

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the Net Pension Liability, Deferred Outflows, Deferred Inflows, and State's Pension Expense included in the accompanying Schedule of Pension Amounts of the Volunteer Firefighters' Compensation Act as of and for the year ended June 30, 2016, for the purpose of employer financial reporting for fiscal year 2017. 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, 2016. 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 the *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 specified amounts on the Schedule of Pension Amounts are free from material misstatement. This report does not include the results of our testing of internal control over financial reporting or compliance and other matters; results are addressed through our separately issued financial audits of the Public Employees' Retirement Board.

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 specified total amounts summarized in the table below are presented fairly, in all material respects, in the Schedule of Pension Amounts for the Volunteer Firefighters' Compensation Act, as of and for the fiscal year ended June 30, 2016, for the purpose of employer financial reporting for fiscal year 2017, in accordance with accounting principles generally accepted in the United States of America.

Specified Amounts from the Schedule of Pension Amounts of the Volunteer Firefighters' Compensation Act for the June 30, 2016, Measurement Date	Schedule Totals
Net Pension Liability	\$10,598,583
Deferred Outflows	\$ 1,200,846
Deferred Inflows	\$ 760,786
Pension Expense	\$ 688,629

Other Matter

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, 2016, and our report thereon, dated December 22, 2016, expressed an unmodified opinion on those financial statements. The Volunteer Firefighters' Compensation Act 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, Volunteer Firefighters' Compensation Act non-employer contributing entity 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 6, 2017

Public Employees' Retirement Board

A Component Unit of the State of Montana

Volunteer Firefighters' Compensation Act (VFCA)

for the Fiscal Year Ended June 30

GASB 68 Multiple Employer Report	
Schedule of Pension Amounts	
	Measurement Date 6/30/2016
Total Pension Liability	\$44,481,856
Plan Fiduciary Net Position	<u>33,883,273</u>
Net Pension Liability	\$10,598,583
Deferred Outflows	\$(1,200,846)
Deferred Inflows	<u>760,786</u>
Net Impact on Statement of Net Position	\$10,158,523
Contributions - Non-Employer	\$2,036,297
Covered Payroll	\$0
State's Pension Expense (\$ Amount)	\$688,629
State's Pension Expense (% of Covered Payroll)	N/A 7.75%
Discount Rate	
<i>The Notes are an integral part of this schedule</i>	

Public Employees' Retirement Board (PERB)

A Component Unit of the State of Montana

Volunteer Firefighters' Compensation Act (VFCA)

Notes to the Non-Employer Contributing Entity

June 30, 2017

The Schedule of Pension Amounts provides the required information under GASB Statement 68 for the VFCA Multiple-Employer, Cost Sharing Plan (the Plan). The State of Montana, as a non-employer, is the only contributor to the Plan and should use this information along with the State's fiscal year 2017 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 provided with this report is for the State as a non-employer contributing entity using a June 30, 2016 measurement date for the 2017 reporting.

As allowed by GASB Statement 68, the basis for the total pension liability as of June 30, 2016, was determined by taking the results of the June 30, 2015 actuarial valuation and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Under the direction and oversight of the Public Employees' Retirement Board (PERB), Cavanaugh Macdonald Consulting LLC prepared the GASB 68 Report and calculated the total pension liability; however, responsibility for the data remains with the Montana Public Employee Retirement Administration (MPERA) management, staff of the PERB. The Schedule of Pension Amounts was extracted from the GASB 68 Report.

The financial statements of the PERB *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. Both reports are available on the MPERA website.

Assumptions

The calculations in the GASB 68 Report used the same facts and assumptions found in the FY2016 VFCA Actuary Valuation report. The Summary of Results for the pension plan which includes financial statement information and membership information; Actuarial Procedures and Methods; and Summary of Benefit Provisions are contained in the report.

Contributions

State law defines contributions to the Plan as a proportion of insurance proceeds. The State Auditor makes annual payments from the General fund to the Plan. The State of Montana is the only contributor to VFCA; there are no employer or employee contributions to the plan.

Special Funding

A *special funding* situation exists in which the State, as the non-employer contributing entity, is legally responsible to make contributions directly to the Plan. Due to the *special funding* and in accordance with GASB Statement 68, paragraphs 92 and 98, the employers reported their proportion of the net pension liability as zero percent and the State reported 100% of the net pension liability associated with the non-State volunteer employees.

Schedule of Pension Amounts

The schedule on page 1 provides the total pension liability, the plan fiduciary net position, the net pension liability and the actual contributions for the measurement date. The State of Montana, as the non-employer contributing entity, is required to record a liability equal to the net pension liability; the deferred outflows and deferred inflows; total pension expense; and employer contributions.

Deferred Outflows and Deferred Inflows are presented in the schedule on page 1. Since the amortization of certain expense items are over closed periods each year, the deferred portions of these items must be tracked annually. If they increased pension expense, they are labeled deferred outflows. If the amounts reduced pension expense, they are labeled deferred inflows. The amortization of amounts are calculated on a level dollar basis, with no interest included in the deferred amounts. The deferred outflows are not inclusive of the non-employer contributions subsequent to the measurement date. The non-employer must obtain and enter this information for FY2017 reporting.

Gains, Losses and Assumption Changes

The experience gains or losses are the portion of current year changes in total pension liability due to actual versus expected experience for the year. The portion to recognize in the current year was determined by spreading the total change, including any assumption change impacts, over the average expected remaining service life of the entire Plan membership. The average expected remaining service life was estimated at three years. Investment gains and losses are recognized over five years.

There were no changes in assumptions. There were changes in actuarial experience during the year including benefit changes that increased the pension benefit for eligible members and allowable payments not including compensation.

Employer Notes and Disclosures

As required by GASB Statement 68, the information on page 1 is for the employer's use in their notes and required supplementary information disclosures. The Schedule of Pension Amounts discloses the Total Pension Liability for June 30, 2016; Plan Fiduciary Net Position; Net Pension Liability; Deferred Outflows and Deferred Inflows; and Net Impact on the Statement of Net Position. Other information provided include the Non-Employer Contributions; the Covered Payroll; Pension Expense; Pension Expense as a Percent of Covered Payroll; and the Discount rate.