LEWIS & CLARK COUNTY (CO0225)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – DEFINED BENEFIT
GASB 68 NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED

JUNE 30, 2015 (measurement date)
JUNE 30, 2016 (reporting date)

Pension Amount Totals - 74

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability - 80a, 80b, 80c, 80d, 80e, 80f

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS 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 NPL that is associated with the non-State employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

As of reporting date	Net Pension Liability as of 6/30/2016	Net Pension Liability as of 6/30/2015	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Change in Percent of Collective NPL
Employer Proportionate Share	$ 14,361,451.92	$ 13,484,602.65	1.027380%	1.082222%	-0.054842%
State of Montana Proportionate Share associated with Employer	$ 176,406.00	$ 164,667.68	0.012620%	0.013216%	-0.000596%
Total	$ 14,537,857.92	$ 13,649,270.33	1.040000%	1.095438%	-0.055438%

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. As of the employer's reporting date the employer recorded a liability of $xxx,xxx and the employer's proportionate share was x.xxxxxx percent.

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

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

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL. *(Employers must disclose the details of significant changes or state no changes.)*

Pension Expense – 80g, 80j

As of reporting date	Pension Expense as of 6/30/2016	Pension Expense as of 6/30/2015
Employer's Proportionate Share of PERS	$ 720,460.65	$ 1,025,771.24
State of Montana Proportionate Share associated with the Employer	$ 10,961.41	$ 12,395.31
Total	$ 731,422.06	$ 1,038,166.55

At June 30, 2016, the employer recognized its proportionate share of the PERS' Pension Expense of $731,422.06. The employer also recognized grant revenue of $10,961.41 for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the employer, and grant revenue of $344,659.3 from the Coal Tax Fund. *(Two years of pension expense are documented in the above table but are not necessary for the employer's disclosures.)*

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i

At June 30, 2016, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	$ 0.00	$ 86,887.54
Changes in Assumptions	$ 0.00	$ 0.00
Actual vs. Expected Investment Earnings	$ 0.00	$ 1,215,849.72
Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions	$ 0.00	$ 652,922.95
Employer contributions subsequent to the measurement date - # FY 2016 Contributions	$ 1,072,273.50	
Total	$ 1,072,273.50	$ 1,955,660.21

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

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

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	$ (757,774.12)
2018	$ (757,774.12)
2019	$ (756,331.19)
2020	$ 316,219.21
2021	$ 0.00
Thereafter	$ 0.00

Plan Description – 76a

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan provides retirement benefits to covered 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 PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* 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.

Summary of Benefits – 76b

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

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.

Vesting

5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 mnoths;
- Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;

Compensation Cap

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

Monthly benefit formula

1) Members hired prior to July 1, 2011:
   i) Less than 25 years of membership service
      1.785% of HAC per year of service credit;
   ii) 25 years of membership service or more
      2% of HAC per year of service credit.

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

Overview of Contributions – 76c

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

1. Member contributions to the system of 7.9% are 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.

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
   c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

3. Non Employer Contributions:
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

	Member		State &				
Fiscal	Hired	Hired	Universities	Local Government		School Districts	
Year	<07/01/11	>07/01/11	Employer	Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

Stand-Alone Statements – 76d

The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including our stand alone financial statements can be found on our web site at http://mpera.mt.gov/annualReports.shtml

The latest actuarial valuation and experience study can be found on our website at http://mpera.mt.gov/actuarialvaluations.shtml

Actuarial Assumptions – 77

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.75%
- Admin Expense as % of Payroll 0.27%
- General Wage Growth* 4.00%
  *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases
  Guaranteed Annual Benefit Adjustment (GABA)
  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% 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.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate - 78a, 78b, 78d, 78e

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under the Montana Code Annotated. 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 System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations - 78c, 78f

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term

assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis – 78g

As of reporting date	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Employer's Net Pension Liability	$ 22,142,251.31	$ 14,361,451.92	$ 7,790,747.30

The above table presents the NPL calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Accounting Policies – 79

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL; 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 have been determined on the same accrual basis as they are reported by 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. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

LEWIS & CLARK COUNTY (CO0225)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years*
81a1

	2016	2015
Employer's proportion of the Net Pension Liability as a percentage	1.027380%	1.082222%
Employer's proportionate share of the Net Pension Liability as an amount	$ 14,361,451.92	$ 13,484,602.65
State of Montana's proportionate share of the Net Pension Liability associated with the Employer	$ 176,406.00	$ 164,667.68
Total	$ 14,537,857.92	$ 13,649,270.33
Employer's Pensionable Payroll	$ 11,989,727.14	$ 12,250,733.93
Employer's proportionate share of the Net Pension Liability as a percentage of its Pensionable Payroll	119.781%	110.072%
Plan fiduciary net position as a percentage of the Total Pension Liability	78.4%	79.9%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date.*
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

LEWIS & CLARK COUNTY (CO0225)
Required Supplementary Information
Schedule of Contributions
For the Last Ten Fiscal Years*
81b

	2016	2015
Contractually Required Contributions	$ 1,072,273.50	$ 1,031,820.11
Contributions in Relation to the Contractually Required Contributions	$ 1,072,273.50	$ 1,031,820.11
Contribution Deficiency (Excess)	$ 0.00	$ 0.00
Employer's Pensionable Payroll	$ 12,485,455.60	$ 11,989,727.14
Contributions as a percentage of Pensionable Payroll	8.588%	8.606%

**The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

LEWIS & CLARK COUNTY (CO0225)
Notes to Required Supplementary Information
for the Year ended June 30, 2016
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Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007 and **before** July 1, 2013
- Members hired **on or after** July 1, 2013
  a. 1.5% 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.

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement.

2) For members who retire **before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**

- member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
- GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and,
- GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**

- member receives same retirement benefit as prior to return to service;
- member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open