

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
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Deputy Legislative Auditors:
Cindy Jorgenson

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the Net Pension Liability/(Asset), Deferred Outflows, Deferred Inflows, and Pension Expense/(Income) included in the accompanying schedule of Pension Amounts of the Judges' Retirement System as of and for the year ended June 30, 2015, for the purposes of employer financial reporting for fiscal year 2016. In addition, we have audited the related notes to the schedule.

Management's Responsibility for the Financial Schedule

Management, the Public Employees' Retirement Board and its staff, the Montana Public Employee Retirement Administration (MPERA), is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the specified amounts included on the Schedule of Pension Amounts as of and for the fiscal year ended June 30, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified amounts on the Schedule of Pension Amounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures on the specified amounts on the Schedule of Pension Amounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement on the specified amounts on the Schedule of Pension Amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MPERA's preparation and fair presentation of the specified amounts on the Schedule of Pension Amounts 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 MPERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by MPERA, as well as evaluating the overall presentation of the specified amounts on the Schedule of Pension Amounts.

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

Opinions

In our opinion, the Schedule of Pension Amounts presents fairly, in all material respects, the amounts in the table below (reported on page 1), for the Judges' Retirement System, as of and for the fiscal year ended June 30, 2015, for the purpose of employer financial reporting for fiscal year 2016, in accordance with accounting principles generally accepted in the United States of America.

Specified Amounts from the Schedule of Pension Amounts of the Judges' Retirement System for the 6/30/2015 Measurement Date	Schedule Totals
Net Pension Liability/(Asset)	\$ (33,960,818)
Deferred Outflows	\$ 0
Deferred Inflows	\$ 2,745,431
Pension Expense/(Income)	\$ (2,393,922)

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Public Employees' Retirement Board (board) as of and for the fiscal year ended June 30, 2015, and our report thereon, dated January 15, 2016, expressed an unmodified opinion on those financial statements. The Judges' Retirement System is one of several retirement systems that are included in the board's financial statements referred to above.

Restriction on Use

Our report is intended solely for the information and use of the Public Employees' Retirement Board, Montana Public Employees' Retirement Administration management, Judges' Retirement System employer and its auditor, and the Montana Legislature. It is not intended to be, and should not be used by anyone other than those specified parties.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

July 29, 2016

Public Employees' Retirement Board (PERB)

A Component Unit of the State of Montana

Judges' Retirement System (JRS)

for the Year Ended June 30

GASB 68 Single Employer Report Schedule of Pension Amounts

Measurement Date
6/30/2015

Total Pension Liability	\$ 53,145,689
Plan Fiduciary Net Position	<u>87,106,507</u>
Net Pension Liability/ (Asset)	\$ (33,960,818)
Deferred Outflows	0
Deferred Inflows	<u>2,745,431</u>
Net Impact on Statement of Net Position	\$ (31,215,387)
Contributions – Employer	\$ 1,683,990
Pension Expense/ (Income) (\$ Amount)	\$ (2,393,922)
Pension Expense/ (Income) (% of Pensionable Payroll)	-36.69%
Discount Rate	7.75%

The Notes are an integral part of this schedule

Public Employees' Retirement Board (PERB)

A Component Unit of the State of Montana

Judges' Retirement System (JRS)

Notes to the GASB 68 Single Employer Report

June 30, 2016

GASB Statement 68 replaced GASB Statement 27 effective for fiscal years beginning after June 15, 2014. Statement 68 was issued by GASB in June 2012, requiring employers participating in public pension plans to comply with the new accounting and financial reporting standards. The Schedule of Pension Amounts provides the pension information for the JRS Single-Employer Plan (the Plan). The individual employer should use this information along with its fiscal year 2016 contribution data to prepare its financial reports in accordance with GASB Statement 68.

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end. The information contained with this report is provided for the employer using a June 30, 2015 measurement date for its 2016 reporting.

As allowed by GASB Statement 68, the Total Pension Liability/(Asset) as of June 30, 2015, is based on the results of an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the Total Pension Liability/(Asset) to June 30, 2015. The update procedures used are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Schedule of Pension Amounts

The Total Pension Liability is calculated by the Public Employees' Retirement Board's (PERB) actuary, Cheiron, Inc. The Schedule of Employer Pension Amounts was prepared by Cheiron, Inc. and is an excerpt from the GASB 67 & 68 Report. The responsibility for the schedule is maintained by MPERA management, staff of the PERB.

The Plan's fiduciary net position is reported in the PERB *Comprehensive Annual Financial Report's* (CAFR) financial statements and in the GASB 67 & 68 Report which are both available on the Montana Public Employee Retirement Administration (MPERA) website. The Net Pension Liability/ (Asset) is disclosed in the notes to the financial statements.

Because the Plan has a surplus of assets in excess of the Actuarial Liability, the reporting for the Plan includes an Actuarial Asset and Pension Income rather than an Actuarial Liability and Pension Expense. Additionally, the asset should be recorded by the employer as a restricted asset since the Plan is a fiduciary fund and only to be used for the exclusive benefit of the participants of the Plan.

Gains, Losses and Assumption Changes

The impact of experience gains or losses and assumption changes on the Total Pension Asset are recognized over the average expected remaining service life of all active and inactive members. The average expected remaining service life is estimated at 4 years. Investment gains and losses are recognized over five years. There were no changes in benefits or changes in assumptions during the year. There was an actuarial experience gain.

Assumptions

The GASB 67 & 68 Report was calculated using the same facts and assumptions as the respective valuation report. The Summary of Information about the Pension Plan, Financial Statement Information; Membership Information; Actuarial Assumptions and Methods; and Summary of Plan Provisions are contained in the FY2015 JRS Actuary Valuation report for reporting in FY2016.

No Special Funding

The Plan receives contributions from the State of Montana that are *not* recognized as special funding but rather as employer contributions since the State of Montana is the only employer for JRS. The State of Montana, as the employer, is required to record an asset equal to the Net Pension Asset, the Deferred Outflows and Deferred Inflows; total Pension Income and the employer contributions.

Employer Notes and Disclosures

The Schedule of Pension Amounts, on page 1, discloses the Total Pension Liability/ (Asset) for June 30, 2015; Plan Fiduciary Net Position; Net Pension Liability/ (Asset); Deferred Outflows and Deferred Inflows; and Net Impact on the Statement of Net Position. Other information provided is the Employer Contributions; Pension Expense (Income); Pension Expense (Income) as a Percent of Pensionable Payroll; and the Discount rate.