

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the Net Pension Liability/(Asset), Deferred Inflows for investment earnings, Deferred Outflows, 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, 2014, for the purposes of financial reporting for fiscal year 2015. In addition, we have audited the related Notes to the Schedule of Pension Amounts.

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. 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 the 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 the 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, 2014, for the purpose of employer financial reporting for fiscal year 2015, in accordance with accounting principles generally accepted in the United States of America.

Specified Amounts from Schedule of Pension Amounts for 6/30/2014 Measurement Date	Schedule Totals
Net Pension Liability/(Asset)	\$ (32,590,947)
Deferred Inflow for investment earnings	\$ 5,453,472
Deferred Outflows	\$ 0
Pension Expense/(Income)	\$(1,929,776)

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 year ended June 30, 2014, and our report thereon, dated February 9, 2015, 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.

The opinion on the financial statements discussed in the paragraph above contained an emphasis of matter paragraph stating that the board implemented Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans, in fiscal year 2014. Our opinion was not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Montana Public Employees' Retirement Administration Management, Public Employees' Retirement Board, Retirement System employer and their auditors, and the Montana Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 23, 2015

Public Employees' Retirement Board (PERB)

A component unit of the State of Montana

Judges' Retirement System (JRS)

for the year ended June 30

	Measurement Date	
	6/30/2014	6/30/2013
GASB 68 Single Employer Report Schedule of Pension Amounts		
Total Pension Liability	\$ 51,631,895	\$ 49,236,164
Plan Fiduciary Net Position	<u>84,222,842</u>	<u>72,792,380</u>
Net Pension Liability/(Asset)	\$ (32,590,947)	\$ (23,556,216)
Deferred Inflows for investment earnings	5,453,472	0
Deferred Outflows	<u>0</u>	<u>0</u>
Net Impact on Statement of Net Position	\$ (27,137,475)	\$ (23,556,216)
Contributions – employer	\$ 1,651,483	
Pension Expense/(Income) (\$ Amount)	\$ (1,929,776)	N/A
Pension Expense/(Income) (% of Pensionable Payroll)	-30.37%	N/A
Discount Rate	7.75%	7.75%

The Notes are an integral part of the 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, 2015

GASB Statement 68 replaced GASB 27 effective for fiscal years beginning after June 15, 2014. Statement 68 was issued by GASB in June 2012, requiring the employers participating in public pension plans to comply with the new accounting and financial reporting standards. This report provides the pension information for the JRS Single-Employer Plan (the Plan). The individual employer should use this information along with its FY15 contribution data to prepare its financial reports in accordance with GASB Statement 68.

The total pension liability (asset) is calculated by the Public Employees' Retirement Board's (PERB) actuary, Cheiron, Inc. 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. In addition, the net pension liability (asset) is disclosed in the notes to the financial statements. The schedule is prepared by Cheiron, Inc. however, responsibility for the schedule is maintained by MPERA management, staff of the PERB.

Since GASB 68 allows a measurement date of up to 12 months before the employer's fiscal year-end, this report can be used for June 30, 2015 fiscal years end. The information contained with this report is provided for the employer using the 2014 measurement date for its 2015 reporting.

Measurements as of the reporting date are based on fair value of assets as of June 30, 2014 and the Total Pension Liability (Asset) as of an actuarial valuation date of June 30, 2013, updated to June 30, 2014. Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year.

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 will be recorded 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.

The GASB 68 reports were 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 JRS Actuary Valuation report for FY2014.

The Plan receives contributions from the State of Montana as the single employer. The Plan does not receive any special funding. The State of Montana, as the employer, is required to recognize a liability (asset) equal to the net pension liability (asset), the deferred outflows and deferred inflows; total pension expense (income) and the employer contributions.

The Schedule of Pension Amounts, on page 1, discloses the Total Pension Liability (Asset) for both June 30, 2013 and June 30, 2014; 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 fiscal year 2014 Employer Contributions; Pension Expense (Income); Pension Expense (Income) as a Percent of Pensionable Payroll; and the Discount rate.