	1	19	8	—
1,943	2,026	1,778	744	3,563	566	128
—	—	—	—	—	—	—
236	—	—	—	—	—	—
—	—	95	—	—	—	—
—	—	1,091	—	—	—	—
21,642	2,833	849	—	178	5	—
—	—	—	—	284	—	—
—	—	—	—	(1)	—	—
(11,697)	(2,101)	(1,430)	—	(162)	(5)	—
10,181	732	605	—	299	—	—
10,181	732	605	—	299	—	—
12,124	2,758	2,383	744	3,862	566	128
81	338	531	502	1,683	383	434
41	420	551	126	763	105	168
—	—	—	—	—	—	—
1,700	—	—	—	—	—	—
—	—	—	—	—	—	—
—	75	—	—	21	—	—
—	—	—	—	—	—	—
—	—	1	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
26	96	168	143	567	113	129
1,767	591	720	269	1,351	218	297
4,206	—	—	—	—	—	—
—	166	—	—	37	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
18	121	80	153	225	118	—
372	1,556	2,509	2,305	8,221	1,756	2,119
23	109	151	94	360	67	112
4,619	1,952	2,740	2,552	8,843	1,941	2,231
6,386	2,543	3,460	2,821	10,194	2,159	2,528
10	31	48	39	332	69	105
4,284	491	605	—	241	1	—
1,525	30	(1,198)	(1,616)	(5,221)	(1,280)	(2,071)
$ 5,809	$ 521	$ (593)	$ (1,616)	$ (4,980)	$ (1,279)	$ (2,071)

CONTINUES

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 521	$ 477	$ 287	$ 781	$ 856
Receivables (net)	1	4	—	1	—
Interfund loans receivable	—	—	—	—	—
Due from other funds	—	—	—	1	—
Due from component units	—	—	—	—	—
Inventories	—	—	—	—	—
Securities lending collateral	—	—	—	—	—
Other current assets	50	—	5	64	—
Total current assets	572	481	292	847	856
Noncurrent assets:					
Long-term investments	—	—	—	—	—
Capital assets:					
Land	—	—	—	—	—
Land improvements	—	—	—	—	—
Buildings/improvements	—	—	—	—	—
Equipment	520	—	149	8	209
Construction in progress	—	—	—	—	—
Intangible assets	10	—	—	—	—
Less accumulated depreciation	(438)	—	(145)	(7)	(118)
Total capital assets	92	—	4	1	91
Total noncurrent assets	92	—	4	1	91
Total assets	664	481	296	848	947
DEFERRED OUTFLOWS OF RESOURCES	1,040	473	48	823	298
LIABILITIES					
Current liabilities:					
Accounts payable	250	221	11	291	160
Interfund loans payable	—	—	—	—	—
Due to other funds	—	—	—	—	—
Unearned revenue	—	—	—	—	—
Lease/installment purchase payable	—	—	—	—	—
Bonds/notes payable	—	—	—	—	—
Amounts held in custody for others	—	—	—	—	—
Securities lending liability	—	—	—	—	—
Estimated insurance claims	—	—	—	—	—
Compensated absences payable	256	185	9	237	122
Total current liabilities	506	406	20	528	282
Noncurrent liabilities:					
Advances from other funds	—	—	—	—	—
Lease/installment purchase payable	—	—	—	—	—
Bonds/notes payable	—	—	—	—	—
Estimated insurance claims	—	—	—	—	—
Compensated absences payable	195	57	—	334	42
Net pension liability	4,838	2,204	220	3,840	1,160
Total OPEB liability	222	85	17	109	56
Total noncurrent liabilities	5,255	2,346	237	4,283	1,258
Total liabilities	5,761	2,752	257	4,811	1,540
DEFERRED INFLOWS OF RESOURCES	163	37	4	145	15
NET POSITION					
Net investment in capital assets	92	—	3	1	91
Unrestricted	(4,313)	(1,835)	79	(3,286)	(402)
Total net position	$ (4,221)	$ (1,835)	$ 82	$ (3,285)	$ (311)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 210	$ 68	$ 186	$ 1,256	$ 213	$ 1,911	$ 93,340
—	1	—	240	—	—	7,667
—	—	—	—	—	—	35
—	—	—	—	—	—	13
—	—	—	—	—	—	36
—	—	—	959	130	—	3,541
—	—	—	—	—	—	270
—	—	—	1	—	118	1,210
210	69	186	2,456	343	2,029	106,112
—	—	—	—	—	—	46,020
—	—	—	—	—	—	236
—	—	—	—	—	—	95
—	—	—	4,979	—	—	6,070
17	—	—	4,583	53	71	249,615
—	—	—	—	—	—	4,277
—	—	—	—	—	760	2,085
(3)	—	—	(3,917)	(50)	(62)	(148,653)
14	—	—	5,645	3	769	113,725
14	—	—	5,645	3	769	159,745
224	69	186	8,101	346	2,798	265,857
98	63	34	183	156	454	13,982
100	22	10	281	44	436	14,712
—	—	—	—	12	—	12
—	—	—	—	—	—	1,718
—	—	—	30	—	—	1,474
—	—	—	—	—	—	3,132
—	—	—	—	—	—	779
—	—	—	—	—	—	1
—	—	—	—	—	—	270
—	—	—	—	—	—	22,029
92	17	3	89	43	141	4,094
192	39	13	400	99	577	48,221
—	—	—	—	—	—	4,206
—	—	—	—	—	—	9,971
—	—	—	—	—	—	699
—	—	—	—	—	—	10,874
105	33	—	33	73	138	3,411
395	300	165	735	742	2,057	64,193
60	12	12	92	45	81	2,962
560	345	177	860	860	2,276	96,316
752	384	190	1,260	959	2,853	144,537
9	5	6	32	13	35	1,668
13	—	—	5,644	3	770	94,725
(452)	(256)	25	1,348	(472)	(405)	38,905
$ (439)	$ (256)	$ 25	$ 6,992	$ (469)	$ 365	$ 133,630

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 3,635	$ 29,824	$ 3,393	$ 45,674	$ —
Investment earnings	—	—	505	—	254
Securities lending income	—	—	21	—	—
Contributions/premiums	—	—	161,819	—	22,678
Grants/contracts/donations	—	—	3,657	—	—
Other operating revenues	—	11	7,398	32	—
Total operating revenues	3,635	29,835	176,793	45,706	22,932
Operating expenses:					
Personal services	195	8,146	1,450	15,280	1,429
Contractual services	94	544	13,213	2,608	6,244
Supplies/materials	1,341	7,529	30	7,717	39
Benefits/claims	20	1,065	159,173	2,219	13,618
Depreciation	997	7,252	—	1,882	—
Amortization	—	—	103	—	137
Utilities/rent	47	125	421	1,063	93
Communications	4	8	87	7,053	23
Travel	7	36	15	160	33
Repair/maintenance	704	6,297	—	8,743	1
Grants	—	—	—	—	229
Securities lending expense	—	—	14	—	—
Interest expense	—	—	—	235	—
Other operating expenses	11	317	494	2,534	135
Total operating expenses	3,420	31,319	175,000	49,494	21,981
Operating income (loss)	215	(1,484)	1,793	(3,788)	951
Nonoperating revenues (expenses):					
Non-employer pension revenue	2	122	22	242	22
Insurance proceeds	—	—	—	—	222
Gain (loss) on sale of capital assets	(89)	(181)	—	(3)	—
Federal indirect cost recoveries	—	—	—	—	—
Total nonoperating revenues (expenses)	(87)	(59)	22	239	244
Income (loss) before contributions and transfers	128	(1,543)	1,815	(3,549)	1,195
Capital contributions	—	—	—	79	—
Transfers in	—	—	—	—	45
Transfers out	—	—	—	(135)	(318)
Changes in net position	128	(1,543)	1,815	(3,605)	922
Total net position - July 1 - as previously reported	8,492	70,336	75,242	(12,527)	(1,890)
Adjustments to beginning net position	54	(67)	196	3,086	551
Total net position - July 1 - as adjusted	8,546	70,269	75,438	(9,441)	(1,339)
Total net position - June 30	$ 8,674	$ 68,726	$ 77,253	$ (13,046)	$ (417)

MOTOR POOL	PRINT & MAIL SERVICES	BUILDING & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,274	$ 9,875	$ 10,469	$ 2,647	$ 12,277	$ —	$ 926
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	5	4	1	—	1,788	7
4,274	9,880	10,473	2,648	12,277	1,788	933
374	1,538	2,550	2,124	7,731	1,636	1,943
384	120	3,776	195	4,187	45	541
1,311	2,560	328	52	665	43	86
47	207	333	302	912	218	254
1,823	239	84	—	6	—	—
—	—	—	—	—	—	—
75	257	2,072	88	410	127	273
1	4,137	90	39	825	25	158
—	5	4	6	60	23	10
468	329	751	60	20	3	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
209	15	35	—	3	—	—
58	160	373	31	1,232	31	61
4,750	9,567	10,396	2,897	16,051	2,151	3,326
(476)	313	77	(249)	(3,774)	(363)	(2,393)
5	22	36	33	118	25	30
8	—	—	—	—	—	—
75	1	(5)	—	—	—	—
—	—	—	—	3,851	317	1,833
88	23	31	33	3,969	342	1,863
(388)	336	108	(216)	195	(21)	(530)
—	2	—	—	—	—	—
—	—	—	—	—	—	—
—	—	(448)	(1)	(1)	—	—
(388)	338	(340)	(217)	194	(21)	(530)
6,097	(452)	(582)	(1,792)	(6,457)	(1,649)	(1,790)
98	635	328	392	1,281	390	250
6,195	183	(254)	(1,400)	(5,176)	(1,259)	(1,540)
$ 5,807	$ 521	$ (594)	$ (1,617)	$ (4,982)	$ (1,280)	$ (2,070)

CONTINUES

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 4,993	$ 3,595	$ 678	$ 5,181	$ 1,449
Investment earnings	—	—	—	—	—
Securities lending income	—	—	—	—	—
Contributions/premiums	—	—	—	—	—
Grants/contracts/donations	—	—	—	—	—
Other operating revenues	17	—	—	—	—
Total operating revenues	5,010	3,595	678	5,181	1,449
Operating expenses:					
Personal services	4,525	2,033	224	3,398	1,297
Contractual services	851	400	150	1,730	57
Supplies/materials	119	47	7	54	384
Benefits/claims	579	289	29	475	154
Depreciation	24	—	—	1	8
Amortization	5	—	—	—	—
Utilities/rent	1,573	62	17	178	154
Communications	200	31	257	51	15
Travel	20	3	4	95	8
Repair/maintenance	23	719	—	1	574
Grants	—	—	—	—	—
Securities lending expense	—	—	—	—	—
Interest expense	—	—	—	—	—
Other operating expenses	246	85	18	578	17
Total operating expenses	8,165	3,669	706	6,561	2,668
Operating income (loss)	(3,155)	(74)	(28)	(1,380)	(1,219)
Nonoperating revenues (expenses):					
Non-employer pension revenue	69	32	3	55	17
Insurance proceeds	—	—	—	—	—
Gain (loss) on sale of capital assets	—	—	—	—	—
Federal indirect cost recoveries	2,387	—	—	—	—
Total nonoperating revenues (expenses)	2,456	32	3	55	17
Income (loss) before contributions and transfers	(699)	(42)	(25)	(1,325)	(1,202)
Capital contributions	—	—	—	—	—
Transfers in	—	—	—	—	1,645
Transfers out	(1)	—	—	—	—
Changes in net position	(700)	(42)	(25)	(1,325)	443
Total net position - July 1 - as previously reported	(4,240)	(2,293)	33	(2,186)	(1,150)
Adjustments to beginning net position	717	498	76	225	398
Total net position - July 1 - as adjusted	(3,523)	(1,795)	109	(1,961)	(752)
Total net position - June 30	$ (4,223)	$ (1,837)	$ 84	$ (3,286)	$ (309)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,650	$ 355	$ 261	$ 8,336	$ 451	$ 4,086	$ 154,029
—	—	—	—	—	—	759
—	—	—	—	—	—	21
—	—	—	—	—	—	184,497
—	—	—	—	—	—	3,657
—	22	—	—	—	—	9,285
1,650	377	261	8,336	451	4,086	352,248
1,449	220	164	1,486	662	1,804	61,658
109	69	11	250	57	412	36,047
45	44	1	4,796	92	92	27,382
61	39	20	104	94	270	180,482
3	—	—	386	—	1	12,706
—	—	—	—	—	831	1,076
75	27	1	102	54	26	7,320
13	3	30	13	7	18	13,088
12	9	—	9	1	6	526
1	1	—	264	5	1,268	20,232
—	—	—	—	—	—	229
—	—	—	—	—	—	14
—	—	—	—	—	—	497
28	15	—	581	74	105	7,184
1,796	427	227	7,991	1,046	4,833	368,441
(146)	(50)	34	345	(595)	(747)	(16,193)
6	4	2	9	11	29	916
—	—	—	—	—	—	230
—	—	—	(31)	(1)	—	(234)
—	—	—	—	471	—	8,859
6	4	2	(22)	481	29	9,771
(140)	(46)	36	323	(114)	(718)	(6,422)
—	—	—	—	—	—	81
—	32	—	—	—	—	1,722
—	—	—	—	—	—	(904)
(140)	(14)	36	323	(114)	(718)	(5,523)
(502)	(285)	(61)	6,188	(390)	644	128,786
204	42	50	480	35	437	10,356
(298)	(243)	(11)	6,668	(355)	1,081	139,142
$ (438)	$ (257)	$ 25	$ 6,991	$ (469)	$ 363	$ 133,619

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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	$ 3,635	$ 29,939	$ 163,039	$ 45,993	$ 22,665
Payments to suppliers for goods and services	(2,199)	(14,773)	(17,021)	(21,416)	(6,074)
Payments to employees	(198)	(8,694)	(1,509)	(16,438)	(1,524)
Grant receipts (expenses)	—	—	3,662	—	(229)
Cash payments for claims	—	—	(158,941)	—	(14,287)
Other operating revenues	—	11	7,398	32	—
Other operating payments	(11)	(317)	(494)	(2,534)	(135)
Net cash provided by (used for) operating activities	1,227	6,166	(3,866)	5,637	416
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer to other funds	—	—	—	(135)	(318)
Transfer from other funds	—	—	—	—	45
Proceeds from interfund loans/advances	—	—	—	—	—
Payment of interfund loans and advances	—	—	—	(22)	—
Payment of principal and interest on bonds and notes	—	—	—	(556)	—
Proceeds from nonemployer pension contributions	2	122	22	242	22
Net cash provided by (used for) noncapital financing activities	2	122	22	(471)	(251)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	222
Acquisition of capital assets	(1,148)	(6,337)	—	(10,164)	(366)
Proceeds from sale of capital assets	—	—	—	—	—
Net cash used for capital and related financing activities	(1,148)	(6,337)	—	(10,164)	(144)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	—	(6,063)	—	—
Proceeds (loss) from securities lending transactions	—	—	21	—	—
Interest and dividends on investments	—	—	505	—	254
Payment of securities lending costs	—	—	(14)	—	—
Net cash provided by (used for) investing activities	—	—	(5,551)	—	254
Net increase (decrease) in cash and cash equivalents	81	(49)	(9,395)	(4,998)	275
Cash and cash equivalents, July 1	1,221	4,816	60,617	7,958	15,846
Cash and cash equivalents, June 30	$ 1,302	$ 4,767	$ 51,222	$ 2,960	$ 16,121

MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,274	$ 9,870	$ 10,479	$ 2,646	$ 12,278	$ (10)	$ 926
(2,444)	(7,512)	(7,147)	(447)	(6,094)	(266)	(1,030)
(405)	(1,644)	(2,680)	(2,247)	(8,266)	(1,752)	(2,101)
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	5	4	1	3,851	2,105	1,840
(58)	(160)	(373)	(31)	(1,232)	(31)	(61)
1,367	559	283	(78)	537	46	(426)
—	—	(448)	(1)	(1)	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	211
(1,692)	—	—	—	—	(13)	—
(209)	(15)	(35)	—	(3)	—	—
5	22	36	33	118	25	30
(1,896)	7	(447)	32	114	12	241
8	—	—	—	—	—	—
—	(39)	(168)	—	(44)	—	—
368	—	—	—	—	—	—
376	(39)	(168)	—	(44)	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(153)	527	(332)	(46)	607	58	(185)
2,090	1,008	2,107	789	2,939	477	314
$ 1,937	$ 1,535	$ 1,775	$ 743	$ 3,546	$ 535	$ 129

CONTINUES

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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	$ 5,069	$ 3,596	$ 687	$ 5,195	$ 1,449
Payments to suppliers for goods and services	(2,885)	(1,264)	(436)	(2,201)	(1,123)
Payments to employees	(4,957)	(2,188)	(233)	(3,634)	(1,396)
Grant receipts (expenses)	—	—	—	—	—
Cash payments for claims	—	—	—	—	—
Other operating revenues	2,404	—	—	—	—
Other operating payments	(246)	(85)	(18)	(578)	(17)
Net cash provided by (used for) operating activities	(615)	59	—	(1,218)	(1,087)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer to other funds	(1)	—	—	—	—
Transfer from other funds	—	—	—	—	1,645
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	69	32	3	55	17
Net cash provided by (used for) noncapital financing activities	68	32	3	55	1,662
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	—
Acquisition of capital assets	—	—	—	—	(17)
Proceeds from sale of capital assets	—	—	—	—	—
Net cash used for capital and related financing activities	—	—	—	—	(17)
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	(547)	91	3	(1,163)	558
Cash and cash equivalents, July 1	1,067	386	284	1,945	300
Cash and cash equivalents, June 30	$ 520	$ 477	$ 287	$ 782	$ 858

JUSTICE LEGAL SERVICES	PERSONAL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,657	$ 354	$ 261	$ 8,489	$ 450	$ 4,275	$ 337,216
(263)	(148)	(43)	(6,045)	(223)	(1,715)	(102,769)
(1,426)	(236)	(175)	(1,582)	(694)	(1,968)	(65,947)
—	1	—	—	—	—	3,434
—	—	—	—	—	—	(173,228)
—	22	—	—	471	—	18,144
(28)	(15)	—	(581)	(74)	(105)	(7,184)
(60)	(22)	43	281	(70)	487	9,666
—	—	—	—	—	—	(904)
—	32	—	—	—	—	1,722
—	—	—	—	9	—	220
—	—	—	—	—	—	(1,727)
—	—	—	—	—	—	(818)
6	4	2	9	11	29	916
6	36	2	9	20	29	(591)
—	—	—	—	—	—	230
—	—	—	(350)	—	—	(18,633)
—	—	—	—	—	—	368
—	—	—	(350)	—	—	(18,035)
—	—	—	—	—	—	(6,063)
—	—	—	—	—	—	21
—	—	—	—	—	—	759
—	—	—	—	—	—	(14)
—	—	—	—	—	—	(5,297)
(54)	14	45	(60)	(50)	516	(14,257)
265	53	140	1,318	263	1,393	107,596
$ 211	$ 67	$ 185	$ 1,258	$ 213	$ 1,909	$ 93,339

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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)	$ 214	$ (1,484)	$ 1,792	$ (3,787)	$ 953
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	997	7,252	—	1,882	—
Amortization	—	—	103	—	137
Securities lending expense	—	—	14	—	—
Investment earnings	—	—	(505)	—	(254)
Securities lending income	—	—	(21)	—	—
Interest expense	—	—	—	235	—
Federal indirect cost recoveries	—	—	—	—	—
Change in assets, deferred outflows, liabilities, and deferred inflows:					
Decr (Incr) in accounts receivable	—	115	(2,173)	11	(13)
Decr (Incr) in due from other funds	—	—	—	(12)	—
Decr (Incr) in due from component units	—	—	—	(26)	—
Decr (Incr) in due from other governments	—	—	—	—	—
Decr (Incr) in inventories	—	(139)	—	—	—
Decr (Incr) in other assets	—	—	—	347	—
Incr (Decr) in accounts payable	2	(69)	(3,020)	(1,336)	360
Incr (Decr) in due to other funds	—	—	(5)	(4)	—
Incr (Decr) in unearned revenue	—	—	(190)	10	—
Incr (Decr) in compensated absences payable	4	(20)	15	6	12
Incr (Decr) in total OPEB liability	—	5	1	8	1
Incr (Decr) in estimated claims	—	—	27	—	(874)
Incr (Decr) in other payables	—	—	—	7,270	—
Incr (Decr) in net pension liability and related accounts	10	504	96	1,036	96
Net cash provided by (used for) operating activities	$ 1,227	$ 6,164	$ (3,866)	$ 5,640	$ 418
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	—	—	—	79	—
Incr (Decr) in value of investments	$ —	$ —	$ 861	$ —	$ 1
Total noncash transactions	$ —	$ —	$ 861	$ 79	$ 1

MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ (476)	$ 313	$ 78	$ (247)	$ (3,773)	$ (362)	$ (2,393)
1,823	239	84	—	6	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
209	15	35	—	3	—	—
—	—	—	—	3,851	317	1,833
—	34	9	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	(10)	—
—	—	—	—	—	—	—
4	(6)	—	—	—	—	—
—	(39)	—	(1)	1	—	—
(104)	(26)	(105)	(5)	103	(12)	8
(107)	—	—	—	—	—	—
—	—	—	—	—	—	—
(2)	3	22	33	(13)	15	5
—	1	1	1	4	1	2
—	—	—	—	—	—	—
—	(72)	—	—	(7)	—	—
22	99	158	142	361	97	120
$ 1,369	$ 561	282	$ (77)	$ 536	$ 46	$ (425)
$ —	$ 2	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—
$ —	$ 2	$ —	$ —	$ —	$ —	$ —

CONTINUES

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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)	$ (3,153)	$ (72)	$ (29)	$ (1,379)	$ (1,219)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	24	—	—	1	8
Amortization	5	—	—	—	—
Securities lending expense	—	—	—	—	—
Investment earnings	—	—	—	—	—
Securities lending income	—	—	—	—	—
Interest expense	—	—	—	—	—
Federal indirect cost recoveries	2,387	—	—	—	—
Change in assets, deferred outflows, liabilities, and deferred inflows:					
Decr (Incr) in accounts receivable	—	(4)	5	(1)	—
Decr (Incr) in due from other funds	—	—	—	31	—
Decr (Incr) in due from component units	—	—	—	—	—
Decr (Incr) in due from other governments	—	—	—	—	—
Decr (Incr) in inventories	—	—	—	—	—
Decr (Incr) in other assets	76	5	4	(17)	—
Incr (Decr) in accounts payable	(113)	(2)	1	(90)	60
Incr (Decr) in due to other funds	—	—	—	—	—
Incr (Decr) in unearned revenue	—	—	—	—	—
Incr (Decr) in compensated absences payable	(97)	(4)	4	25	(8)
Incr (Decr) in total OPEB liability	3	1	—	1	—
Incr (Decr) in estimated claims	—	—	—	—	—
Incr (Decr) in other payables	—	—	—	—	—
Incr (Decr) in net pension liability and related accounts	256	135	14	210	70
Net cash provided by (used for) operating activities	$ (612)	$ 59	$ (1)	$ (1,219)	$ (1,089)
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	—	—	—	—	—
Incr (Decr) in value of investments	$ —	$ —	$ —	$ —	$ —
Total noncash transactions	$ —	$ —	$ —	$ —	$ —

	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
	$ (146)	$ (50)	$ 34	$ 346	$ (595)	$ (745)	$ (16,180)
	3	—	—	386	—	1	12,706
	—	—	—	—	—	831	1,076
	—	—	—	—	—	—	14
	—	—	—	—	—	—	(759)
	—	—	—	—	—	—	(21)
	—	—	—	—	—	—	497
	—	—	—	—	471	—	8,859
	—	(1)	—	127	—	—	(1,891)
	—	—	—	—	—	—	19
	—	—	—	—	—	—	(36)
	—	1	—	—	—	—	1
	—	—	—	(433)	(10)	—	(584)
	7	—	—	27	—	190	600
	—	5	1	(210)	8	87	(4,457)
	—	—	—	—	—	—	(116)
	—	—	—	30	—	—	(150)
	42	5	(2)	(16)	12	(2)	39
	1	—	—	1	(2)	1	31
	—	—	—	—	—	—	(847)
	—	—	—	—	—	—	7,191
	34	18	9	23	46	126	3,682
	$ (59)	$ (22)	$ 42	$ 281	$ (70)	$ 489	$ 9,674
	—	—	—	—	—	—	81
	$ —	$ —	$ —	$ —	$ —	$ —	$ 862
	$ —	$ —	$ —	$ —	$ —	$ —	$ 943

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 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 Funds– provides members of the defined contribution retirement system a disability benefit plan funded through employer contributions.

Judges Retirement System Fund– provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Highway Patrol Officers Retirement System Fund– provides retirement benefits for all members of the Montana Highway Patrol.

Sheriffs Retirement System Fund– provides retirement benefits for sheriffs, detention officers, and State Department of Justice investigators.

Game Wardens & Peace Officers Retirement System Fund– provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Municipal Police Officers' Retirement System Fund– provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System 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.

Volunteer Firefighters Compensation Act 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 Fund– 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 Fund– 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 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 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, 2018
(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	$ 154,224	$ 335	$ 2,335	$ 4,240	$ 8,719	$ 4,631
Receivables (net):						
Accounts receivable	4,398	14	5	126	466	57
Interest	214	1	3	6	13	7
Due from primary government	—	—	—	—	—	—
Due from other PERB plans	673	—	—	—	—	—
Long-term notes/loans receivable	16	—	—	—	—	—
Total receivables	5,301	15	8	132	479	64
Investments at fair value:						
Equity in pooled investments	5,652,706	—	100,269	145,457	350,935	189,125
Other investments	—	4,111	—	—	—	—
Total investments	5,652,706	4,111	100,269	145,457	350,935	189,125
Securities lending collateral	36,793	—	653	947	2,284	1,231
Capital assets:						
Land	—	—	—	—	—	—
Buildings/improvements	23	—	—	—	—	—
Equipment	43	—	4	3	4	4
Construction work in progress	—	—	—	—	—	—
Accumulated depreciation	(41)	—	(3)	(3)	(3)	(3)
Intangible assets	1,398	—	410	348	410	410
Total capital assets	1,423	—	411	348	411	411
Total assets	5,850,447	4,461	103,676	151,124	362,828	195,462
DEFERRED OUTFLOWS OF RESOURCES	3	—	—	—	—	—
LIABILITIES						
Accounts payable	30,246	4	360	928	1,481	585
Due to other PERB plans	—	—	13	43	180	117
Unearned revenue	353	—	1	8	3	7
Securities lending liability	36,793	—	653	947	2,284	1,231
Compensated absences payable	361	—	—	—	—	—
Net pension liability (Note 6)	—	—	—	—	—	—
Total OPEB liability	74	—	—	—	—	—
Total liabilities	67,827	4	1,027	1,926	3,948	1,940
DEFERRED INFLOWS OF RESOURCES	64	—	—	—	—	—
NET POSITION						
Held in trust for pension benefits and other purposes	$ 5,782,559	$ 4,457	$ 102,649	$ 149,198	$ 358,880	$ 193,522

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
$ 9,989	$ 10,314	$ 3,230	$ 2,007	$ 150	$ 93,461	$ 3,775	$ 297,410
405	386	6	304	554	21,518	8	28,247
14	15	2	2	—	160	—	437
15,858	16,157	—	—	—	—	—	32,015
—	—	—	—	—	—	—	673
—	—	—	—	—	—	—	16
16,277	16,558	8	306	554	21,678	8	61,388
393,802	408,718	35,568	—	—	4,032,277	—	11,308,857
—	—	—	225,634	501,608	—	6,956	738,309
393,802	408,718	35,568	225,634	501,608	4,032,277	6,956	12,047,166
2,563	2,660	232	—	—	26,246	—	73,609
—	—	—	—	—	35	—	35
—	—	—	3	2	158	—	186
3	3	3	7	6	16	—	96
—	—	—	—	—	787	—	787
(3)	(3)	(3)	(6)	(6)	(167)	—	(241)
367	363	334	334	396	1,705	—	6,475
367	363	334	338	398	2,534	—	7,338
422,998	438,613	39,372	228,285	502,710	4,176,196	10,739	12,486,911
—	—	—	—	—	559	7	569
1,961	1,882	320	430	372	130	8	38,707
125	107	88	—	—	—	—	673
35	30	2	2	—	—	—	441
2,563	2,660	232	—	—	26,246	—	73,609
—	—	—	55	27	156	1	600
—	—	—	—	—	1,746	32	1,778
—	—	—	8	4	138	1	225
4,684	4,679	642	495	403	28,416	42	116,033
—	—	—	7	3	15	1	90
$ 418,314	$ 433,934	$ 38,730	$ 227,783	$ 502,304	$ 4,148,324	$ 10,703	$ 12,371,357

COMBINING STATEMENT OF CHANGES FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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	$ 106,613	$ 431	$ 1,085	$ 5,857	$ 10,360	$ 4,609
Employee	101,994	—	575	2,385	8,454	5,509
Other contributions	35,270	—	—	252	22	7
Net investment earnings:						
Investment earnings	513,303	304	9,080	13,169	31,276	16,708
Administrative investment expenses	(35,238)	(16)	(624)	(903)	(2,159)	(1,157)
Securities lending income	1,109	—	20	28	68	36
Securities lending expense	(442)	—	(8)	(11)	(27)	(15)
Charges for services	—	—	—	—	—	—
Other additions	—	—	—	—	—	—
Total additions	722,609	719	10,128	20,777	47,994	25,697
DEDUCTIONS						
Benefits	395,389	52	3,723	11,546	18,053	6,523
Refunds	13,345	—	149	322	1,554	1,136
Administrative expenses:						
Personal services	3,083	—	—	—	—	—
Contractual services	1,694	—	202	172	202	202
Supplies/materials	93	—	—	—	—	—
Depreciation	9	—	—	—	—	—
Amortization	169	—	50	42	50	50
Utilities/rent	262	—	—	—	—	—
Communications	116	—	—	—	—	—
Travel	21	—	—	—	—	—
Repair/maintenance	—	—	—	—	—	—
Other operating expenses	(501)	—	13	43	180	117
Local assistance	—	—	—	—	—	—
Transfer to MUS-RP	198	—	—	—	—	—
Transfer to PERS-DCRP	2,069	—	—	—	—	—
Total deductions	415,947	52	4,137	12,125	20,039	8,028
Changes in net position	306,662	667	5,991	8,652	27,955	17,669
Net position- July 1- as previously reported	5,475,372	3,789	96,655	140,539	330,915	175,844
Adjustments to beginning net position	528	—	5	6	11	9
Net position - July 1- as adjusted	5,475,900	3,789	96,660	140,545	330,926	175,853
Net position - June 30	$ 5,782,562	$ 4,456	$ 102,651	$ 149,197	$ 358,881	$ 193,522

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)

MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTIO	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 7,722	$ 7,035	$ —	$ 11,899	$ 94	$ 94,233	$ 3,519	$ 253,457
5,039	5,306	—	12,447	22,850	75,594	—	240,153
15,884	16,155	2,212	54	—	45,006	—	114,862
35,642	36,769	3,349	19,665	30,257	368,437	551	1,078,510
(2,450)	(2,532)	(227)	(63)	(964)	(25,251)	—	(71,584)
77	80	7	—	—	795	—	2,220
(31)	(32)	(3)	—	—	(317)	—	(886)
—	—	—	—	601	—	—	601
—	—	—	854	—	32	—	886
61,883	62,781	5,338	44,856	52,838	558,529	4,070	1,618,219
24,567	23,863	2,944	9,751	29,305	353,012	2,780	881,508
2,728	173	—	—	—	5,323	—	24,730
—	—	—	364	188	1,260	29	4,924
181	179	165	542	1,174	575	—	5,288
—	—	—	9	6	36	—	144
—	—	—	1	1	—	—	11
44	44	40	40	48	660	—	1,237
—	—	—	27	15	70	—	374
—	—	—	7	15	101	—	239
—	—	—	4	3	26	—	54
—	—	—	—	—	25	—	25
125	107	88	21	11	96	91	391
—	—	11	—	—	—	—	11
—	—	—	—	—	—	—	198
—	—	—	—	—	—	—	2,069
27,645	24,366	3,248	10,766	30,766	361,184	2,900	921,203
34,238	38,415	2,090	34,090	22,072	197,345	1,170	697,016
384,067	395,511	36,631	193,632	480,190	3,950,762	9,528	11,673,435
10	8	8	61	43	217	6	912
384,077	395,519	36,639	193,693	480,233	3,950,979	9,534	11,674,347
$ 418,315	$ 433,934	$ 38,729	$ 227,783	$ 502,305	$ 4,148,324	$ 10,704	$ 12,371,363

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 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 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 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 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 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, 2018
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	$ 60,179	$ 751	$ —	$ 49
Receivables (net):				
Interest	—	1	—	—
Total receivables	—	1	—	—
Investments at fair value:				
Other investments	154,733	—	—	—
Total investments	154,733	—	—	—
Other assets	—	—	32,470	—
Total assets	214,912	752	32,470	49
LIABILITIES				
Accounts payable	—	1	—	—
Total liabilities	—	1	—	—
NET POSITION				
Held in trust for other purposes	$ 214,912	$ 751	$ 32,470	$ 49

PERFORMANCE DEPOSITS	TOTAL
$ 24,570	$ 85,549
31	32
31	32
10,082	164,815
10,082	164,815
5,138	37,608
39,821	288,004
—	1
—	1
$ 39,821	$ 288,003

COMBINING STATEMENT OF CHANGES FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Other contributions	$ 16,661	$ —	$ 82	$ —
Net investment earnings:				
Investment earnings	9,334	12	—	1
Other additions	—	3,790	—	—
Total additions	25,995	3,802	82	1
DEDUCTIONS				
Distributions	27,548	4,023	—	—
Administrative expenses:				
Contractual services	822	—	—	—
Total deductions	28,370	4,023	—	—
Change in net position	(2,375)	(221)	82	1
Net position - July 1 - as previously reported	217,286	972	32,388	49
Net position - June 30	$ 214,911	$ 751	$ 32,470	$ 50

PERFORMANCE DEPOSITS	TOTAL
$ —	$ 16,743
274	9,621
1,203	4,993
1,477	31,357
1,460	33,031
—	822
1,460	33,853
17	(2,496)
39,806	290,501
39,806	290,501
$ 39,823	$ 288,005

Investment Trust Funds

These funds are used to account for the local government investment within the external investment pools managed by the Montana Board of Investments. A brief description of each fund follows:

STIP Local Government Participants Fund– accounts for the local government investment within the STIP external investment pool as managed by the Montana Board of Investments.

TFIP Local Government Participants Fund– accounts for the local government investment within the TFIP external investment pool as managed by the Montana Board of Investments.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	STIP LOCAL GOVERNMENT PARTICIPANTS	TFIP LOCAL GOVERNMENT PARTICIPANTS	TOTAL
ASSETS			
Cash/cash equivalents	$ 1,220,157	$ 1,135	$ 1,221,292
Receivables (net):			
Interest	2,145	35	2,180
Total receivables	2,145	35	2,180
Investments at fair value:			
Equity in pooled investments	—	12,028	12,028
Total investments	—	12,028	12,028
Securities lending collateral	—	167	167
Total assets	1,222,302	13,365	1,235,667
LIABILITIES			
Accounts payable	2,145	—	2,145
Securities lending liabilities	—	167	167
Total liabilities	2,145	167	2,312
NET POSITION			
Held in trust for other purposes	$ 1,220,157	$ 13,198	$ 1,233,355

COMBINING STATEMENT OF CHANGES FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	STIP LOCAL GOVERNMENT PARTICPANTS	TFIP LOCAL GOVERNMENT PARTICIPANTS	TOTAL
ADDITIONS			
Contributions/premiums:			
Other contributions	1,515,995	375	1,516,370
Net investment earnings:			
Investment earnings	17,381	48	17,429
Securities lending income	—	3	3
Securities lending expense	—	(1)	(1)
Total additions	1,533,376	425	1,533,801
DEDUCTIONS			
Distributions	1,346,276	375	1,346,651
Total deductions	1,346,276	375	1,346,651
Change in net position	187,100	50	187,150
Net position - July 1 - as previously reported	1,033,056	13,149	1,046,205
Net position - June 30	$ 1,220,156	$ 13,199	$ 1,233,355

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 Fund– accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll 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 Fund– accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts 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 Fund— accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections 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 Fund– accounts for resources that flow through State agencies to federal and local governments.

Debt Collection 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 Fund– accounts for the distribution of the proceeds from the sale of pooled milk.

OPEB State Fund– accounts for the State's employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

OPEB MUS 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, 2018
(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS
ASSETS				
Cash/cash equivalents	$ 4,637	$ 1,651	$ 956	$ 2,715
Receivables (net):				
Accounts receivable	1	—	—	—
Total receivables	1	—	—	—
Investments at fair value:				
Other assets	297	—	—	5
Total assets	4,935	1,651	956	2,720
LIABILITIES				
Accounts payable	3	(2)	8	60
Amounts held in custody for others	4,932	1,653	948	2,660
Total liabilities	4,935	1,651	956	2,720
NET POSITION				
Held in trust for other purposes	$ —	$ —	$ —	$ —

	CHILD SUPPORT COLLECTIONS		UNCLEARED COLLECTIONS		INTER-GOVERNMENTAL		DEBT COLLECTION		MILK PASS-THROUGH		TOTAL
$	741	$	22	$	5	$	315	$	56	$	11,098
	606		—		—		—		—		607
	606		—		—		—		—		607
	—		—		—		—		—		302
	1,347		22		5		315		56		12,007
	587		—		5		13		—		674
	760		22		—		302		56		11,333
	1,347		22		5		315		56		12,007
$	—	$	—	$	—	$	—	$	—	$	—

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2017	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2018
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 2,550	$ 81,032	$ 78,946	$ 4,636
Receivables (net)	3	30	32	1
Other assets	423	58	184	297
Total assets	$ 2,976	81,120	79,162	$ 4,934
LIABILITIES				
Accounts payable	$ 3	$ 929	$ 929	$ 3
Amounts held in custody for others	2,973	3,799	1,840	4,932
Total liabilities	$ 2,976	$ 4,728	$ 2,769	$ 4,935
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 26,513	$ 1,018,998	$ 1,043,859	$ 1,652
Total assets	$ 26,513	$ 1,018,998	$ 1,043,859	$ 1,652
LIABILITIES				
Accounts payable	$ (2)	$ 7,750	$ 7,750	$ (2)
Amounts held in custody for others	26,515	1,018,869	1,043,731	1,653
Total liabilities	$ 26,513	$ 1,026,619	$ 1,051,481	$ 1,651
CRIMINAL OFFENDER RESTITUTTION:				
ASSETS				
Cash/cash equivalents	$ 874	$ 4,387	$ 4,304	$ 957
Total assets	$ 874	$ 4,387	$ 4,304	$ 957
LIABILITIES				
Accounts payable	$ 6	$ 2,502	$ 2,499	$ 9
Amounts held in custody for others	868	4,387	4,307	948
Total liabilities	$ 874	$ 6,889	$ 6,806	$ 957
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 2,593	$ 8,332	$ 8,210	$ 2,715
Receivables (net)	9	—	9	—
Other assets	15	314	324	5
Total assets	$ 2,617	$ 8,646	$ 8,543	$ 2,720
LIABILITIES				
Accounts payable	$ 17	$ 3,185	$ 3,142	$ 60
Amounts held in custody for others	2,600	9,479	9,419	2,660
Total liabilities	$ 2,617	$ 12,664	$ 12,561	$ 2,720

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2017	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2018
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 392	$ 75,269	$ 74,920	$ 741
Receivables (net)	597	15	6	606
Total assets	$ 989	$ 75,284	$ 74,926	$ 1,347
LIABILITIES				
Accounts payable	$ 402	$ 70,514	$ 70,329	$ 587
Amounts held in custody for others	588	74,821	74,648	761
Total liabilities	$ 990	$ 145,335	$ 144,977	$ 1,348
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 28	$ 10,779,075	$ 10,779,081	$ 22
Receivables (net)	—	518	518	—
Total assets	$ 28	$ 10,779,593	$ 10,779,599	$ 22
LIABILITIES				
Accounts payable	$ —	$ 10,979	$ 10,979	$ —
Amounts held in custody for others	28	13,394	13,400	22
Total liabilities	$ 28	$ 24,373	$ 24,379	$ 22
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 5	$ 108	$ 108	$ 5
Total assets	$ 5	$ 108	$ 108	$ 5
LIABILITIES				
Accounts payable	$ 4	$ 108	$ 107	$ 5
Amounts held in custody for others	1	108	109	—
Total liabilities	$ 5	$ 216	$ 216	$ 5
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 473	$ 10,037	$ 10,195	$ 315
Receivables (net)	—	4,855	4,855	—
Total assets	$ 473	$ 14,892	$ 15,050	$ 315
LIABILITIES				
Accounts payable	$ 37	$ 11,672	$ 11,696	$ 13
Amounts held in custody for others	436	7,882	8,015	303
Total liabilities	$ 473	$ 19,554	$ 19,711	$ 316

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2017	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2018
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 57	$ 375	$ 375	$ 57
Total assets	$ 57	$ 375	$ 375	$ 57
LIABILITIES				
Accounts payable	$ —	$ 364	$ 364	$ —
Amounts held in custody for others	57	375	375	57
Total liabilities	$ 57	$ 739	$ 739	$ 57
OPEB STATE:				
ASSETS				
Cash/cash equivalents	$ —	$ 18,327	$ 18,327	$ —
Total assets	$ —	$ 18,327	$ 18,327	$ —
LIABILITIES				
Amounts held in custody for others	—	18,327	18,327	—
Total liabilities	$ —	$ 18,327	$ 18,327	$ —
OPEB MUS:				
ASSETS				
Cash/cash equivalents	$ —	$ 7,183	$ 7,183	$ —
Total assets	$ —	$ 7,183	$ 7,183	$ —
LIABILITIES				
Amounts held in custody for others	—	7,183	7,183	—
Total liabilities	$ —	$ 7,183	$ 7,183	$ —
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 33,485	$ 12,003,123	$ 12,025,508	$ 11,100
Receivables (net)	609	5,418	5,420	607
Other assets	438	372	508	302
Total assets	$ 34,532	$ 12,008,913	$ 12,031,436	$ 12,009
LIABILITIES				
Accounts payable	$ 467	$ 108,003	$ 107,795	$ 675
Amounts held in custody for others	34,066	1,158,624	1,181,354	11,336
Total liabilities	$ 34,533	$ 1,266,627	$ 1,289,149	$ 12,011

State of Montana

Statistical Section

SCHEDULE A-1 - NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental activities										
Net investment in capital assets	$ 6,088,211	$ 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
Restricted	2,998,804	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
Unrestricted	(642,952)	(971,795)	(780,527)	(642,296)	896,270	912,882	824,809	877,017	1,083,674	589,815
Total governmental activities net position	$ 8,444,063	$ 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
Business-type activities										
Net investment in capital assets	$ 21,395	$ 19,986	$ 15,760	$ 14,616	$ 16,285	$ 14,862	$ 15,011	$ 15,581	$ 14,534	$ 12,539
Restricted	397,587	367,734	347,819	333,536	295,006	253,382	206,896	158,735	159,335	255,493
Unrestricted	12,503	8,289	8,394	8,124	18,912	16,415	15,905	12,349	21,851	6,996
Total business-type activities net position	$ 431,485	$ 396,009	$ 371,973	$ 356,276	$ 330,203	$ 284,659	$ 237,812	$ 186,665	$ 195,720	$ 275,028
Primary government										
Net investment in capital assets	$ 6,109,606	$ 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
Restricted	3,396,391	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
Unrestricted	(630,449)	(963,506)	(772,133)	(634,172)	915,182	929,296	840,714	889,366	1,104,525	596,811
Total primary government net position	$ 8,875,548	$ 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

SCHEDULE A-2 - CHANGE IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
Expenses	**2018**	**2017**	**2016**	**2015**	**2014**
Governmental activities:					
General government	$ 674,329	$ 688,798	$ 696,984	$ 655,878	$ 1,009,121
Public safety	429,760	454,194	420,532	403,407	156,256
Transportation	527,927	484,214	464,092	483,943	461,358
Health and human services	2,681,151	2,668,273	2,174,506	1,936,701	1,880,505
Education	1,299,423	1,344,121	1,324,299	1,306,740	1,262,069
Natural resources	379,525	295,853	295,332	316,834	254,414
Economic development/assistance	—	—	—	—	—
Principal on long-term debt	—	—	(1)	—	—
Interest on long-term debt	6,743	7,484	9,373	9,124	10,760
Total governmental activities expenses	5,998,858	5,942,937	5,385,117	5,112,627	5,034,483
Business-type activities:					
Unemployment Insurance	113,843	117,788	119,088	112,952	136,174
Liquor Stores	86,118	83,313	81,556	78,700	74,917
State Lottery	45,896	43,377	47,202	41,088	41,310
Economic Development Bonds	2,648	1,851	1,198	988	2,564
Hail Insurance	576	1,696	817	8,304	15,163
General Government Services	73,539	72,489	71,343	68,678	63,787
Prison Funds	9,130	8,140	9,099	6,464	7,223
MUS Group Insurance	88,912	81,051	87,535	86,539	80,639
MUS Workers Compensation	2,738	2,786	2,430	4,128	3,199
Total business-type activities expenses	423,400	412,491	420,268	407,841	424,976
Total primary government expenses	$ 6,422,258	$ 6,355,428	$ 5,805,385	$ 5,520,468	$ 5,459,459
Program Revenues					
Governmental activities:					
Charges for services:					
General government	$ 170,447	$ 143,681	$ 145,725	$ 143,616	$ 142,818
Public safety/corrections	175,999	161,380	160,783	160,339	150,212
Transportation	27,319	28,447	30,321	36,122	33,047
Health/social services	41,916	40,260	42,376	35,795	37,843
Education/cultural	13,972	32,750	30,205	32,176	42,140
Resource/recreation/environment	165,161	165,409	168,269	174,799	172,759
Economic development/assistance	—	—	—	—	—
Operating grants and contributions	2,555,898	2,506,711	2,093,817	1,885,537	1,823,987
Capital grants and contributions	447,018	434,860	456,588	470,860	460,327
Total governmental activities program revenues	3,597,730	3,513,498	3,128,084	2,939,244	2,863,133
Business-type activities:					
Charges for services:					
Unemployment Insurance	114,678	103,928	121,740	151,806	163,745
Liquor Stores	99,059	96,475	93,958	89,286	85,316
State Lottery	56,400	52,459	59,717	52,341	53,106
Economic Development Bonds	37	37	34	30	19
Hail Insurance	1,065	1,156	1,103	6,278	8,040
General Government Services	25,386	24,290	25,342	29,197	25,985
Prison Funds	7,733	7,648	8,499	7,953	7,618
MUS Group Insurance	100,532	99,448	83,136	72,904	80,472
MUS Workers Compensation	—	3,838	4,264	4,603	2,170
Operating grants and contributions	65,885	60,219	56,565	50,751	64,982
Capital grants and contributions	685	604	857	942	623
Total business-type activities program revenues	471,460	450,102	455,215	466,091	492,076
Total primary government program revenues	$ 4,069,190	$ 3,963,600	$ 3,583,299	$ 3,405,335	$ 3,355,209

Fiscal Year				
2013	2012	2011	2010	2009
$ 647,975	$ 660,561	$ 752,565	$ 774,881	$ 549,847
380,309	387,213	308,593	342,803	408,239
189,207	468,977	390,523	320,085	438,649
1,808,386	1,745,284	1,765,871	1,677,261	1,529,104
1,205,955	1,192,205	1,209,969	1,179,788	1,137,772
332,942	337,462	318,954	318,300	363,179
—	—	—	—	170,027
—	7,593	6	—	—
12,249	15,725	16,314	17,692	18,721
4,577,023	4,815,020	4,762,795	4,630,810	4,615,538
179,826	217,829	278,086	354,793	235,494
71,013	67,863	63,573	61,569	61,446
44,049	39,808	35,481	36,365	33,787
930	1,149	1,126	2,167	3,523
7,339	7,052	8,379	6,238	4,087
63,354	62,094	63,003	62,797	60,157
6,995	6,480	6,149	6,463	10,681
67,250	59,577	63,501	72,606	55,023
328	4,530	4,232	3,900	3,675
441,084	466,382	523,530	606,898	468,328
$ 5,018,107	$ 5,281,402	$ 5,286,325	$ 5,237,708	$ 5,083,866
$ 134,756	$ 143,815	$ 138,059	$ 127,163	$ 68,982
148,147	147,070	145,754	147,839	144,748
30,792	29,256	25,143	26,531	37,204
37,291	34,191	37,166	43,338	35,554
37,328	36,335	40,720	34,309	113,433
176,400	166,466	164,880	232,861	39,929
—	—	—	—	43,182
1,780,611	1,824,334	1,962,876	1,985,977	1,635,769
455,310	512,649	537,194	510,996	467,611
2,800,635	2,894,116	3,051,792	3,109,014	2,586,412
166,523	164,353	137,439	89,500	75,591
82,125	78,384	73,298	68,032	67,242
56,820	52,615	46,047	46,865	43,841
13	17	18	22	26
7,114	7,055	6,710	6,915	6,859
21,988	22,303	23,044	22,601	21,548
6,945	7,284	6,276	6,304	6,620
68,216	69,025	65,228	64,756	52,147
4,280	4,167	4,716	4,979	5,003
96,590	134,120	168,222	226,049	118,058
445	398	281	3,174	1,360
511,059	539,721	531,279	539,197	398,295
$ 3,311,694	$ 3,433,837	$ 3,583,071	$ 3,648,211	$ 2,984,707

SCHEDULE A-2 - CHANGE IN NET POSITION - Continued
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2018	2017	2016	2015	2014
Net (expense)/revenue					
Governmental activities	$ (2,401,128)	$ (2,429,439)	$ (2,257,033)	$ (2,173,383)	$ (2,389,119)
Business-type activities	48,060	37,611	34,947	58,250	67,114
Total primary government net expense	$ (2,353,068)	$ (2,391,828)	$ (2,222,086)	$ (2,115,133)	$ (2,322,005)
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes					
Property	$ 293,530	$ 277,254	$ 276,367	$ 261,532	$ 267,029
Fuel	259,162	231,305	225,419	226,892	216,615
Natural resource	209,776	171,629	163,707	257,634	334,210
Individual income	1,304,715	1,160,431	1,173,281	1,151,329	1,044,828
Corporate Income	170,607	132,538	117,758	174,112	145,040
Other	387,287	378,976	361,899	358,676	340,123
Unrestricted grants and contributions	12,595	13,596	15,321	15,101	403
Payment from State of Montana	—	—	—	—	487
Settlements	19,794	33,824	29,379	29,109	31,534
Unrestricted investment earnings	29,241	25,125	92,404	44,028	108,754
Gain on sale of capital assets	2,595	15,640	3,014	2,067	2,125
Miscellaneous	4,876	4,895	6,596	4,348	4,708
Transfers	48,854	46,141	49,812	50,017	46,377
Total governmental activities	2,743,032	2,491,354	2,514,957	2,574,845	2,542,233
Business-type activities:					
Taxes					
Other	28,846	27,958	27,078	26,440	25,148
Unrestricted grants and contributions	233	2,845	1,852	1,777	2
Settlements	—	236	—	—	52
Unrestricted investment earnings	66	31	17	520	12
Gain (loss) on sale of capital assets	11	(274)	318	142	696
Miscellaneous	3,709	871	514	718	674
Transfers	(48,854)	(46,140)	(49,813)	(50,017)	(47,864)
Total business-type activities	(15,989)	(14,473)	(20,034)	(20,420)	(21,280)
Total primary government	$ 2,727,043	$ 2,476,881	$ 2,494,923	$ 2,554,425	$ 2,520,953
Change in Net Position					
Governmental activities	$ 341,904	$ 61,915	$ 257,924	$ 401,462	$ 153,114
Business-type activities	32,071	23,138	14,913	37,830	45,834
Total primary government	$ 373,975	$ 85,053	$ 272,837	$ 439,292	$ 198,948

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2013	2012	2011	2010	2009
(1,776,387)	(1,920,904)	(1,711,003)	(1,521,796)	(2,029,126)
69,975	73,339	7,749	(67,700)	(70,033)
(1,706,412)	(1,847,565)	(1,703,254)	(1,589,496)	(2,099,159)
256,613	257,631	241,961	235,287	228,368
216,065	211,933	209,348	204,373	191,061
310,344	309,427	305,471	275,313	307,032
1,041,767	892,560	810,108	709,699	806,908
174,510	129,668	121,801	89,033	168,053
324,811	308,927	308,703	303,859	315,810
11	181	—	461	167
—	—	—	—	—
35,763	40,426	38,747	77,927	155,127
30,296	87,083	155,419	172,748	42,556
7,158	2,179	3,209	3,244	6,141
4,355	2,728	2,919	4,247	116,865
48,199	46,361	40,547	42,488	42,863
2,449,892	2,289,104	2,238,233	2,118,679	2,380,951
24,186	23,233	21,797	25,017	24,821
—	—	—	—	—
—	—	27	—	—
20	54	4,642	244	142
41	270	—	1	—
570	542	637	4,377	2,484
(48,199)	(46,361)	(40,547)	(42,486)	(42,863)
(23,382)	(22,262)	(13,444)	(12,847)	(15,416)
2,426,510	2,266,842	2,224,789	2,105,832	2,365,535
673,410	368,200	527,230	596,881	351,825
46,593	51,077	(5,695)	(80,547)	(85,449)
720,003	419,277	521,535	516,334	266,376

SCHEDULE A-3 - FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Nonspendable:									
Inventory	$ 24,828	$ 23,260	$ 24,385	$ 25,137	$ 22,611	$ 24,483	$ 25,046	$ 23,007	$ 27,018
Permanent fund principle	1,607,011	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	489	525	641	817	971	2,470	2,146	65	96
Prepaid expenses	730	4,534	1,259	1,806	1,045	1,273	1,538	1,254	1,361
Total nonspendable	$1,633,058	$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	24,215	6,449	6,339	6,586	8,563	1,966	10,474	13,146	13,785
Transportation	85,046	52,673	41,892	47,750	60,851	76,659	75,518	116,353	102,520
Health and human services	9,767	16,780	21,372	22,814	24,494	23,049	16,739	22,025	22,367
Natural resources	712,879	702,399	710,010	716,294	669,220	646,026	653,179	634,957	438,410
Public safety	219,316	235,760	236,139	252,006	265,966	268,616	294,520	290,768	317,295
Education	13,060	19,282	15,146	17,896	20,458	21,397	27,140	29,054	24,644
Total restricted	$1,064,283	$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	691,225	717,671	749,341	712,767	694,508	612,969	625,432	588,292	551,394
Transportation	16,583	6,201	4,070	3,856	4,823	6,644	4,304	4,445	6,403
Health and human services	40,628	34,173	29,086	28,226	27,131	30,665	43,952	72,102	65,050
Natural resources	324,539	385,724	387,121	346,550	320,560	258,650	266,254	312,467	601,410
Public safety	48,094	46,352	31,776	30,207	34,037	29,428	18,162	15,393	39,772
Education	16,094	16,306	16,180	8,249	26,631	34,723	12,434	12,162	1,540
Total committed	$1,137,163	$1,206,427	$1,217,574	$1,129,855	$1,107,690	$ 973,079	$ 970,538	$1,004,861	$1,265,569
Assigned:									
General government	23	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	592	892	404	599	1,210	1,465	1,756	1,853	2,949
Education	—	—	—	—	—	—	—	—	138
FY 2011 appropriation	—	—	—	—	—	—	—	—	70,270
General Fund Spend Down	—	—	130,000	75,000	80,000	—	—	—	—
Encumbrances	7,998	11,355	10,333	11,230	10,366	18,033	22,670	24,591	11,986
Total assigned	$ 8,613	$ 13,539	$ 149,187	$ 92,190	$ 104,808	$ 42,611	$ 45,925	$ 52,290	$ 119,336
Unassigned	176,581	47,933	126,478	380,436	344,406	537,609	451,656	339,898	212,183
Total fund balances	$4,019,698	$3,919,584	$4,099,111	$4,083,374	$4,008,066	$4,008,067	$3,939,637	$3,828,549	$3,688,019

SCHEDULE A-3 - FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year 2009
General Fund	
Reserved	$ 25,991
Unreserved	392,526
Total general fund	$ 418,517
All other governmental funds	
Reserved	$ 3,016,151
Unreserved, reported in:	
Special revenue funds	(30,881)
Debt service funds	(4,505)
Capital project funds	124,205
Total all other governmental funds	$ 3,104,970

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				
	2018	2017	2016	2015	2014
Revenues					
Licenses/permits	$ 348,991	$ 327,275	$ 321,882	$ 319,726	$ 302,824
Taxes	2,597,788	2,353,081	2,317,024	2,435,282	2,344,456
Charges for services/fines/forfeits/settlements	174,762	206,505	185,112	183,257	202,912
Investment earnings	44,758	48,919	171,980	90,565	141,733
Sale of documents/merchandise/property	21,927	20,505	19,963	26,177	21,836
Rentals/leases/royalties	51,945	49,592	60,743	66,754	76,824
Contributions/Premiums	32,721	31,133	26,616	24,105	23,206
Grants/contracts/donations	35,274	33,678	31,237	30,048	30,324
Federal	2,799,149	2,718,875	2,304,394	2,151,163	2,086,310
Federal Indirect cost Recoveries	116,610	125,801	113,157	112,914	110,981
Other revenues	4,610	5,780	6,637	4,770	5,410
Total revenues	6,228,535	5,921,144	5,558,745	5,444,761	5,346,816
Expenditures					
General government	643,802	653,362	624,157	676,832	699,219
Public safety	416,829	426,994	419,813	395,561	373,132
Transportation	331,569	329,262	319,940	340,443	324,074
Health and human services	2,675,173	2,652,851	2,177,895	1,925,968	1,883,909
Education	1,293,647	1,345,216	1,325,927	1,301,116	1,261,012
Natural resources	363,303	324,081	306,470	288,791	286,320
Economic development/assistance	—	—	—	—	—
Debt service:					
Principal retirement	31,968	33,889	39,631	33,988	33,617
Interest/fiscal charges	8,088	9,520	10,506	11,346	12,810
Capital outlay	425,183	406,949	477,990	444,940	457,306
Securities lending	269	343	218	204	142
Total expenditures	6,189,831	6,182,467	5,702,547	5,419,189	5,331,541
Excess of revenue over (under) expenditures	38,704	(261,323)	(143,802)	25,572	15,275
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	312	184	368	344	324
Insurance proceeds	309	43	106	2,586	1,302
General capital asset sale proceeds	4,202	15,815	3,430	3,689	1,840
Energy conservation loans	1,589	1,770	677	2,120	169
Transfers in	369,536	283,004	323,250	324,088	428,368
Transfers out	(319,353)	(235,435)	(274,206)	(284,180)	(383,933)
Total other financing sources (uses)	56,595	65,381	53,864	75,689	60,002
Net change in fund balances	$ 95,299	$ (195,942)	$ (89,938)	$ 101,261	$ 75,277
Debt service as a percentage of noncapital expenditures	0.7%	0.8%	1.0%	0.9%	1.0%

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2013	2012	2011	2010	2009
$ 297,148	$ 290,183	$ 287,580	$ 283,658	$ 283,423
2,314,815	2,096,733	1,986,722	1,809,427	2,005,327
181,760	193,874	191,142	238,758	255,068
59,092	181,484	143,198	232,668	114,857
23,393	16,221	17,208	17,499	15,271
75,490	77,946	70,322	143,714	73,080
22,397	21,666	20,685	19,724	—
24,267	24,812	23,439	27,324	28,919
2,043,912	2,102,964	2,338,090	2,271,216	1,953,376
112,364	107,446	101,152	112,918	—
5,349	4,718	5,069	6,809	144,890
5,159,987	5,118,047	5,184,607	5,163,715	4,874,211
613,186	633,336	643,623	666,192	428,723
363,378	353,344	346,670	338,776	335,877
287,218	345,796	271,387	197,197	311,838
1,810,312	1,734,471	1,757,633	1,675,253	1,526,287
1,204,060	1,183,056	1,208,538	1,181,591	1,136,056
341,686	287,636	272,895	288,913	238,834
—	—	—	—	168,778
32,627	34,865	33,974	31,682	34,199
13,907	16,314	16,362	18,213	19,079
454,463	488,958	565,943	650,589	464,378
302	383	600	873	2,917
5,121,139	5,078,159	5,117,625	5,049,279	4,666,966
38,848	39,888	66,982	114,436	207,245
—	—	—	3,800	—
—	—	31,000	—	—
—	56,670	10,180	28,270	—
—	8,264	767	1,294	—
—	(64,421)	(11,062)	(29,148)	—
504	49	36	172	615
381	3,565	4,326	670	886
7,340	2,343	4,130	3,614	5,960
291	26,171	—	—	—
307,460	277,279	351,366	491,045	391,661
(273,502)	(235,235)	(316,934)	(450,686)	(350,135)
42,474	74,685	73,809	49,031	48,987
$ 81,322	$ 114,573	$ 140,791	$ 163,467	$ 256,232
1.0%	1.1%	1.1%	1.1%	1.3%

SCHEDULE B-1 - PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Farm Earnings	$ 293,049	$ 428,532	$ 757,623	$ 832,648	$ 817,733	$ 934,509	$ 720,138	$ 625,246	$ 310,053	$ 468,182
Agricultural, forestry, fishing, and other	252,135	261,677	273,020	232,980	231,268	201,925	168,285	162,669	186,402	193,708
Mining	968,972	1,106,210	1,144,404	1,235,527	1,246,822	1,235,330	820,944	664,485	772,277	897,521
Construction/utilities	3,015,990	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
Manufacturing	1,311,060	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
Transportation and public utilities	1,204,070	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
Wholesale trade	1,239,699	1,224,375	1,285,731	1,201,060	1,201,060	1,114,365	1,002,298	940,214	938,306	985,176
Retail trade	2,507,876	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
Finance, insurance, and real estate	2,169,520	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
Services	10,645,664	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
Federal, civilian	1,314,692	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
Military	415,147	409,941	406,402	414,108	423,180	429,985	532,199	528,570	515,593	489,616
State and local government	4,282,582	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
Other (1)	18,056,689	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
Total personal income	$47,677,145	$44,772,870	$42,646,600	$40,415,476	$39,553,190	$38,752,840	$36,507,395	$34,748,365	$33,923,231	$34,110,898
Average effective rate (2)	2.5%	2.6%	2.8%	2.6%	2.6%	2.3%	2.2%	2.1%	2.4%	2.6%

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									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Personal income tax revenue (1)	$ 1,180,344	$ 1,183,699	$ 1,175,745	$ 1,063,284	$ 1,047,790	$ 898,851	$ 816,090	$ 717,834	$ 815,138	$ 866,638
Personal income	$ 47,677,145	$ 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
Average effective rate (2)	2.5%	2.6%	2.8%	2.6%	2.6%	2.3%	2.2%	2.1%	2.4%	2.6%

	Tax Rates on the Portion of Taxable Income in Ranges (3)						
Calendar Year 2017							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.9	$2.9-5.2	$5.2-7.9	$7.9-10.6	$10.6-13.6	$13.6-17.6	$17.6+
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 +

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 2017				Calendar Year 2012			
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	71,252	15.27%	$ 701,360	0.06%	78,499	17.93%	$ 920,881	0.11%
$10,000–$19,999	65,572	14.06%	$ 8,136,598	0.74%	71,866	16.41%	$ 9,332,758	1.07%
$20,000–$44,999	126,595	27.15%	$ 86,273,749	7.88%	117,603	26.86%	$ 76,729,603	8.77%
$45,000–$69,999	72,644	15.58%	$ 127,266,367	11.62%	67,235	15.35%	$ 113,900,239	13.02%
$70,000–$109,999	70,034	15.01%	$ 220,893,034	20.16%	61,522	14.05%	$ 192,229,017	21.98%
$110,000–$174,999	39,296	8.43%	$ 222,903,843	20.35%	27,131	6.20%	$ 153,848,056	17.59%
$175,000–$499,999	17,981	3.86%	$ 232,116,226	21.19%	11,871	2.71%	$ 153,400,773	17.54%
$500,000 and higher	2,989	0.64%	$ 197,160,539	18.00%	2,144	0.49%	$ 174,231,160	19.92%
Total	466,363	100.00%	$ 1,095,451,716	100.00%	437,871	100.00%	$ 874,592,487	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									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental activities										
General obligation bonds	$ 84,460	$ 98,625	$ 115,500	$ 134,795	$ 127,840	$ 139,595	$ 156,905	$ 174,335	$ 169,150	$ 182,585
Special revenue bonds	56,435	73,550	89,840	110,975	128,020	137,940	152,565	169,220	176,570	189,970
Notes payable	9,307	10,004	11,643	9,949	9,311	9,667	10,020	10,369	10,716	11,065
Lease/installment purchase payable	13,698	6,537	3,170	1,186	764	707	723	1,536	2,440	2,680
Total governmental activities	163,900	188,716	220,153	256,905	265,935	287,909	320,213	355,460	358,876	386,300
Business-type activities										
Bonds/notes payable	—	—	—	—	—	70	135	195	370	1,180
Lease/installment purchase payable	231	415	600	836	141	223	303	382	—	—
Total business-type activities	231	415	600	836	141	293	438	577	370	1,180
Total primary government	$ 164,131	$ 189,131	$ 220,753	$ 257,741	$ 266,076	$ 288,202	$ 320,651	$ 356,037	$ 359,246	$ 387,480
Debt as a percentage of personal income (1)	0.3%	0.4%	0.5%	0.6%	0.7%	0.7%	0.9%	1.0%	1.1%	1.2%
Amount of debt per capita (2)	$ 156	$ 181	$ 221	$ 259	$ 270	$ 294	$ 329	$ 367	$ 371	$ 401

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)

	Fiscal Year									
Governmental Activities	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	$ 3,319	$ 1,974	$ 2,986	$ 2,774	$ 1,610	$ 1,702	$ 2,200	$ 1,746	$ 1,710	$ 3,157
Northwestern Energy	1,074	4,241	3,945	4,445	3,670	3,340	4,095	3,676	3,435	3,189
STIP interest earnings	65	53	25	8	8	14	17	17	19	96
Debt service fund interest	924	904	784	809	599	619	644	444	398	414
Less: Operating expenses	—	—	—	—	—	—	—	—	—	—
Net available revenue	5,382	7,172	7,740	8,036	5,887	5,675	6,956	5,883	5,562	6,856
Debt service										
Principal	$ 6,051	$ 4,994	$ 5,080	$ 4,815	$ 4,345	$ 3,765	$ 4,200	$ 3,620	$ 2,380	$ 3,725
Interest	678	808	775	808	821	801	899	848	979	1,093
Coverage (1)	1.0	1.2	1.3	1.4	1.1	1.2	1.4	1.3	1.7	1.4

	Fiscal Year									
Governmental Activities	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
US Highway 93 GARVEES Bond										
Revenue										
Federal Highway Administration	$ 419,915	$ 401,121	$ 424,636	$ 447,541	$ 429,398	$ 410,641	$ 471,079	$ 457,372	$ 464,400	$ 381,604
Less: Operating expenses	(404,499)	(385,705)	(409,039)	(432,041)	(413,897)	(395,056)	(455,102)	(441,395)	(448,419)	(365,624)
Net available revenue	$ 15,416	$ 15,416	$ 15,597	$ 15,500	$ 15,501	$ 15,585	$ 15,977	$ 15,977	$ 15,981	$ 15,980
Debt service										
Principal	$ 13,080	$ 12,400	$ 12,270	$ 11,625	$ 11,110	$ 10,630	$ 10,175	$ 9,740	$ 9,340	$ 9,070
Interest	2,336	3,016	3,327	3,875	4,391	4,955	5,802	6,237	6,641	6,910
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	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$ 120	$ 111	$ 116	$ 95	$ 105	$ 94	$ 74	$ 72	$ 90	$ 83
Less: Operating expenses	—	—	—	—	—	—	—	—	—	—
Net available revenue	$ 120	$ 111	$ 116	$ 95	$ 105	$ 94	$ 74	$ 72	$ 90	$ 83
Debt service										
Principal	$ 80	$ 77	$ 74	$ 71	$ 58	$ 56	$ 54	$ 51	$ 50	$ 48
Interest	40	34	43	24	47	38	20	21	40	35
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	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
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)

	Fiscal Year									
Governmental Activities	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Water Conservation Note Payable (Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 3	$ 3	$ 3
Less: Operating expenses	—	—	—	—	—	—	—	—	—	—
Net available revenue	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 3	$ 3	$ 3
Debt service										
Principal	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 2	$ 2	$ 2
Interest	—	—	—	—	—	—	—	1	1	1
Coverage (1)	—	—	—	—	—	—	1.0	1.0	1.0	1.0

	Fiscal Year									
Governmental Activities	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Water Conservation Note Payable (Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	$ —	$ —	$ 2	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Less: Operating expenses	—	—	—	—	—	—	—	—	—	—
Net available revenue	$ —	$ —	$ 2	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Debt service										
Principal	$ —	$ —	$ 2	$ 3	$ 3	$ 2	$ 2	$ 2	$ 2	$ 2
Interest	—	—	—	—	—	1	1	1	1	1
Coverage (1)	—	—	—	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									
Business-type Activities	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Economic Development Bonds										
(Municipal Finance Consolidation Irrigation Dist)										
Revenue										
Principal and interest repayments	$ —	$ —	$ —	$ —	$ 70	$ 66	$ 62	$ 58	$ 53	$ 47
Investment income	—	—	—	—	—	—	—	—	—	1
Less: Operating expenses	—	—	—	—	—	—	—	—	—	—
Net available revenue	$ —	$ —	$ —	$ —	$ 70	$ 66	$ 62	$ 58	$ 53	$ 48
Debt service										
Principal	$ —	$ —	$ —	$ —	$ 70	$ 65	$ 60	$ 55	$ 50	$ 45
Interest	—	—	—	—	3	8	13	17	21	25
Coverage (1)	—	—	—	—	1.0	0.9	0.9	0.8	0.7	0.7

	Fiscal Year									
Business-type Activities	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Economic Development Bonds										
(Conservation Reserve Enhancement Program)										
Revenue										
Principal and interest repayments	$ 35	$ 29	$ 33	$ 81	$ 71	$ 151	$ 162	$ 454	$ 782	$ 989
Investment income	—	—	—	—	—	—	—	—	—	1
Less: Operating expenses	—	—	—	—	—	—	—	—	—	—
Net available revenue	$ 35	$ 29	$ 33	$ 81	$ 71	$ 151	$ 162	$ 454	$ 782	$ 990
Debt service										
Principal	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 120	$ 891	$ 628
Interest	—	—	—	—	—	—	3	3	62	101
Coverage (1)	—	—	—	—	—	—	49.7	3.7	0.8	1.4

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)
2018	$ 84,460	$ 16,170	$ 68,290	0.14%	$ 65
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

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									
	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Population										
Montana (in thousands)	1,050	1,043	999	994	988	982	975	969	962	955
Percentage change	0.7%	4.4%	0.5%	0.6%	0.6 %	0.7%	0.6%	0.7%	0.7 %	0.8%
National (in thousands)	325,719	323,128	322,366	319,668	316,97	314,281	311,601	308,936	306,27	303,598
Percentage change	0.8%	0.2%	0.8%	0.9%	0.9 %	0.9%	0.9%	0.9%	0.9 %	0.9%
Total Personal Income										
Montana (in millions)	$ 47,677	$ 44,773	$ 42,726	$ 40,844	$39,963	$ 38,753	$ 36,507	$ 34,748	$33,923	$ 34,111
Percentage change	6.5%	4.8%	4.6%	2.2%	3.1 %	6.2%	5.1%	2.4%	(0.6)%	5.0%
National (in billions)	$ 16,820	$ 15,913	$ 15,582	$ 14,683	$14,151	$ 13,729	$ 12,950	$ 12,357	$12,165	$ 12,380
Percentage change	5.7%	2.1%	6.1%	3.8%	3.0 %	6.0%	4.6%	1.6%	(1.7)%	4.0%
Per Capita Personal Income										
Montana	$ 45,385	$ 42,947	$ 41,204	$ 39,903	$39,366	$ 39,474	$ 36,573	$ 35,068	$34,794	$ 35,237
Percentage change	4.2%	4.2%	3.3%	1.4%	(0.3)%	7.9%	4.1%	0.8%	(1.3)%	4.0%
National	$ 51,640	$ 49,246	$ 48,322	$ 46,049	$44,765	$ 43,684	$ 41,560	$ 39,945	$39,626	$ 40,673
Percentage change	4.9%	1.9%	4.9%	2.9%	2.5 %	5.1%	3.9%	0.8%	(2.6)%	3.1%
Resident Civilian Labor Force & Employment										
Civilian labor force	526,944	528,349	522,709	516,516	513,43	507,377	503,903	497,538	498,89	510,816
Employed	505,413	507,322	502,284	492,493	485,01	476,191	468,896	461,602	468,21	487,870
Unemployed	21,531	21,027	21,327	24,082	29,328	31,186	35,007	35,936	30,686	22,946
Unemployment rate	4.1%	4.0%	4.1%	4.7%	5.7 %	6.1%	6.9%	7.2%	6.2 %	4.5%
Nonfarm Wage and Salary Workers (in thousands)										
Goods-producing industries										
Natural Resources and Mining	6.9	6.8	8.2	9.1	9.5	9.3	7.9	7.5	7.0	8.3
Construction	27.8	25.7	26.5	24.8	23.9	22.9	23.0	22.7	24.0	29.8
Durable goods	11.9	11.8	11.7	11.6	11.1	10.5	9.6	9.5	10.1	12.3
Nondurable goods	8.2	8.0	7.4	7.3	7.2	7.0	7.2	7.0	7.3	7.6
Subtotal goods-producing industries	54.8	52.3	53.8	52.8	51.7	49.7	47.7	46.7	48.4	58.0
Service-producing industries										
Transp, communications, and utilities	24.9	25.5	24.8	25.1	25.0	23.6	23.3	24.1	21.5	24.3
Trade	76.4	77.3	76.1	74.3	73.3	71.6	70.2	70.3	66.9	75.6
Finance, insurance, and real estate	24.7	24.5	23.8	24.9	22.7	21.4	20.9	21.2	21.1	21.9
Service	204.2	195.7	191.9	187.6	186.3	184.3	177.2	175.5	182.3	178.7
State and local government	78.6	80.2	77.4	76.2	77.1	76.5	74.6	75.7	74.4	74.1
Federal government	13.1	12.6	13.0	12.9	13.0	13.4	13.8	14.8	13.9	13.6
Subtotal service-producing industries	421.9	415.8	407.0	401.0	397.4	390.8	380.0	381.6	380.1	388.2
Total Nonfarm Wage and Salary Employment	476.7	468.1	460.8	453.8	449.1	440.5	427.7	428.3	428.5	446.2

(1) Previous population numbers are from U.S. Census projections. These projections are no longer available. 2016 and forward population numbers are from U. S. Census 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 is 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

	2017			2008		
Employer	**Employees (1)**	**Rank**	**Percentage of Total State Employment (2)**	**Employees**	**Rank**	**Percentage of Total State Employment (2)**
State of Montana	23,000-23,500	1	5.06%	21,500-22,000	1	5.11%
Federal Government	13,000-13,500	2	2.88%	13,500-14,000	2	2.99%
Wal-Mart	4,500-5,000	3	1.03%	4,500-5,000	3	1.12%
Billings Clinic	3,500-4,000	4	0.82%	3,000-3,500	4	0.76%
Town Pump	3,000-3,500	5	0.71%	2,500-3,000	6	0.65%
Albertson's	2,000-2,500	6	0.49%	2,000-2,500	5	0.53%
Benefis Healthcare	2,000-2,500	7	0.49%	1,500-2,000	8	0.41%
Kalispell Regional Hospital	2,000-2,500	8	0.49%			
St. Vincent Healthcare	1,500-2,000	9	0.38%	2,000-2,500	7	0.53%
St. Patrick Hospital	1,500-2,000	10	0.38%	1,500-2,000	9	0.41%
Stillwater Mining				1,500-2,000	10	0.41%
Total Statewide Employment	459,448			437,583		

Sources: Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor

Notes: (1) Number of employees based on March 2017 data.
(2) Percentage of total state employment based on the midpoints in the ranges given.

SCHEDULE E-1 - FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year					Fiscal Year				
Function/Program	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Governmental:										
General government	2,951	3,003	2,979	3,058	2,995	2,999	2,914	2,596	2,781	1,564
Public safety/corrections	2,673	2,667	2,656	2,668	2,668	2,639	2,558	2,786	2,573	2,065
Transportation	2,127	2,194	2,194	2,266	2,266	2,252	2,225	2,234	2,233	1,935
Health/social services	3,053	3,106	3,040	3,044	3,029	3,019	2,974	3,092	2,992	2,422
Education/cultural	510	519	501	511	526	526	478	492	485	406
Resource/recreation/environment	2,173	2,105	2,065	2,131	2,133	2,144	1,963	2,157	2,147	1,696
Economic development/ assistance	—	—	—	—	—	—	—	—	—	853
Total governmental	13,487	13,594	13,435	13,678	13,617	13,579	13,112	13,357	13,211	10,941
Business-type:										
Liquor Stores	33	33	33	33	33	31	29	29	29	39
State Lottery	32	32	32	32	32	32	32	32	32	30
Economic Development Bonds	4	4	4	4	4	4	4	4	4	3
Hail Insurance	6	5	6	7	7	7	7	7	8	3
General Government Services	101	101	112	118	113	115	115	106	94	84
Prison Funds	40	40	40	41	42	43	43	32	21	32
MUS Group Insurance	7	7	6	6	6	5	5	5	5	4
MUS Workers Compensation	1	1	1	1	1	1	1	1	1	1
Total business-type	224	223	234	242	238	238	236	216	194	196
Fiduciary:										
Pension Trust	71	71	70	69	69	66	66	58	57	46
Total fiduciary	71	71	70	69	69	66	66	58	57	46
Component unit:										
Montana Board of Housing	56	55	54	52	50	53	51	47	47	19
Facility Finance Authority	3	3	3	3	3	3	3	3	3	3
State Compensation Insurance (New Fund)	307	307	307	304	304	289	287	285	300	298
Montana State University	4,930	4,960	4,945	4,737	4,649	4,475	4,443	4,285	4,181	4,090
University of Montana	3,771	3,848	3,844	3,906	3,831	3,844	3,770	3,746	3,705	3,578
Total component unit	9,067	9,173	9,153	9,002	8,837	8,664	8,554	8,366	8,236	7,988
Total full-time equivalent employees	22,849	23,061	22,892	22,991	22,761	22,547	21,968	21,997	21,698	19,171

Source: Statewide Accounting, Budgeting, and Human Resource System

SCHEDULE E-2 - OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	**2018**	**2017**	**2016**	**2015**	**2014**
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	494,664	490,237	490,050	470,854	456,736
Paper-filed income tax returns	73,204	76,428	83,831	88,514	95,626
Judiciary					
Supreme Court total filings (1)	744	758	850	806	800
District Court total filings (1)	53,533	50,355	57,000	55,824	53,000
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,865	2,719	2,605	2,679	2,625
Supervised offenders	12,451	11,626	11,106	11,040	10,640
Department of Justice					
Drivers licenses issued	173,857	174,858	180,445	191,705	162,365
Vehicles registered (2)	2,573,106	2,749,855	2,648,484	2,536,737	2,112,741
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,684	3,102	2,907	2,945	3,052
Work orders completed	2,449	3,127	2,842	2,863	3,179
Work orders unfunded or not completed	265	158	138	165	134
Transportation					
Department of Transportation					
Paved roads (miles)	20,150	19,534	20,002	19,896	19,894
Unpaved roads (miles)	54,397	56,229	55,981	56,063	50,084
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assist.	3,291	3,326	3,321	3,239	3,299
Number of households provided with energy assist.	19,908	19,617	19,312	20,421	21,605
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	146,772	146,375	144,316	144,532	144,129
Public schools	821	821	799	824	823
Commissioner of Higher Education					
Total enrollment for Montana University System 4-year Colleges	30,580	31,089	30,968	31,268	31,499
Total enrollment for Montana University System 2-year Colleges	4,597	4,794	4,895	5,310	5,693
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	$ 87.4	$ 86.2	$ 95.9	$ 109.1	$ 114.4
Oil production (millions of bbls)	19.91	21.58	21.53	25.61	29.3
Gas production (millions of mcf)	39.34	39.79	29	30.59	55
Department of Fish, Wildlife and Parks					
License and permit sales (2)	2,514,748	2,103,209	2,003,119	1,892,894	1,858,020
State park visitation (millions)	2.51	2.62	2.66	2.39	2.19

Fiscal Year				
2013	2012	2011	2010	2009
439,403	423,574	397,280	333,911	317,211
103,585	110,308	135,144	151,945	178,114
784	784	775	650	677
52,105	49,908	44,234	45,622	43,672
2,509	2,546	2,528	2,491	2,573
10,347	10,331	10,399	10,535	10,453
173,924	164,089	143,368	156,671	164,230
1,163,000	1,151,674	1,154,627	1,056,227	1,634,914
2,847	3,181	3,528	3,380	3,114
3,264	3,561	3,426	3,095	2,941
319	557	465	863	746
19,813	19,737	19,644	20,469	20,704
56,048	56,089	56,108	55,193	56,632
3,527	3,585	3,932	3,206	3,165
21,248	20,704	25,495	28,054	22,448
142,908	142,349	141,693	141,807	142,082
824	826	827	828	829
31,717	31,978	31,934	30,362	31,805
5,986	6,150	6,051	5,538	4,570
$ 122	$ 113.5	$ 108.7	$ 180.6	$ 110.0
26.4	24.1	25.3	27.8	31.5
66.9	79.5	93.5	105.3	119.5
1,883,435	1,939,190	1,806,326	1,800,613	1,806,316
2.17	2.07	1.79	1.90	1.80

SCHEDULE E-2 - OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued
Last Ten Fiscal Years

Function/Program	Fiscal Year 2018	2017	2016	2015	2014
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permits and licenses	7,386	11,311	9,162	8,500	8,462
Environmental violations	4,670	4,158	4,305	7,000	7,247
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	60	38	60	—	51
Treasure State Endowment Project – construction awards	—	—	—	36	—
Community Development Block Grant – public facility applications	6	12	—	15	7
Community Development Block Grant – public facility awards	6	7	7	9	5
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	48,061	51,106	55,565	65,155	73,736
Average weekly benefit (dollars)	$ 344.73	$ 337.45	$ 324.61	$ 304.76	$ 297.00
Exhaustion rate (percent)	35.0%	34.0%	34.7%	35.8%	39.6%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	5,387	5,373	5,200	5,155	5,077
Liquor cases distributed	833,694	807,125	792,463	746,745	742,388
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	$ 56	$ 52	$ 60	$ 53	$ 54
Transfer to the General Fund (millions of dollars)	$ 10	$ 9	$ 13	$ 12	$ 13
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (3)	$ 600,000	$ 600,000	$1,332,068	$1,350,000	$1,750,000
Grants awarded – homebuyers assistance (dollars) (3)	$ 600,000	$ 600,000	$1,332,068	$1,350,000	$1,750,000

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) Licenses and permit sales reported by license year.
(3) Reporting method includes both single and multiple family assistance.

Fiscal Year				
2013	2012	2011	2010	2009
6,989	9,173	9,554	9,419	9,308
4,790	5,073	6,412	3,793	4,069
—	66	—	65	—
64	—	—	—	66
16	8	16	11	20
10	5	7	8	8
76,872	71,125	81,815	92,489	85,760
$ 282	$ 263.18	$ 265.36	$ 277.88	$ 259.38
48.1%	49.5%	54.9%	56.4%	49.2%
5,225	4,920	5,110	4,972	4,771
734,224	722,313	682,832	660,229	653,471
$ 57	$ 53	$ 46	$ 47	$ 44
$ 13	$ 13	$ 11	$ 11	$ 11
N/A	N/A	N/A	N/A	$ 2,776,621
$ 1,459,904	$ 620,855	$ 272,566	$ 2,626,867	$ 1,847,714

SCHEDULE E-3 - CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year 2018	2017	2016	2015	2014
Governmental activities:					
General government					
Department of Administration					
Buildings	57	57	59	59	59
Data processing equipment	1,463	1,115	1,710	1,700	2,087
Judiciary					
Vehicles	15	15	14	15	16
Public safety/corrections					
Department of Corrections					
Vehicles	93	93	131	128	128
Buildings	182	182	182	252	251
Department of Justice					
Vehicles	647	641	622	531	548
Laboratory/scientific equipment	280	284	289	284	278
Transportation					
Department of Transportation					
Vehicles	2,114	2,156	2,083	2,067	2,146
Buildings	904	985	978	975	962
Health/social services					
Department of Public Health and Human Services					
Vehicles	105	140	125	139	136
Buildings	154	154	154	154	154
Education/cultural					
Historical Society					
Buildings	5	5	5	5	5
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Vehicles	1,001	959	942	928	872
Buildings	91	90	88	84	83
Department of Fish, Wildlife and Parks					
Vehicles	2,664	2,541	2,540	2,586	2,686
Buildings	941	871	865	859	854
Department of Environmental Quality					
Vehicles	40	46	48	52	53
Laboratory/scientific equipment	316	420	407	377	509
Economic development/assistance					
Department of Commerce					
Buildings	6	4	4	5	5
Business-type activities:					
State Lottery					
Department of Administration					
Vehicles	10	10	10	11	11
General government services					
Department of Administration					
Vehicles	60	58	61	59	53
Prison funds					
Department of Corrections					
Vehicles	91	89	89	84	79

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				
2013	2012	2011	2010	2009
59	59	52	55	50
1,434	2,057	1,954	1,917	1,139
25	25	24	24	51
128	128	124	192	294
248	247	246	246	151
567	577	555	606	486
279	271	262	259	211
2,029	2,067	2,151	2,482	4,305
906	939	965	969	784
167	175	182	193	195
153	153	153	153	131
5	5	5	5	2
814	810	777	710	517
83	83	83	87	181
2,669	2,769	2,769	2,693	1,837
856	850	830	794	840
51	75	106	108	66
722	761	715	719	159
5	5	4	4	266
11	11	12	15	15
44	59	51	36	13
78	77	70	56	52

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