

FINANCIAL AUDIT

Board of Investments

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

10-04B

REPORT SUMMARY

Total assets managed by the Board of Investments' (Board's) consolidated unified investment program increased by almost \$1.5 billion between June 30, 2010, and June 30, 2011. During fiscal year 2011, the Board received \$14.7 million in principal repayments on previously defaulted securities, reducing the total outstanding investments in default status to approximately \$70.9 million at fiscal year-end. Additional information on defaulted securities can be found in Note 6 to the Board's Consolidated Unified Investment Program financial statements. Between July 1, 2011, and December 9, 2011, the Board received an additional \$5.9 million in principal and interest on these defaulted securities.

Context

The Board manages the Unified Investment Program (program), which had total net asset value/investments managed of \$13.6 billion at June 30, 2011, an increase of approximately \$1.55 billion from June 30, 2010. To manage the program, the Board created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool. In addition, the Board manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the Board's financial statements as All Other Funds (AOF). The Board invests for the state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The Board accounts for the state's Economic Development Bond Act and Municipal Finance Consolidation Act programs. Under the Municipal Finance Consolidation Act, the

Board is authorized to issue up to \$190 million in INTERCAP bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. At fiscal year-end, total outstanding INTERCAP bonds were \$95.5 million.

The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

Results

This report contains no recommendations, and one disclosure issue related to the Board's investment of endowment funds on behalf of the Montana University System.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (10-04B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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