

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Public Employees' Retirement Board:

Introduction

We have audited the Net Pension Liability, Deferred Outflows, Deferred Inflows, and Pension Expense included in the accompanying Schedule of Pension Amounts of the Highway Patrol Officers' Retirement System as of and for the year ended June 30, 2019, for the purpose of employer financial reporting for fiscal year 2020. In addition, we have audited the related notes to the schedule.

Management's Responsibility for the Schedule

Management, the Public Employees' Retirement Board, and its staff, the Montana Public Employee Retirement Administration, 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 responsibility 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 total amounts on the schedule as noted above. 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 total 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 specified total amounts on the schedule as noted above, and disclosures. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the specified total amounts on the schedule as noted above, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the board's preparation and fair presentation of the specified total amounts on the schedule as noted above 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 board'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 specified total amounts on the schedule as noted above.

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, on the Schedule of Pension Amounts (page 1) for the Highway Patrol Officers' Retirement System, as of and for the fiscal year ended June 30, 2019, for the purpose of employer financial reporting for fiscal year 2020, in accordance with accounting principles generally accepted in the United States of America.

Specified Amounts from the Schedule of Pension Amounts of the Highway Patrol Officers' Retirement System for the June 30, 2019, Measurement Date	Schedule Totals
Net Pension Liability	\$84,949,862
Deferred Outflows	(\$5,503,717)
Deferred Inflows	-
Pension Expense	\$12,144,694

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 as of and for the fiscal year ended June 30, 2019, and our report thereon, dated December 6, 2019, expressed an unmodified opinion on those financial statements. The Highway Patrol Officers' 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 Montana Public Employees' Retirement Board and its auditor, Montana Public Employees' Retirement Administration management, Highway Patrol Officers' Retirement System employer and their auditors, 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/ Jeane Carstensen-Garrett

Jeane Carstensen-Garrett, CPA, Audit Manager
Financial-Compliance Audits
Helena, MT

June 2, 2020

Public Employees' Retirement Board (PERB)

A Component Unit of the State of Montana

Highway Patrol Officers' Retirement System (HPORS)

for the Year Ended June 30, 2020

GASB 68 Single Employer Report	
Schedule of Pension Amounts	
	Measurement Date 6/30/2019
Total Pension Liability	\$ 237,727,489
Plan Fiduciary Net Position	152,777,627
Net Pension Liability	\$ 84,949,862
Deferred Outflows	\$ (5,503,717)
Deferred Inflows	-
Net Impact on Statement of Net Position	\$ 79,446,145
Contributions - Employer	\$ 5,844,909
Pension Expense (\$ Amount)	\$ 12,144,694
Pension Expense (% of Covered Payroll)	80.02%
Discount Rate	7.65%

The Notes are an integral part of this schedule

Public Employees' Retirement Board (PERB)

A Component Unit of the State of Montana
Highway Patrol Officers' Retirement System (HPORS)
Notes to the GASB 68 Single Employer Report

June 30, 2020

The Schedule of Pension Amounts provides the required information under GASB Statement 68 for the HPORS Single-Employer Plan (the Plan). The employer should use this information along with the fiscal year 2020 contribution data to prepare 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 are for employers who are using a June 30, 2019 measurement date for their 2020 reporting.

As allowed by GASB Statement 68, the basis for the total pension liability as of June 30, 2019, was determined by taking the results of the June 30, 2018 actuarial valuation and applying standard roll forward procedures. The roll forward procedure 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 schedule 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.

Change in actuarial allocation calculations

The employer and state contributions on the covered payroll are adjusted by the actuary to align with the total employer and state contributions presented on the financial statements included in the PERB CAFR.

Assumptions

The calculations in the GASB 68 Report used the same facts and assumptions found in the FY2018 HPORS 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. The Actuary Valuation report may be viewed on MPERA's website at: <http://mpera.mt.gov/ABOUT/ActuarialStudies>.

Contributions

State law defines contributions to the Plan as a percentage of the salary for the employer and the State of Montana. The Plan's actuarial assumptions reflect the current demographics along with the expected long-term contribution effort to the Plan.

No Special Funding

A special funding situation does not exist. 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 HPORS.

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 during the measurement period. . The State of Montana, as the employer, 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 employer contributions subsequent to the measurement date. The employer must obtain and enter this information for their FY2020 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 four years. Investment gains and losses are recognized over five years.

For FY2020 reporting, there was a total actuarial experience gain. This total gain is a result of a gain in the financial experience. There were no benefit, contribution, assumption, or method changes since the previous valuation.

The assumptions and methods utilized in the June 30, 2018 valuation were developed in the six-year experience study for the period ending June 30, 2016.

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, 2019; Plan Fiduciary Net Position; Net Pension Liability; Deferred Outflows and Deferred Inflows; and Net Impact on the Statement of Net Position. Other information provided includes the Employer Contributions; Pension Expense; Pension Expense as a Percent of Covered Payroll; and the Discount rate.