



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

23-04

FINANCIAL-COMPLIANCE AUDIT

# *Montana Board of Investments*

*For the Fiscal Year Ended  
June 30, 2023*

DECEMBER 2023

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2023, is March 31, 2024.

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**AUDIT STAFF**

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COURTNEY P. JOHNSON, CPA  
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KAREN E. COHLHEPP, CPA  
SHANDELL VANDONSEL, CPA

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# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

December 2023

The Legislative Audit Committee  
of the Montana State Legislature:

It is a pleasure to provide our financial-compliance audit report of the Montana Board of Investments for the fiscal year ended June 30, 2023. Included in this report are financial statements of the board's Unified Investment Program (UIP) and Enterprise Fund Program. We issued unmodified opinions on the financial statements for each of these programs.

We performed this audit of the board to comply with the Montana Constitution and state law. Our audit work included analyzing financial statements, note disclosures, and required supplementary information, examining the underlying financial activity, and testing selected control systems. This included performing work to determine if investments in the UIP and Enterprise Fund Program were appropriately recorded on the financial statements, and loans and notes receivable in the Enterprise Fund Program. This report does not contain any recommendations to the board.

The board was charged with administering the Down Payment Assistance Program during fiscal year 2023, funded by a portion of the American Rescue Plan Act (ARPA) funds received by the state of Montana. This program was developed to allow growing businesses to retain working capital instead of using it for down payments on necessary equipment, building purchases, or expansions. The financial activity associated with this program is recorded in the Department of Commerce accounting records, so it is not presented on the financial statements here. We will audit compliance with federal regulations associated with this program as part of the State of Montana Single Audit (#22-02). We thank the members of the board and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

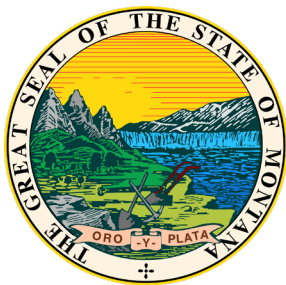
Angus Maciver  
Legislative Auditor

## APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>Representative of</u>	<u>City</u>	<u>Term Expires</u> <u>January 1</u>
<b>Montana Board of Investments</b>	Jack Prothero, Chair	Financial Community	Great Falls	2025
	Mark Barry	Financial Community	Helena	2025
	Porter Bennett	Agriculture	Pony	2027
	Dwaine Iverson	Financial Community	Shelby	2026
	Tim Kober	Labor	Butte	2027
	Jeff Meredith	Small Business	Kalispell	2025
	Maggie Peterson	PERS	Anaconda	2025
	Danial Trost	TRS	Helena	2025
	Cindy Younkin	Law	McAllister	2027
	Jeremy Trebas, Senate Liaison			
	Vacant, House of Representatives Liaison			
<b>Administrative Officials</b>	Dan Villa, Executive Director			
	Peggy MacEwen, Deputy Director			
	Jon Putnam, Chief Investment Officer			
	Julie Feldman, Financial Manager/Comptroller			

For additional information concerning the Montana Board of Investments,  
contact:

Dan Villa, Executive Director  
Montana Board of Investments  
P.O. Box 200126  
Helena, MT 59620-0126  
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# MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT  
Montana Board of Investments  
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

A report to the Montana Legislature

## BACKGROUND

Article VIII, Section 13 of the Montana Constitution requires the Legislature to provide for a Unified Investment Program (UIP) for public funds, and §17-6-201, MCA, requires the Montana Board of Investments (board) to administer the program. The board has sole authority to invest the funds and assets of the Montana Public Employees' Retirement Board, the Teachers' Retirement Board and the Montana State Fund. The UIP consists of internal and external investment pools, Separately Managed Accounts (SMA) for state agencies, and the treasurer's cash pool.

Through the UIP, the board also manages the investments of state agencies and certain local governments, such as cities, counties, and school districts.

The board also administers the Enterprise Fund Program, consisting of the state's Municipal Finance Consolidation Act (MFC) and the Economic Development Bond Act (EDB) programs.

The UIP's net position increased by approximately \$1.7 billion. Positive investment returns contributed to this increase. In fiscal year 2023, the Trust Fund Investment Pool (TFIP) had a -1.3% rate of return. However, the Short-Term Investment Pool (STIP) had a 3.8% rate of return, and the Consolidated Asset Pension Pool's (CAPP) rate of return was 8.5%. Domestic equity, international equity, and non-core fixed income had strong market returns. Conversely, core fixed income and real estate experienced losses. Additionally, SMA continued to see large investments from pandemic funds, including funds from the American Rescue Plan Act (ARPA).

## AUDITOR'S OPINION (PAGE A-1 AND A-45) :

Unified Investment Program: **UNMODIFIED**

Enterprise Fund Program: **UNMODIFIED**

This means you can rely on the information in the financial statements and notes included in this report.

For the full context of the board's financial activity, see the UIP and Enterprise Fund financial statements and notes beginning on pages A-5 and A-49, respectively.

## RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the Montana Board of Investments: 0

To the legislature: 0

## SUMMARY OF AUDIT WORK:

The purpose of our audit was to:

1. Obtain an understanding of the board's internal control systems to the extent necessary to support our audit of the financial statements, and, if appropriate, make recommendations for improvements in management and internal controls of the board.
2. Determine whether the board's UIP financial statements present fairly the fiduciary net position and the changes in fiduciary net position of the program.

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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(Helena)  
(406) 444-4446

Text  
(704) 430-3930

3. Determine whether the board's Enterprise Fund Program financial statements present fairly the net position, changes in net position, and cash flows of the program.
4. Determine whether the board complied with selected state laws and regulations.

State law allocates the board to the Department of Commerce for administrative purposes. The board employs an executive director and chief investment officer who in turn hire and manage staff.

For the UIP, the board has created investment pools which operate similarly to mutual funds. These pools, the board's objectives for them, and the eligible participants are:

- ◆ **Short-Term Investment Pool (STIP):** The pool is designed to preserve capital and maintain high liquidity. State agencies, the state's retirement systems, and local governments are eligible to participate in STIP.
- ◆ **Trust Fund Investment Pool (TFIP):** The pool is designed to provide participants exposure to a portfolio of diversified income-producing assets. State agencies and local governments meeting eligibility criteria may participate in TFIP.
- ◆ **Consolidated Asset Pension Pool (CAPP):** The pool is designed to achieve a high level of investment performance that is compatible with its risk tolerance and prudent investment practices. The board maintains a long-term perspective in formulating and implementing investment policies for the pool and in evaluating investment performance within the pool. The state's retirement systems are the only eligible CAPP participants.

In addition to these pools, the board manages direct investments in fixed-income securities, equity index funds, and commercial loans for approximately eight state agencies, including the treasurer's cash pool. These investments are reported collectively in the board's UIP financial statements as Separately Managed Accounts (SMA).

The board also administers the Enterprise Fund Program, which consists of the state's Municipal Finance Consolidation (MFC) Act and Economic Development Bond (EDB) Act programs. Through this program, the board administers the Intermediate Term Capitalization Program (INTERCAP), which uses bond proceeds to provide loans to local Montana governments to finance capital expenditures for up to 15 years. During fiscal year 2023, the INTERCAP rate increased from 1.55% to 5.75%, similar to other interest rate increases during that period.

Our audit efforts over the board's UIP focused primarily on cash and cash equivalents and investment balances, purchases and sales by participants, the net change in fair value of investments, dividend and interest income, and income distributions to participants.

*(continued on next page)*

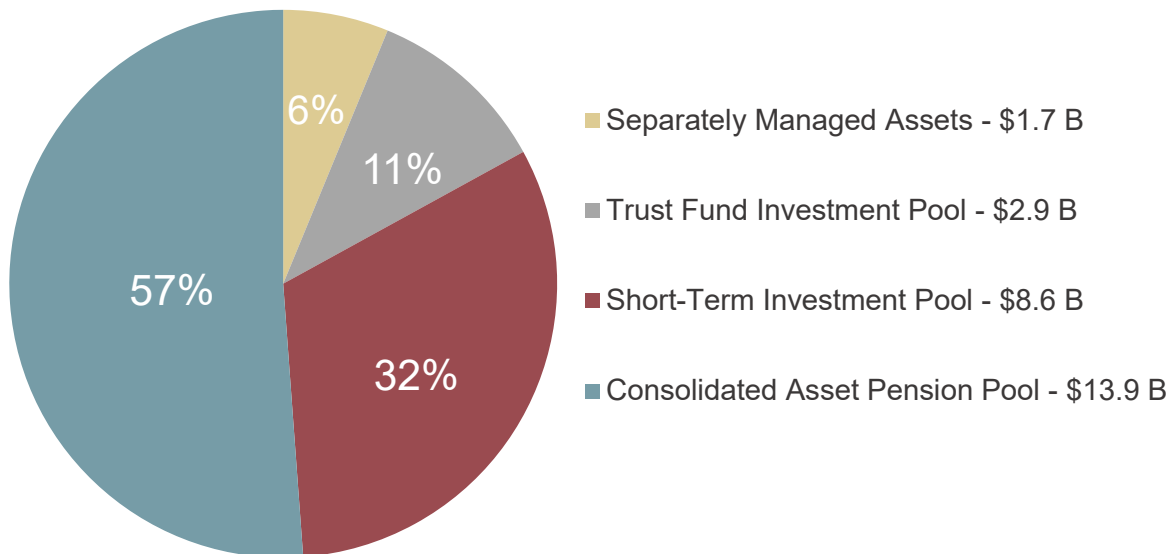
Audit work over the board’s Enterprise Fund Program focused primarily on cash and cash equivalents, investments, notes and loans receivable, and bonds payable balances and their related cash flows.

We also analyzed the financial statements, note disclosures, and required supplementary information for both programs, and examined the underlying financial activity.

Figure 1 below presents information on the investments managed in the pools and SMA on June 30, 2023. For more details of the investments managed by the board, refer to the note disclosures beginning on page A-5.

Figure 1  
**Total Investments Managed of \$27.1 Billion for the Unified Investment Program**  
June 30, 2023

**CAPP** continues to make up the majority of investments in fiscal year 2023.



Source: Compiled by the Legislative Audit Division from board accounting records.

## REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.





**Independent Auditor's Report and  
Unified Investment Program  
Financial Statements**



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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### **REPORT ON THE AUDIT OF FINANCIAL STATEMENTS**

#### *Opinion*

We have audited the financial statements of the Montana Board of Investments' Unified Investment Program, which are comprised of the Statement of Fiduciary Net Position as of June 30, 2023, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the board's Unified Investment Program as of June 30, 2023, and the changes in net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the board and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

As discussed in Note 1, the accompanying financial statements are intended to present the financial position and the changes in financial position of only the Montana Board of Investments Unified Investment Program. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2023, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair

presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic

financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Combining Statement of Fiduciary Net Position on page A-38 and A-39, and the Combining Statement of Changes in Fiduciary Net Position on page A-40 and A-41 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2023, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 6, 2023





## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis for the Unified Investment Program (UIP) of the Board of Investments (the Board) of the State of Montana, (the State), is presented as an introduction to the financial statements of the UIP. It is meant to help the reader understand the financial statements by providing an overall review of the financial activities during the year and to compare the prior year's activities and results.

In addition to the UIP, the Board also administers an Enterprise Fund to account for its programs created by the Municipal Finance Consolidation Act and the Economic Development Bond Act. This section of the report represents only the UIP. The Enterprise Fund financial statements are presented separately.

### **FINANCIAL HIGHLIGHTS**

The fiduciary net position of the UIP increased to approximately \$27.1 billion in comparison to a beginning fiduciary net position of approximately \$25.5 billion. With respect to the underlying components of the UIP:

- Consolidated Asset Pension Pool (CAPP) increased in fiduciary net position benefiting from positive returns in most public market asset classes, including domestic equity, international equity, and non-core fixed income. The annual investment return for CAPP was 8.5%.
- The Trust Funds Investment Pool (TFIP) realized a modest increase in fiduciary net position with positive cash contributions offsetting an annual investment return of -1.3%.
- The Short-Term Investment Pool (STIP) value increase was driven by increased yields and positive flows from STIP participants. The annual investment return for STIP was 3.8%.
- The Separately Managed Accounts (SMA) decrease in fiduciary net position was primarily due to continued expenditures of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) funds invested by the State in the UIP.

The increase in fiduciary net position was driven by investment returns coupled with contributions exceeding distributions. We expect periods of extreme market volatility and continually manage risks. Current factors leading to uncertainty in the market include:

- Central banks tightening monetary policy to reduce inflation,
- Geopolitical tensions causing volatile commodity prices and supply chain disruptions,
- Demographic shifts leading to tight labor markets, and
- Slower global economic growth.

The Board continues its approach of disciplined execution of our investment processes to help us achieve our long-term investment objectives.

The following is a summary of the Changes in Fiduciary Net Position by pool and for the SMA from the prior to current fiscal year (amounts in thousands):

<b>CHANGES IN FIDUCIARY NET POSITION FOR POOL AND SMA PARTICIPANTS</b>		
	<b>For Fiscal Years Ending</b>	
	<b><u>June 30, 2023</u></b>	<b><u>June 30, 2022</u></b>
Consolidated Asset Pension Pool (CAPP)	\$ 626,291	\$ (1,045,542)
Trust Funds Investment Pool (TFIP)	160,142	82,833
Short Term Investment Pool (STIP)	994,772	1,311,462
STIP Included in Investment Pools	(88,130)	203,428
Separately Managed Accounts (SMA)	(27,998)	(37,871)
<b>Total Change in Net Position by Pool and SMA Participants</b>	<b><u>\$ 1,665,077</u></b>	<b><u>\$ 514,310</u></b>

The investment return net of fees of UIP is best characterized by describing the investment returns of the underlying pools due to the different goals of each pool.

<b>1-YEAR TOTAL RETURN</b>		
<b><u>POOL</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
CAPP	8.5%	-4.4%
TFIP	-1.3%	-2.8%
STIP	3.8%	0.3%

The investment returns are based on data made available by the custodial bank. Performance calculations were prepared using time-weighted rates of return and are net-of-fees. SMA investment returns vary depending on the account specific investment allocations and the cash flows in and out of the account during the period.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The UIP is comprised of a combination of one internal investment pool, two external investment pools and the SMA to meet the financial goals and expectations of the state and local government agencies and entities which entrust these funds to the Board. The CAPP is an internal investment pool, and TFIP and STIP are external investment pools. The amounts reported within these financial statements become part of the governmental, proprietary, and fiduciary fund categories of the State's Annual Comprehensive Financial Report (ACFR), which is separately issued from these financial statements.

The SMA investments are combined for reporting purposes in the SMA portion of the UIP. SMA participants include the State Treasurer's Cash Fund, state agency insurance reserves and other state agencies. SMA participation is at the discretion of the Board staff for those state agencies allowed to participate in the UIP.

The financial statements and footnotes follow this section of the report. The **STATEMENT OF FIDUCIARY NET POSITION** provides information on the types of investments, other assets, and liabilities of the pools and SMA, as of the fiscal year ended June 30, 2023.

The **STATEMENT OF CHANGES IN FIDUCIARY NET POSITION** provides information on investment performance and other increases (additions) and decreases (deductions) in the fiduciary net position of the pools and SMA, for the fiscal year ended June 30, 2023. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

The **NOTES TO THE FINANCIAL STATEMENTS** provide additional information that is essential to a full understanding of the data provided in the financial statements. Additional supplementary information presented is not required by GAAP but is included for transparency.

## FINANCIAL ANALYSIS

### FIDUCIARY NET POSITION

The fiduciary net position is the accumulated excess of assets over liabilities from the inception of the UIP. The following is a condensed Statement of Fiduciary Net Position of the UIP as of June 30, 2023, as compared to the prior year (amounts in thousands):

FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS		
	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<b>Assets</b>		
Total Investments	\$ 27,075,003	\$ 25,447,372
Receivables and Other Assets	393,775	322,178
<b>Total Assets</b>	<u>27,468,778</u>	<u>25,769,550</u>
<b>Liabilities</b>		
Payables and Other Liabilities	351,031	316,880
<b>Total Liabilities</b>	<u>351,031</u>	<u>316,880</u>
<b>Fiduciary Net Position</b>	<u>\$ 27,117,747</u>	<u>\$ 25,452,670</u>

As of June 30, 2023, most of the assets were composed of investments at either fair value or at net asset value (NAV) in accordance with GAAP. There is a large measure of unpredictability in these balances from year-to-year due to constant changes in the value of the investments.

The receivables and other assets include amounts for broker receivable for securities sold but not settled, accrued interest and dividends, and collateral held for securities lending transactions. The payables are similar, but also include income due to participants.

*SMA Montana Mortgages and Loans, Tax Abatements, Bond, and Loan Guarantees.* The SMA portfolio includes mortgages and loans funded by the Coal Severance Tax Trust Fund as

authorized by statute, of which the carrying value was approximately \$185 million as compared to approximately \$190 million as of the end of the prior year.

The SMA also includes a tax abatement program by statute. The eligible abatements are administered by local governments but approved by the Board. Various eligibility requirements are in statute to afford the business an interest rate reduction on an infrastructure loan. For the fiscal year ended June 30, 2023, the amount claimed as credits against various forms of state taxation was approximately \$4.9 million, as compared to approximately \$5.1 million in the prior fiscal year. For further detail, see Note 10.

Finally, loan guarantees are provided from STIP, TFIP, the Coal Severance Tax Trust, and the State Treasurer's Cash Fund to the Montana Facility Finance Authority and from the TFIP and Coal Severance Tax Trust, and the State Treasurer's Cash Fund to the INTERCAP. As of the end of the fiscal year, the Board has not had to perform on the guarantees. The amounts are merely commitments of the Board. As of the fiscal year ended June 30, 2023, the balance of guaranteed activity was approximately \$178 million as compared to approximately \$182 million at the end of the prior fiscal year. The Coal Severance Tax Trust Fund is part of the primary government for the State. The Board manages the State Treasurer's Cash Fund which consists of fund balances of all the funds of the State whose investment earnings are permitted by law to flow to the State's Debt and Liability Free account.

#### ***CHANGES IN FIDUCIARY NET POSITION***

The change in fiduciary net position represents the aggregated annual additions and deductions of the UIP. As of June 30, 2023, the UIP had a change in fiduciary net position of approximately \$1.7 billion in comparison to the prior year's change of approximately \$0.5 billion. The following is a condensed Statement of Changes in Fiduciary Net Position of the UIP as of June 30, 2023, as compared to the prior year (amounts in thousands):

CHANGES IN FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS		
	For Fiscal Years Ending	
	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<b>Additions</b>		
Purchases by Participants	\$ 11,213,164	\$ 10,319,990
Investment Earnings	1,565,254	(644,575)
Investment Costs	(71,811)	(64,773)
Other Investment Expenses	<u>(17,865)</u>	<u>(41,621)</u>
Net Investment Income (Loss)	1,475,578	(750,969)
Securities Lending Income, Net of Expense	<u>3,762</u>	<u>1,397</u>
<b>Total Additions</b>	<b><u>12,692,504</u></b>	<b><u>9,570,418</u></b>
<b>Deductions</b>		
Sales by Participants	10,577,969	8,906,365
Income Distributions to Participants	<u>449,458</u>	<u>149,743</u>
<b>Total Deductions</b>	<b><u>11,027,427</u></b>	<b><u>9,056,108</u></b>
<b>Change in Fiduciary Net Position</b>	<b><u>1,665,077</u></b>	<b><u>514,310</u></b>
<b>Fiduciary Net Position, Beginning of Year</b>	<b><u>25,452,670</u></b>	<b><u>24,938,360</u></b>
<b>Fiduciary Net Position, End of Year</b>	<b><u>\$ 27,117,747</u></b>	<b><u>\$ 25,452,670</u></b>

*Purchases, Sales, and Distributions.* Purchases, sales, and distributions to participants vary annually based upon activity of the participants and their cash flow needs.

*Investment Returns.* Returns across asset classes were mostly positive in fiscal year 2023. The portfolio benefited from the diversification and strong returns of both domestic and international equities. Conversely, real estate suffered as markets repriced. In CAPP, Domestic Equity (18.87%), International Equity (12.48%), Private Investments (2.83%), Real Assets (12.20%), Non-Core Fixed Income (8.03%), and Cash (4.96%) all posted positive returns. Real Estate (-2.10%) and Core Fixed Income (-0.82%) posted negative returns.

*Investment Costs.* Investment fees include the Board management fees, investment expenses to manage the investments in the pools and SMA, and external management fees. Board management fees are set by the State Legislature biennially and approved by the Board as part of an annual budget. External manager fees are paid directly from the accounts they manage, and investment expenses are directly allocated to the pools and SMA they impact. These flows comprise the 'overhead' of the UIP. For the fiscal year ending June 30, 2023, these flows represented 0.26% of ending fiduciary net position (or 26 basis points) versus 0.25% of fiduciary net position (or 25 basis points) at the end of the prior year. The primary component relates to external manager fees, which the Board continues to aggressively monitor.

The net of all the flows resulted in a \$1.7 billion increase to fiduciary net position for the fiscal year ended June 30, 2023. This compares to an increase of approximately \$0.5 billion in the prior year.

## **OPERATIONAL HIGHLIGHTS**

The Board's focus on disciplined investment driven by strategic asset allocations remains the foundation of our work. Special attention is given to cost containment, fee reductions as appropriate, increasing operational scale and efficiencies, and transparency to participants and the public. We continue to facilitate economic partnerships throughout the State of Montana utilizing our robust network of lenders and local governments with this year's efforts focused on State debt reduction legislation as well as a new legislative mandate to increase housing availability and affordability (effective in FY25 with preparations beginning in FY24).

## **ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS THAT MAY IMPACT UIP'S OPERATIONS IN THE FUTURE**

Going forward, some of the challenges facing the market include higher global interest rates amid elevated inflation, slower global growth projections, the ongoing war in Ukraine, and rising geopolitical tensions.

Despite the challenges, the Board continues to pursue attractive investment opportunities that are additive to the portfolio over an extended time frame. We expect periods of extreme market volatility and continually mitigate risks to meet the liquidity needs of the pension plan. The Board believes that disciplined execution of our investment process will help us achieve the long-term objective of the pension plans. This has been demonstrated by the results since inception.

*Requests for Information and Transparency.* This financial report is designed to provide a general overview of UIP's operations. Questions concerning any of the information contained in this report or requests for additional information about the Board's operations should be addressed to the Board at 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200126, Helena, Montana 59620-0126. The Board may be reached by phone at 406.444.0001, fax at 406.449.6579 or TDD at 406.841.2702. Board Meeting agenda and minutes are posted at <http://investmentmt.com/Board/Meetings>.

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MONTANA UNIFIED INVESTMENT PROGRAM  
STATEMENT OF FIDUCIARY NET POSITION  
AS OF JUNE 30, 2023  
(amounts in thousands)

Assets

Investments

Cash and Cash Equivalents Held at Custodial Bank	\$ 4,735,113
Investments at Cost	253,648
Investments at Fair Value	<u>22,086,242</u>
Total Investments	<u>27,075,003</u>

Securities Lending Cash Collateral	<u>223,193</u>
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Receivables

Broker Receivable for Securities Sold but not Settled	9,948
Dividend / Interest Receivable	<u>160,634</u>
Total Receivables	<u>170,582</u>

Total Assets	<u>27,468,778</u>
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Liabilities

Payables

Broker Payable for Securities Purchased but not Settled	68,314
Income Due Participants	52,713
Other Payables	3,639
Administrative Fee Payable	<u>3,172</u>
Total Payables	<u>127,838</u>

Securities Lending Obligations	<u>223,193</u>
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Total Liabilities	<u>351,031</u>
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Net Position Held in Trust for Pool and Separately Managed Accounts (SMA) Participants	<u>\$ 27,117,747</u>
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The accompanying notes are an integral part of these financial statements.



MONTANA UNIFIED INVESTMENT PROGRAM  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR YEAR ENDING JUNE 30, 2023  
(amounts in thousands)

Additions

Purchases by Participants	\$ 11,213,164
Net Investment Earnings	
Investment Earnings	
Net Increase / (Decrease) on Fair Value of Investments	864,068
Dividend / Interest Income	701,171
Other Investment Income	<u>15</u>
Investment Earnings	<u>1,565,254</u>
Investment Costs	(71,811)
Other Investment Expenses	<u>(17,865)</u>
Net Investment Income (Loss)	<u>1,475,578</u>
Securities Lending Income	10,170
Securities Lending Expense	<u>(6,408)</u>
Net Securities Lending Income	<u>3,762</u>
Total Additions	<u>12,692,504</u>

Deductions

Sales by Participants	10,577,969
Income Distributions to Participants	<u>449,458</u>
Total Deductions	<u>11,027,427</u>
Change in Net Position	<u>1,665,077</u>
Net Position Held in Trust for Pool and SMA Participants - Beginning of Year	<u>25,452,670</u>
Net Position Held in Trust for Pool and SMA Participants - End of Year	<u><u>\$ 27,117,747</u></u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

These financial statements present only the activity of the Unified Investment Program (UIP) as managed by the Board of Investments (the Board). The financial information pertaining solely to the UIP administrative operations of the Board can be found in the Investment Division internal service fund contained within the State of Montana's (the State) Annual Comprehensive Financial Report (ACFR). The external participation for Short-Term Investment Pool (STIP) and the Trust Fund Investment Pool (TFIP) is reported as Investment Trust Funds within the State's ACFR. The State's ACFR is available from the Montana Department of Administration's State Financial Services Division website <http://sfsd.mt.gov/SAB/acfr>; at Room 255 Mitchell Building, 125 North Roberts Street, PO Box 200102, Helena, MT 59620-0102 or at 406-444-3092.

### 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

#### DESCRIPTION OF FUNDS

The UIP is, by statute, comprised of involuntarily participating State funds, including pensions, trusts, insurance, operating funds, and by statute, voluntarily participating local government funds. To facilitate the management of the UIP, the Board uses a combination of investment pools and Separately Managed Accounts (SMA) to meet the financial goals and expectations of the agencies and entities who entrust these funds to the Board. The balances within these financial statements become part of the participant's applicable fund category or component unit of the State's ACFR.

#### BASIS OF ACCOUNTING

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting and have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

#### CASH AND CASH EQUIVALENTS HELD WITHIN POOLS

Cash and cash equivalents generally are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The Consolidated Asset Pension Pool (CAPP), the TFIP, the STIP, and SMAs hold cash and cash equivalents measured at cost.

#### VALUATION OF INVESTMENTS

Investments reported at fair value are on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. Additional information on how the Board reports fair value measurements can be found in Note 6 - Fair Value Measurement.

As further disclosed in Notes 6 and 9, approximately \$254 million of investments are reported at cost. These include INTERCAP Bonds and SMA Montana Mortgages and Loans which are nonparticipating contracts.

### REVENUE RECOGNITION

Unrealized gains and losses are included as a component of investment income in the Statement of Changes in Fiduciary Net Position. Unrealized gains and losses are computed based on changes in the fair value of investments held from the beginning of the year, but unsold at the fiscal year-end. The net change in the fair value of investments also consists of the realized gains and losses. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

### INVESTMENT COSTS

The State Legislature sets the management fees the Board charges. The maximum fee is set at the aggregate level at the beginning of each fiscal year. These Board management fees are allocated to the pools and SMA according to their proportionate share of the total UIP.

Investment costs charged to each pool and the SMA investments are shown in the following table (amounts in thousands):

<b>TOTAL FISCAL YEAR 2023 INVESTMENT COSTS</b>				
	<u>Board Management Fees</u>	<u>External Manager Fees</u>	<u>Total</u>	<u>Investment Fee Ratio</u>
Consolidated Asset Pension Pool (CAPP)	\$ 5,290	\$ 56,683	\$ 61,973	0.44%
Trust Funds Investment Pool (TFIP)	964	6,364	7,328	0.25%
Short Term Investment Pool (STIP)	911	-	911	0.01%
Separately Managed Accounts (SMA)	<u>530</u>	<u>1,069</u>	<u>1,599</u>	<u>0.09%</u>
Total	<u>\$ 7,695</u>	<u>\$ 64,116</u>	<u>\$ 71,811</u>	<u>0.26%</u>

### SECURITIES LENDING

The collateral received under securities lending agreements where the pools and SMA can spend, pledge, or sell collateral without borrower default is included in the Statement of Fiduciary Net Position. Liabilities resulting from these transactions are also included in the Statement of Fiduciary Net Position. Costs associated with the securities lending transactions, including broker commissions, and lending fees paid to custodians are reported as components of investment expenses in the Statement of Changes in Fiduciary Net Position. Securities lending income reported for the fiscal year was \$10.2 million, and expenses associated with securities lending were \$6.4 million. For further detail, see Note 4 - Securities Lending.

## PURCHASES AND SALES BY PARTICIPANTS AND INCOME DISTRIBUTIONS

Purchases and sales by participants are recorded when received or paid. TFIP and STIP participants receive monthly income distributions. SMA distributes income when received. SMA distributable income is total net investment earnings less the net increase (decrease) on the fair value of investments. TFIP and STIP distributable income is total net investment earnings less the net increase (decrease) on the fair value of investments not attributable to amortization. TFIP and SMA distributable income also includes net securities lending earnings. CAPP retains all its investment earnings; therefore, it does not distribute to participants.

## REGULATORY OVERSIGHT

The Board was created by the State Legislature to manage the UIP established by the State Constitution. The Board is not registered with the U.S. Securities and Exchange Commission as an investment company.

## POOL PARTICIPANT UNITS

Pool units are purchased and sold in the same manner as individuals investing in mutual funds. Therefore, the pool unit price is computed based on market prices on securities in the pool plus any additional assets, minus liabilities. The STIP participants purchase and sell units at \$1 per unit, at the participant's discretion. Additional information on STIP can be found in Note 12 – STIP Reserve. CAPP and TFIP units are purchased and sold based on the prior day ending price. SMA direct investments are purchased and sold at their respective fair market values at the dates of transaction. CAPP and TFIP units and SMA direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations and Investment Policy Statements (IPS) approved by the Board. Individual investments in the pools are not specifically identified to the respective participants. Gains and losses on the sale of CAPP and TFIP participant units are reflected at the participant level. SMA is not a pool; therefore, there are neither units outstanding, nor unit values calculated.

## ACCOUNTING CHANGES

The UIP implemented paragraphs 4 through 10 of GASB Statement No. 99, *Omnibus 2022* which allows for early adoption of particular elements of the standard. Note 11 contains disclosure of a nonexchange financial guarantees. The UIP also implemented paragraphs 11 through 32 of the same standard. Beginning net position was not impacted by these paragraphs.

Governmental Accounting Standards Board (GASB) Statement No. 96 – Subscription-Based Information Technology Arrangements, was implemented during the fiscal year, but did not have a material effect on the financial statements of the UIP.

## USE OF ESTIMATES

In conformity with GAAP, management may make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimated amounts.

## **2. INVESTMENT COMMITMENTS**

Investments in alternative financial assets are usually made via limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last several years. The following table (amounts in thousands) shows the Board's remaining commitments as of June 30<sup>th</sup> to active alternative investment funds with approximately \$2.328 billion related to CAPP, \$234 million related to TFIP and \$15 million related to SMA.

<b>COMMITMENTS TO FUND MANAGERS</b>		
	<u>Original Commitment</u>	<u>Commitment Remaining</u>
Private Investments	\$ 4,162,524	\$ 1,249,439
Real Assets	1,142,308	459,594
Real Estate	<u>3,565,636</u>	<u>868,423</u>
Total	<u>\$ 8,870,468</u>	<u>\$ 2,577,456</u>

## **3. INVESTMENT RISK DISCLOSURES**

### CUSTODIAL CREDIT RISK (CASH AND CASH EQUIVALENTS AND INVESTMENTS HELD AT CUSTODIAL BANK)

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the Board's custodial bank must be rated at least at the 6th highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) annually.

As of June 30<sup>th</sup>, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee's name for the Montana Board of Investments and held in the possession of the Board's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage, and loan investments were purchased and recorded in the Board's name. Commingled fund investments are registered in the name of the Montana Board of Investments. Therefore, the Board is not subject to custodial credit risk.

## CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The concentration of credit risk is addressed within all IPSs as set by the Board. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

## CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for U.S. Government securities, the pools and SMA fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

Of the CAPP's cash equivalents position held at its custodial bank on June 30<sup>th</sup>, \$152 million was held in unrated money market funds.

As a matter of STIP investment policy, the Board's fixed income investment staff can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30<sup>th</sup>, all the STIP money market investments were in US Governmental Money Markets and \$357 million was held on deposit in short-term investment vehicles. NRSRO provides the credit ratings presented in the following table as of June 30<sup>th</sup> (amounts in thousands):

### STIP CASH EQUIVALENT CREDIT QUALITY RATINGS

<u>Cash Equivalent Investment Type</u>	<u>Total Cash Equivalents</u>	<u>Credit Quality Rating</u>
Agency or Government Related	\$ 247,623	A-1+
Asset Backed Commercial Paper	3,340,815	A-1+
Corporate:		
Commercial Paper	178,271	A-1+
Cetificates of Deposit	446,916	A-1+
Interest Bearing Demand Deposit Accounts	356,534	A-1+
Total Cash Equivalents Held at Custodial Bank	<u>\$ 4,570,159</u>	

### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board uses effective duration as a measure of interest rate risk for all fixed income portfolios. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

CAPP, TFIP, and SMA investments at fair value are categorized to disclose credit and interest rate risk on the following table (amounts in thousands) for fixed income securities as of June 30<sup>th</sup>. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration.

CREDIT QUALITY RATING AND EFFECTIVE DURATION FAIR VALUES						
<u>Security Investment Types</u>	<u>CAPP</u>	<u>TFIP</u>	<u>SMA</u>	<u>Total Fixed Income Investments at Fair Value</u>	<u>Credit Quality Ratings Range</u>	<u>Effective Durations (Years)</u>
Treasuries	\$ 660,599	\$ 521,926	\$ 326,177	\$ 1,508,702	AAA	7.24-11.75
Agency or Government Related	124,696	-	-	124,696	BBB-	5.79
Mortgage Backed Securities:						
Noncommercial	387,867	405,658	230,164	1,023,689	AAA	4.88-5.67
Commercial	85,110	90,362	26,525	201,997	AAA	2.59-4.39
Corporate:						
Financial	379,539	232,218	160,431	772,188	BBB+ to A-	3.17-4.1
Industrial	1,063,704	890,318	454,608	2,408,630	BBB to A+	3.89-4.83
Utility	39,131	12,412	7,012	58,555	BB+ to BBB-	2.33-4.15
Total Fixed Income Investments at Fair Value	<u>\$ 2,740,646</u>	<u>\$ 2,152,894</u>	<u>\$ 1,204,917</u>	<u>\$ 6,098,457</u>		

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30<sup>th</sup> on the following table (amounts in thousands). Credit risk reflects the weighted security quality rating by investment type as of the June 30<sup>th</sup> report date. Although the STIP investments have been rated by investment security type, STIP, as an external

investment pool, has not been rated. STIP has \$68.7 million in investments reported at cost that are not rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months, or years – weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 57 days for the portfolio.

<b>STIP CREDIT QUALITY RATINGS AND WEIGHTED AVERAGE MATURITY</b>			
<u>Security Investment Type</u>	<u>Total Fixed Income Investments at Fair Value</u>	<u>Credit Quality Rating</u>	<u>WAM (Days)</u>
Treasuries	\$ 543,893	A-1+	8
Agency or Government Related	847,891	A-1+	12
Corporate:			
Commercial Paper	924,505	A-1+	19
Notes	408,375	A-1+	3
Certificates of Deposit	1,254,156	A-1+	40
Total STIP Fixed Income Investments at Fair Value	<u>\$ 3,978,820</u>		

Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value as of June 30<sup>th</sup>, the Board deemed the cash equivalents to have little discernible interest rate risk.

#### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Board's foreign currency exposure by denomination and investment type are reported as of June 30, 2023, in U.S. dollars, at fair value and is limited to CAPP. The following table excludes the foreign investments denominated in U.S. dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

(See following table – amounts in thousands)



**FOREIGN CURRENCY EXPOSURE BY COUNTRY  
INVESTMENT TYPE IN U.S. DOLLAR EQUIVALENT**

Foreign Currency Denomination	Currency	Fixed Income	International Equities	Private Investments	Real Estate	Real Assets
Australian Dollar	\$ 395	\$ -	\$ 40,958	\$ -	\$ -	\$ -
Brazilian Real	\$ 236	\$ 6,898	\$ 14,837	\$ -	\$ -	\$ -
Canadian Dollar	\$ 41	\$ -	\$ 52,571	\$ -	\$ -	\$ -
Chilean Peso	\$ 55	\$ 1,729	\$ 64	\$ -	\$ -	\$ -
Columbian Peso	\$ 47	\$ 1,922	\$ -	\$ -	\$ -	\$ -
Czech Koruna	\$ 8	\$ 3,448	\$ 1,045	\$ -	\$ -	\$ -
Danish Krone	\$ -	\$ -	\$ 23,404	\$ -	\$ -	\$ -
Dominican Peso	\$ -	\$ 704	\$ -	\$ -	\$ -	\$ -
Egyptian Pound	\$ 5	\$ -	\$ 116	\$ -	\$ -	\$ -
EMU-Euro	\$ 211	\$ 5,791	\$ 231,734	\$ 9,825	\$ 112	\$ 44,184
Hong Kong Dollar	\$ 283	\$ -	\$ 83,478	\$ -	\$ -	\$ -
Hryvnia	\$ 225	\$ 278	\$ -	\$ -	\$ -	\$ -
Hungarian Forint	\$ 1	\$ 1,868	\$ 42	\$ -	\$ -	\$ -
Indonesian Rupiah	\$ 208	\$ 5,997	\$ 13,456	\$ -	\$ -	\$ -
Japanese Yen	\$ 437	\$ -	\$ 135,256	\$ -	\$ -	\$ -
Kazakhstan Tenge	\$ -	\$ 526	\$ -	\$ -	\$ -	\$ -
Kuwaiti Dinar	\$ -	\$ -	\$ 181	\$ -	\$ -	\$ -
Malaysian Ringgit	\$ 180	\$ 5,281	\$ 3,055	\$ -	\$ -	\$ -
Mexican Peso	\$ 513	\$ 7,156	\$ 22,074	\$ -	\$ -	\$ -
New Israeli Sheqel	\$ -	\$ -	\$ 3,061	\$ -	\$ -	\$ -
New Taiwan Dollar	\$ 51	\$ -	\$ 52,704	\$ -	\$ -	\$ -
New Zealand Dollar	\$ -	\$ -	\$ 56	\$ -	\$ -	\$ -
Norwegian Krone	\$ 1	\$ -	\$ 15,489	\$ -	\$ -	\$ -
Philippine Peso	\$ 21	\$ -	\$ 846	\$ -	\$ -	\$ -
Polish Zloty	\$ -	\$ -	\$ 4,119	\$ -	\$ -	\$ -
Pound Sterling	\$ 87	\$ -	\$ 91,915	\$ -	\$ -	\$ -
Romanian Leu	\$ -	\$ 3,122	\$ -	\$ -	\$ -	\$ -
Russian Ruble	\$ 17	\$ -	\$ -	\$ -	\$ -	\$ -
Singapore Dollar	\$ -	\$ -	\$ 11,642	\$ -	\$ -	\$ -
SOL	\$ 2	\$ 5,396	\$ -	\$ -	\$ -	\$ -
South African Rand	\$ 21	\$ 5,948	\$ 1,231	\$ -	\$ -	\$ -
South Korean Won	\$ 78	\$ -	\$ 19,051	\$ -	\$ -	\$ -
Swedish Krona	\$ -	\$ -	\$ 39,531	\$ -	\$ -	\$ -
Swiss Franc	\$ 12	\$ -	\$ 41,507	\$ -	\$ -	\$ -
Thailand Baht	\$ 73	\$ 2,564	\$ 12,670	\$ -	\$ -	\$ -
Turkish Lira	\$ -	\$ -	\$ 1,092	\$ -	\$ -	\$ -
UAE Dirham	\$ 1	\$ -	\$ 727	\$ -	\$ -	\$ -
Uruguayan Peso	\$ -	\$ 1,859	\$ -	\$ -	\$ -	\$ -
Uzbekistan Sum	\$ -	\$ 296	\$ -	\$ -	\$ -	\$ -
Yuan Renminbi	\$ (3,897)	\$ 36	\$ 26,814	\$ -	\$ -	\$ -
Yuan Renminbi Offshore	\$ 4,080	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 3,392</b>	<b>\$ 60,819</b>	<b>\$ 944,726</b>	<b>\$ 9,825</b>	<b>\$ 112</b>	<b>\$ 44,184</b>

#### 4. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. On any day, including June 30<sup>th</sup>, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the custodial bank split the earnings 85% and 15%, respectively, on securities lending activities. The Board retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the Board's credit risk exposure to the borrowers. The custodial bank cannot sell collateral securities unless the borrower defaults.

During the fiscal year, the custodial bank loaned the Board's public securities and received as collateral the following instruments:

- Cash (U.S. and foreign currency),
- Securities issued or guaranteed by the United States government or its agencies or Instrumentalities,
- Canadian provincial debt,
- All other sovereign debt,
- Convertible bonds,
- U.S. and non-U.S. equities (which shall include (i) equity securities in the form of exchange-traded funds ("ETFs") and, for the avoidance of doubt, shall include, but not be limited to, ETFs of the custodial bank or other custodial bank affiliates and (ii) American Depositary Receipts and Global Depositary Receipts),
- Covered bonds,
- Preferred securities,
- Certificates of Deposit,
- Money market instruments,
- Asset-backed securities,
- Asset-backed commercial paper,
- Commercial paper,
- Collateralized mortgage obligations,
- Mortgage-backed securities,
- Supra-nationals,
- Irrevocable bank letters of credit issued by a person other than the borrower, or an affiliate of the borrower may be accepted as collateral, if the custodial bank has determined that it is appropriate to accept such letters of credit as collateral under the securities lending programs it administers,
- Assets permissible under Rule 15c3-3 under the Exchange Act of 1934, and
- Such other collateral as the parties may agree to in writing.

The Board has an established schedule with the custodial bank that identifies the minimum credit rating and margin requirements for each instrument:

<b>COLLATERAL TYPE</b>	<b>MINIMUM CREDIT RATING</b>	<b>MARGIN REQUIREMENT</b>
US Treasuries, including Treasury Inflation Priced Securities		102%
US Federal Agency Debt, including agency mortgage-backed securities		102%
Municipal Bonds	A-/A3	105%
Canadian Provincial & Australian Semi-Regional Debt	A-/A3	105%
Asset-Backed Securities	AA-Aa3	110-115%
Collateralized Mortgage-Backed Securities	AA-Aa3	110-115%
Commercial Mortgage-Backed Securities	AA-Aa3	110-115%
Supranational Debt	AAA/Aaa	102%
Sovereign Debt	AA-/Aa3	102%
Sovereign Debt	A-/A3	105%
Commercial Paper, Certificates of Deposit, Banker's Acceptances and Time Deposits	A1/P1	105%
Corporate Debt	AA-/Aa3	102-115%
Corporate Debt	BBB-/Baa3	102-115%
Convertible Bonds (convertible on call against loans of underlying stock, only) Matched/Hedged	No Floor	105%
Convertible Bonds (US issuers only) Outright	No Floor	110-115%
Equities (generally traded on well-established exchanges)		108%-110%

The Board imposed no restrictions on the number of securities available to lend during the fiscal year. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during the fiscal year resulting from a borrower default. As of June 30<sup>th</sup>, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in an investment fund named the Navigator Securities Lending Government Money Market (Navigator) portfolio.

The Board and the borrowers maintain the right to terminate all securities lending transactions on notice. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The Navigator portfolio had a weighted average duration of 6 days and a weighted average final maturity of 19 days.

The security on loan and pledged collateral is disclosed as of June 30<sup>th</sup> while the security lending income and expense are disclosed for the year ending June 30<sup>th</sup>:

(See following tables – amounts in thousands)

SECURITIES ON LOAN AND PLEDGED COLLATERAL					
	Fair Value On Loan	Collateral Cash	Collateral Securities	Collateral Total	% of Fair Value
Consolidated Asset Pension Pool (CAPP)					
Domestic	\$ 836,214	\$ 119,705	\$ 752,280	\$ 871,985	104%
International	97,121	24,079	78,762	102,841	106%
Trust Funds Investment Pool (TFIP)	469,592	43,620	442,272	485,892	103%
Separately Managed Accounts (SMA)	<u>248,004</u>	<u>35,789</u>	<u>219,410</u>	<u>255,199</u>	<u>103%</u>
Total	<u>\$ 1,650,931</u>	<u>\$ 223,193</u>	<u>\$ 1,492,724</u>	<u>\$ 1,715,917</u>	

SECURITIES LENDING INCOME AND EXPENSE			
	Gross Income	Expenses	Net Income
Consolidated Asset Pension Pool (CAPP)	\$ 7,696	\$ (4,678)	\$ 3,018
Trust Funds Investment Pool (TFIP)	1,645	(1,158)	487
Separately Managed Accounts (SMA)	<u>829</u>	<u>(572)</u>	<u>257</u>
Total	<u>\$ 10,170</u>	<u>\$ (6,408)</u>	<u>\$ 3,762</u>

## 5. SUMMARY OF INVESTMENT POLICY – LEGAL AND CONTRACTUAL PROVISIONS

The Board manages the Investment Program pursuant to the “Prudent Expert Principle” mandated by state law, which requires an investment manager to:

- “(a) Discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims,
- (b) Diversify the holdings of each fund within the UIP to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so, and
- (c) Discharge the duties solely in the interest of and for the benefit of the funds forming the UIP.”

### ALLOWED INVESTMENTS

As discussed previously in Notes 1 and 4, the Board approves all Investment Policy Statements (IPSS).

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMA. Currently, only the nine retirement funds that participate in CAPP, the Defined Contribution

Disability Plan, and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. The Board approves a separate IPS for each pool and SMA participant, which provides board staff with a broad strategic framework under which the investments are managed. The IPSs also reflect the Board approved asset allocation ranges.

By statute, local government entities can voluntarily invest in the STIP. By statute, with a qualifying event, local government entities may also voluntarily invest in the TFIP.

### CAPP

The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by the Board. The Board annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS also contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Due to a longer-term focus, CAPP's Pension Asset Classes (PAC) differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Investments
- Real Assets
- Real Estate
- Core Fixed Income
- Non-Core Fixed Income
- Cash

The CAPP IPS is the only IPS that allows for investments that can be held in non-U.S. securities in a foreign currency. Per the CAPP IPS, the Core Fixed Income Asset Class and Non-Core Fixed Income Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged in a defensive manner at the discretion of the active managers to preserve the U.S. dollar value of investments made.

### TFIP

The TFIP IPS provides for a 10% portfolio limit for non-core fixed income securities. TFIP invests primarily in investment grade, U.S. dollar denominated fixed income securities. The portfolio has high-yield and real estate exposure.

### STIP

The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer except for U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution.

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall

maintain a dollar-weighted average portfolio maturity of 120 days or less. STIP is managed to preserve principal while providing daily liquidity for state agency and local government participants.

Per the STIP IPS, “The STIP portfolio will minimize interest rate risk by:

- 1) Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity,
- 2) Maintaining a WAM of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities), and
- 3) STIP will maintain a reserve account.”

### SMA

SMA invests primarily in investment grade, U.S. dollar denominated fixed income securities and custodial bank interest bearing demand deposit account. However, one participant portfolio has exposure to core real estate and non-core fixed income. The SMA portfolio also includes Veterans’ Home Loan Mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute. Please refer to Note 9 – SMA Montana Mortgages and Loans footnote for further detail.

### OTHER POLICY CONSIDERATIONS

For other risk, the Board approves both the IPS, and benchmark used for each portfolio. Per the CAPP IPS, the internally managed Core Fixed average duration will be maintained in a range within 20% of the benchmark duration. The externally managed Core Fixed Income PAC and Non-Core Fixed Income PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration for Investment Grade Fixed Income Asset Class will be maintained in a range within 20% of the benchmark duration while the average duration of the Non-Core Fixed Income Asset Class will be maintained within 25% of the index duration. Interest rate risk for SMA is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

CAPP, TFIP, STIP, and SMA may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example, Secured Overnight Financing Rate (SOFR).

## **6. FAIR VALUE MEASUREMENT**

The Board categorizes its fair value measurements within the fair value hierarchy established by GAAP as follows:

**Level 1** - Quoted prices for identical assets or liabilities in active markets that the Board can access as of June 30<sup>th</sup>.

**Level 2** - Prices are determined using inputs other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.

**Level 3** - Prices are determined using unobservable inputs, which generally results in the Board using the best information available and may include the Board's own data.

Valuations not classified within these levels are further explained in the Investments at Net Asset Value section of the footnote.

#### FAIR VALUE LEVEL

Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted.

Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraised value. In years with no updated appraisal the Montana Department of Revenue calculated growth rate is used to determine the adjusted value. The direct real estate was last appraised in fiscal year 2020.

Investments measured at cost are included to account for all investments within each pool and SMA. These assets represent cash equivalents, INTERCAP Bonds and Montana Mortgages and Loans.

For each of the pools and SMA the Board has the following value measurements as of June 30<sup>th</sup>:

(See following table – amounts in thousands)

INVESTMENTS MEASURED AT FAIR VALUE				Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by Fair Value Level</u>						
Fixed Income Investments:						
Treasuries	\$ 2,052,595	\$ 2,052,595	\$ -	\$ -		
Agency or Government Related	972,587	-	972,587	-		
Asset Backed Securities	-	-	-	-		
Mortgage Backed Securities:						
Noncommercial	1,023,689	-	1,023,689	-		
Commercial	201,997	-	201,997	-		
Corporate:						
Commercial Paper	924,505	-	924,505	-		
Notes	408,375	-	408,375	-		
Certificates of Deposit	1,254,156	-	1,254,156	-		
Financial	772,189	-	772,189	-		
Industrial	2,408,630	-	2,408,630	-		
Utility	58,554	-	58,554	-		
Domestic Equity Investments	4,423,092	4,423,092	-	-		
International Equity Investments	2,060,952	2,060,952	-	-		
Direct Real Estate	32,142	-	-	-		32,142
Residential Mortgages	849	-	-	-		849
Investment Derivative Instruments	3,127	-	3,127	-		-
Total Investments by Fair Value Level	16,597,439	\$ 8,536,639	\$ 8,027,809	\$ 32,991		
<u>Investments Measured at Net Asset Value (NAV)</u>						
Private Investments	2,412,047					
Core Real Estate	1,317,869					
Non-Core Real Estate	1,007,534					
Real Assets	601,263					
Real Estate High Income Fund	150,090					
Total Investments Measured at NAV	5,488,803					
Total Investments Measured at Fair Value	22,086,242					
<u>Investments at Cost</u>						
Cash and Cash Equivalents Held at Custodial Bank	4,735,113					
INTERCAP Bonds	68,706					
SMA Montana Mortgages and Loans	184,942					
Total Investments not Categorized	4,988,761					
Total Investments	\$ 27,075,003					

### INVESTMENTS AT NET ASSET VALUE (NAV)

The investments measured at NAV for the fiscal year are further detailed below as of June 30<sup>th</sup> (amounts in thousands):

INVESTMENTS MEASURED AT NAV				
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Investments	\$ 2,412,047	\$ 1,249,439	Monthly, Quarterly	45-90 Days
Core Real Estate	1,317,869	122,774		
Non-Core Real Estate	1,007,534	745,649		
Real Assets	601,263	459,594	Daily	1 -3 Days
Real Estate High Income Fund	150,090	-		
Total Investments Measured at NAV	\$ 5,488,803	\$ 2,577,456		

PRIVATE INVESTMENTS - This type includes investments in limited partnerships. Typically, the types of partnership strategies included in this portfolio: venture capital, growth equity, buyouts,



special situations, mezzanine, and distressed debt. These investments are considered long-term. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the Board's ownership interest in partners' capital.

CORE REAL ESTATE - This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel) via commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

NON - CORE REAL ESTATE - This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the fund.

REAL ASSETS - This type includes private partnership funds that primarily invest in timber, energy, broad natural resource funds and infrastructure. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 10 to 20 years. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the partners' capital.

REAL ESTATE HIGH INCOME FUND - This type consists of predominantly of real estate related instruments with an emphasis in U.S. corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

## 7. FAIR VALUE OF DERIVATIVE INSTRUMENTS

Within CAPP, the UIP invests in currency forward contracts, credit default swaps, interest rate swaps, index futures (long and short duration), rights, and warrants which are classified as investment derivative instruments. The investment derivative instruments increased in fair value for the fiscal year ended June 30, 2023, by \$3.3 million. The derivative instruments had a fair value of \$651 thousand as of the end of the fiscal year and a notional amount of \$67.1 million as shown on following table (amounts in thousands).

INVESTMENT DERIVATIVE INSTRUMENTS				
<u>Security Investment Types</u>	<u>Classification</u>	Changes in Fair Value Included in Investment		Notional Amount
		<u>Income</u>	<u>Fair Value</u>	
Credit Default Swaps Bought	Investment	\$ (276)	\$ (84)	\$ 3,015
Credit Default Swaps Written	Investment	1,428	-	-
Currency Forward Contracts	Investment	(1,114)	(778)	51,053
Index Futures Short	Investment	154	-	-
Index Futures Long	Investment	2,256	-	5
Pay Fixed Interest Rate Swaps	Investment	176	171	2,433
Receive Fixed Interest Rate Swaps	Investment	(8)	45	9,939
Rights	Investment	2	44	58
Warrants	Investment	658	1,253	596
Totals		<u>\$ 3,276</u>	<u>\$ 651</u>	<u>\$ 67,099</u>

### COUNTERPARTY CREDIT RISK – DERIVATIVE INSTRUMENTS

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations.

The maximum amount of loss to the Board in case of default of all counterparties as of June 30<sup>th</sup> was \$679 thousand.

The following table reflects the Board's applicable counterparty credit ratings and risk concentrations as of June 30<sup>th</sup>:

**RISK CONCENTRATIONS - CREDIT DEFAULT SWAPS**

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
HSBC Bank USA	27%	A+	AA-	Aa3
UBS Securities LLC	22%	A+	A+	Aa3
Barclays Bank PLC Wholesale	21%	A+	A+	A1
UBS LCH	13%	A+	A+	Aa3
BNP Paribas SA	6%	A+	A+	Aa3
UBS CME	4%	A+	A+	Aa3
Citigroup Global Markets LCH	4%	BBB+	A	A3
Citibank N.A.	2%	A+	A+	Aa3
UBS AG	1%	A+	A+	Aa3

**INTEREST RATE RISK – DERIVATIVE INSTRUMENTS**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table reflects the Board's interest rate risk in derivative instruments (amounts in thousands except for years).

<b>INTEREST RATE RISK</b>				
Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1 - 5	6 - 10
Credit Default Swaps Bought	\$ (84)	\$ -	\$ (84)	\$ -
Pay Fixed Interest Rate Swaps	171	-	-	171
Receive Fixed Interest Rate Swaps	45	-	36	9
Total	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ (48)</u>	<u>\$ 180</u>

**FOREIGN EXCHANGE RISK – DERIVATIVE INSTRUMENTS**

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Board is exposed to foreign currency risk on its currency forward contracts because they are denominated in foreign currencies. The fair value of the foreign currency forward contracts in U.S. dollars is \$(778) thousand.

The following table reflects the Board's foreign currency risk associated with forward currency contracts (amounts in thousands).

FOREIGN CURRENCY RISK					
Currency Name	Options	Currency Forward Contracts		Swaps	Total Exposure
		Net Receivables	Net Payables		
Brazilian Real	\$ -	\$ (7)	\$ (142)	\$ -	\$ (149)
Chilean Peso	-	(22)	(11)	-	(33)
Yuan Renminbi Offshore	-	(196)	11	-	(185)
Yuan Renminbi	-	-	-	37	37
Colombian Peso	-	5	(124)	-	(119)
Czech Koruna	-	(7)	-	-	(7)
Euro Currency	-	-	(79)	171	92
Indonesian Rupiah	-	(10)	14	-	4
Indian Rupee	-	4	-	-	4
Mexican Peso	-	142	(450)	142	(166)
Malaysian Ringgit	-	(14)	116	-	102
Peruvian Sol	-	-	(13)	-	(13)
Polish Zloty	-	32	-	-	32
Romanian Leu	-	-	11	-	11
Singapore Dollar	4	-	-	-	4
Thailand Baht	-	(83)	-	-	(83)
South African Rand	-	-	45	-	45
Sub Total	4	(156)	(622)	350	(424)
US Dollar	1,293	-	-	(218)	1,075
Total	\$ 1,297	\$ (156)	\$ (622)	\$ 132	\$ 651

## 8. COAL SEVERANCE TAX TRUST FUND LOAN AND MORTGAGE COMMITMENTS

The Board makes firm commitments to fund commercial loans and residential mortgages from the Coal Severance Tax Trust Fund. These commitments have expiration dates and may be extended per Board policies. As of June 30<sup>th</sup>, the Board had committed, but not yet purchased, \$16.3 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$20.9 million for loans as of June 30<sup>th</sup>. Another \$0.5 million represented lender reservations for the Veterans' Home Loan Mortgage (VHLM) residential mortgage purchases with no purchase commitments, and an additional \$3.1 million reserved for lenders in the Multifamily Coal Trust Homes Program.

The Board makes reservations to fund residential mortgages from the State's pension funds. As of June 30<sup>th</sup>, there were no residential mortgage reservations. All Board residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a residential mortgage reservation and a funding commitment.

## 9. SMA MONTANA MORTGAGES AND LOANS

The Montana Legislature has directed that the Board provide certain financial incentives, typically at below-market interest rates, to certain borrowers who meet the program requirements set in law.

The program invests Coal Severance Tax Trust (Coal Trust) funds in Montana to stimulate the state's economy. State law authorizes the Board to invest Coal Trust dollars in Montana to increase employment and business opportunities while maintaining and improving the state's physical environment. The SMA portfolio includes mortgages and loans, funded by the Coal Severance Tax Trust Fund. Mortgages and loans shown in the following table are reported at cost as of June 30<sup>th</sup> (amounts in thousands):

<b>MONTANA MORTGAGES AND LOANS</b>		
Science and Technology Alliance	\$	376
Montana University System - MSTA		7,249
Montana Facility Finance		10,292
Local Government Infrastructure		9,852
Veterans' Home Loan Mortgages		49,061
Multifamily Coal Trust Homes		11,002
Intermediary Relending Program (IRP) Loans		5,178
Commercial Loans		<u>91,932</u>
Total Montana Mortgages and Loans at Cost	\$	<u>184,942</u>

## 10. TAX ABATEMENT

Within the Board's SMA Commercial Loan Program, by statute, the Infrastructure Loan Program is funded by an \$80 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to the Board for the loan repayment. The Board reviews each loan and only upon verification that the entities meet the loan requirements is the loan approved by the Board.

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is a principal amount of \$16,666 multiplied by the number of full-time jobs created with a minimum loan size of \$250 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job creation. The reduction will be reflected in the user fee rate charged to the basic sector business upon Board review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. The Board may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates qualifying jobs. The basic sector business must annually provide payroll documentation to the Board.

Pursuant to statute, a business that is created or expanded as the result of an Infrastructure Loan is entitled to a credit against either their State individual income taxes or corporate income taxes

for the portion of the fees attributable to the use of the infrastructure. The total amount of tax credit claimed may not exceed the amount of the loan. The credit may be carried forward for seven years or carried back for three years.

During the fiscal year, basic sector business entities made total user fee payments of \$1.8 million, representing \$1.4 million of principal and \$0.4 million in interest. During the fiscal year, \$4.9 million was claimed as a credit against the State individual and corporation tax liability. The following table details the credit claimed by tax type and the tax year (TY) it was applied against (amounts in thousands).

INFRASTRUCTURE CREDITS CLAIMED FOR THE FISCAL YEAR 2023				
	For TY 2022		For TY 2021	
	Corporate	Individual	Corporate	Individual
	<u>Income Tax</u>	<u>Income Tax</u>	<u>Income Tax</u>	<u>Income Tax</u>
Amount Claimed	\$ -	\$ 1	\$ 245	\$ 4,679
Number of Credits	-	*	*	*
* indicates less than 10. Number cannot be reported due to confidentiality concerns.				

The local government entity must pass a resolution authorizing the acceptance of the commitment agreement. The Board indemnifies the local government regarding repayment of the loan.

11. BOND AND LOAN GUARANTEES

As of June 30<sup>th</sup>, the Board had provided loan guarantees from TFIP, the Coal Severance Tax Trust Fund, and the Treasurer’s Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to approximately \$68.7 million and from STIP, TFIP, the Coal Severance Tax Trust Fund to the Montana Facility Finance Authority (MFFA) amounting to approximately \$109.1 million. The Board has not had to perform on any bond and loan guarantee in the past. The cumulative amounts disclosed were measured prospectively from the date of implementation of GASB Statement No. 99, *Omnibus 2022*, paragraph 7 (July 1, 2022), and are not the actual amounts paid. The amounts represent the potential liability of the Fund and guarantees are in effect for one year.

STIP and TFIP are external investment pools managed by the Board. Both the Coal Severance Tax Trust Fund and the Enterprise Fund are part of the primary government for the State. The Board manages the Treasurer’s Cash Fund which consists of fund balances of all the funds for the State whose investment earnings are permitted by law to flow to the State’s Debt and Liability Free account. The Board has not had to perform on any loan guarantee in the past. The amounts are merely commitments of the Board.

MFFA is a discretely presented component unit of the State. MFFA guarantee requests are submitted to the Board for review and approval. The Board’s participation, either duration or any

other consideration, to either purchase bonds or loans or to lend money for deposit into MFFA's statutorily allowed capital reserve account is explicitly limited by statute which requires the Board to act prudently. The bond and loan guarantee requests from MFFA pertain to bonds issued by MFFA with a term of up to 40 years. The Board receives a credit enhancement fee at MFFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. The Board and MFFA have entered into an agreement detailing repayment to the Board. No credit enhancement fees were generated during the fiscal year.

The following schedule summarizes the bond and loan guarantee activity during the fiscal year (amounts in thousands).

<b>Bond and Loan Guarantee Activity</b>					
	<u>Beginning Balance</u>	<u>Additions</u>		<u>Reductions</u>	<u>Ending Balance</u>
INTERCAP	\$ 68,707	\$ -		\$ -	\$ 68,707
MFFA	113,573	-		4,440	\$ 109,133

## 12. STIP RESERVE

The reserve account may be used to offset losses within the STIP portfolio. Refer to Note 5 - Summary of Investment Policy – Legal and Contractual Provisions for more detail on STIP. The following table details STIP Reserve activity for the year ended June 30<sup>th</sup> (amounts in thousands):

<b>STIP RESERVE ACTIVITY</b>	
Beginning STIP Reserve	\$ 57,094
Additions	
Investment Earnings:	
Net Increase (Decrease) on Fair Value of Investments	2,152
Interest Income	413
Transfer of Daily STIP Income	8,975
Total Investment Earnings	11,540
Total STIP Reserve Activity	11,540
Ending STIP Reserve	\$ 68,634

## 13. SUBSEQUENT EVENTS

Since June 30<sup>th</sup>, the Board has committed an additional \$50 million within Real Estate, \$159 million within Real Assets, and \$245 million within Private Investments, of which \$400 million is related to CAPP, \$38 million to TFIP, and \$16 million to SMA. Refer to Note 2 – Investments Commitments for further detail.

Since June 30<sup>th</sup>, the Board has funded an additional \$22.9 million to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program. Reservations in the amount of \$1.0 million were made for the VHLM residential mortgage purchases. Refer to Note 8 – Coal Severance Tax Trust Fund Loan and Mortgage Commitments for further detail.



**SUPPLEMENTARY INFORMATION**

MONTANA UNIFIED INVESTMENT PROGRAM  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 AS OF JUNE 30, 2023  
 (amounts in thousands)

Assets	TFIP				
	Total	CAPP	State Agencies	Local Governments	SMA
Investments					
Cash and Cash Equivalents					
Cash Equivalent/STIP - Held Within Pools	\$ -	\$ 96,765	\$ 61,445	\$ 245	\$ -
Cash and Cash Equivalents Held at Custodial Bank	4,735,113	156,339	6,828	27	1,760
Total Cash and Cash Equivalents	4,735,113	253,104	68,273	272	1,760
Investments at Cost	253,648	-	-	-	184,942
Investments at Fair Value	22,086,242	13,696,360	2,900,223	11,541	1,499,298
Total Investments	27,075,003	13,949,464	2,968,496	11,813	1,686,000
Securities Lending Cash Collateral	223,193	143,784	43,447	173	35,789
Receivables					
Broker Receivable for Securities Sold but not Settled	9,948	8,626	1,092	4	226
Dividend and Interest Receivable	160,634	91,780	18,007	72	8,710
Total Receivables	170,582	100,406	19,099	76	8,936
Total Assets	27,468,778	14,193,654	3,031,042	12,062	1,730,725
Liabilities					
Payables					
Broker Payable for Securities Purchased but not Settled	68,314	65,379	2,401	10	524
Income Due Participants	52,713	-	8,228	33	7,748
Other Payable	3,639	3,639	-	-	-
Administrative Fee Payable	3,172	2,955	183	1	33
Total Payables	127,838	71,973	10,812	44	8,305
Securities Lending Obligations	223,193	143,784	43,447	173	35,789
Total Liabilities	351,031	215,757	54,259	217	44,094
Net Position Held in Trust for Pool and SMA Participants	\$ 27,117,747	\$ 13,977,897	\$ 2,976,783	\$ 11,845	\$ 1,686,631

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 AS OF JUNE 30, 2023  
 (amounts in thousands)

Assets	STIP			STIP Included in Investment Pools*
	State Agencies	Local Governments	Reserve	
Investments				
Cash and Cash Equivalents				
Cash Equivalent/STIP - Held Within Pools	\$ -	\$ -	\$ -	\$ (158,455)
Cash and Cash Equivalents Held at Custodial Bank	3,590,421	978,205	1,533	-
Total Cash and Cash Equivalents	3,590,421	978,205	1,533	(158,455)
Investments at Cost	53,995	14,711	-	-
Investments at Fair Value	3,074,171	837,553	67,096	-
Total Investments	6,718,587	1,830,469	68,629	(158,455)
Securities Lending Cash Collateral	-	-	-	-
Receivables				
Broker Receivable for Securities Sold but not Settled	-	-	-	-
Dividend and Interest Receivable	33,054	9,006	5	-
Total Receivables	33,054	9,006	5	-
Total Assets	6,751,641	1,839,475	68,634	(158,455)
Liabilities				
Payables				
Broker Payable for Securities Purchased but not Settled	-	-	-	-
Income Due Participants	28,845	7,859	-	-
Other Payable	-	-	-	-
Administrative Fee Payable	-	-	-	-
Total Payables	28,845	7,859	-	-
Securities Lending Obligations	-	-	-	-
Total Liabilities	28,845	7,859	-	-
Net Position Held in Trust for Pool and SMA Participants	\$ 6,722,796	\$ 1,831,616	\$ 68,634	\$ (158,455)

\*STIP holdings, purchases, sales, and investment earnings within investment pools

MONTANA UNIFIED INVESTMENT PROGRAM  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2023  
 (amounts in thousands)

	TFIP				
	Total	CAPP	State Agencies	Local Governments	SMA
Additions					
Purchases by Participants	\$ 11,213,164	\$ 78,046	\$ 270,295	\$ -	\$ 311,900
Net Investment Earnings					
Investment Earnings					
Net Increase (Decrease) on Fair Value of Investments	864,068	795,879	(96,866)	(408)	(8,596)
Dividend/Interest Income	701,171	395,398	110,691	457	45,711
Other Investment Income	15	15	-	-	-
Investment Earnings	<u>1,565,254</u>	<u>1,191,292</u>	<u>13,825</u>	<u>49</u>	<u>37,115</u>
Investment Costs	(71,811)	(61,973)	(7,298)	(30)	(1,599)
Other Investment Expenses	(17,865)	(17,405)	(132)	(1)	(75)
Short Term Investment Pool Reserve Expense	-	-	-	-	-
Net Investment Income (Loss)	<u>1,475,578</u>	<u>1,111,914</u>	<u>6,395</u>	<u>18</u>	<u>35,441</u>
Securities Lending Income	10,170	7,696	1,639	6	829
Securities Lending Expense	(6,408)	(4,678)	(1,153)	(5)	(572)
Net Securities Lending Income	<u>3,762</u>	<u>3,018</u>	<u>486</u>	<u>1</u>	<u>257</u>
Total Additions	<u>12,692,504</u>	<u>1,192,978</u>	<u>277,176</u>	<u>19</u>	<u>347,598</u>
Deductions					
Sales by Participants	10,577,969	566,687	11,968	-	334,622
Income Distributions to Participants	<u>449,458</u>	<u>-</u>	<u>104,653</u>	<u>432</u>	<u>40,974</u>
Total Deductions	<u>11,027,427</u>	<u>566,687</u>	<u>116,621</u>	<u>432</u>	<u>375,596</u>
Change in Net Position	<u>1,665,077</u>	<u>626,291</u>	<u>160,555</u>	<u>(413)</u>	<u>(27,998)</u>
Net Position Held in Trust for Pool and SMA Participants - Beginning of Year	<u>25,452,670</u>	<u>13,351,606</u>	<u>2,816,228</u>	<u>12,258</u>	<u>1,714,629</u>
Net Position Held in Trust for Pool and SMA Participants - End of Year	<u>\$ 27,117,747</u>	<u>\$ 13,977,897</u>	<u>\$ 2,976,783</u>	<u>\$ 11,845</u>	<u>\$ 1,686,631</u>

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2023  
 (amounts in thousands)

	STIP			Reserve	STIP Included
	State Agencies	Local Governments	Reserve	Included in STIP**	in Investment Pools*
Additions					
Purchases by Participants	\$ 10,539,497	\$ 1,621,802	\$ -	\$ -	\$ (1,608,376)
Net Investment Earnings					
Investment Earnings					
Net Increase (Decrease) on Fair Value of Investments	136,153	37,906	2,152	(2,152)	-
Dividend/Interest Income	118,057	32,740	413	(413)	(1,883)
Other Investment Income	-	-	8,975	(8,975)	-
Investment Earnings	<u>254,210</u>	<u>70,646</u>	<u>11,540</u>	<u>(11,540)</u>	<u>(1,883)</u>
Investment Costs	(713)	(198)	-	-	-
Other Investment Expenses	(197)	(55)	-	-	-
Short Term Investment Pool Reserve Expense	<u>(9,035)</u>	<u>(2,505)</u>	-	<u>11,540</u>	-
Net Investment Income (Loss)	<u>244,265</u>	<u>67,888</u>	<u>11,540</u>	-	<u>(1,883)</u>
Securities Lending Income	-	-	-	-	-
Securities Lending Expense	-	-	-	-	-
Net Securities Lending Income	-	-	-	-	-
Total Additions	<u>10,783,762</u>	<u>1,689,690</u>	<u>11,540</u>	-	<u>(1,610,259)</u>
Deductions					
Sales by Participants	9,583,319	1,601,619	-	-	(1,520,246)
Income Distributions to Participants	<u>239,001</u>	<u>66,281</u>	-	-	<u>(1,883)</u>
Total Deductions	<u>9,822,320</u>	<u>1,667,900</u>	-	-	<u>(1,522,129)</u>
Change in Net Position	<u>961,442</u>	<u>21,790</u>	<u>11,540</u>	-	<u>(88,130)</u>
Net Position Held in Trust for Pool and SMA Participants - Beginning of Year	<u>5,761,354</u>	<u>1,809,826</u>	<u>57,094</u>	-	<u>(70,325)</u>
Net Position Held in Trust for Pool and SMA Participants - End of Year	<u>\$ 6,722,796</u>	<u>\$ 1,831,616</u>	<u>\$ 68,634</u>	<u>\$ -</u>	<u>\$ (158,455)</u>

\*STIP holdings, purchases, sales, and investment earnings within investment pools are offset to calculate a combining total.

\*\*STIP Reserve investment earnings and reserve expense within STIP are offset to calculate a combining total.



# **Independent Auditor's Report and Enterprise Fund Program Financial Statements**





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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

#### *Opinion*

We have audited the financial statements of the Montana Board of Investments' Enterprise Fund Program, which are comprised of the Statement of Net Position as of June 30, 2023, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the board's Enterprise Fund Program as of June 30, 2023, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the board and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

As discussed in Note 1, the accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows of only the Montana Board of Investments Enterprise Fund Program. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2023, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair

presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-49, the Schedule of Proportionate Share of Net Pension Liability on page A-80, the Schedule of Contributions on page A-80, and the Schedule of

Total OPEB Liability and Related Ratios on page A-82 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2023, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 6, 2023



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis for the Enterprise Fund (the Fund) of the Board of Investments (the Board) of the State of Montana (the State) is presented as an introduction to the financial statements of the Fund. It is meant to help the reader understand the financial statements by providing an overall review of the financial activities during the year and to compare the prior year's activities and results.

In addition to the Fund, the Board also administers the Unified Investment Program (UIP) to account for investing activities for local governments, component units, and state agencies. This section of the report represents only the Fund. The UIP financial statements are presented separately.

### **FINANCIAL HIGHLIGHTS**

The Fund's total fund net position for the fiscal year ending June 30, 2023, was \$5.4 million as compared to \$5.2 million for the fiscal year ending June 30, 2022. The fund net position increased \$210 thousand for the year ending June 30, 2023, as compared to a \$293 thousand increase in the fiscal year ending June 30, 2022. Fund net position increased because of the following activities:

- Operating revenue of the Fund increased for the year ending June 30, 2023, by \$1.2 million from the prior year. This was due to an increase in financing income of \$1.0 million and an increase in investment income of \$188 thousand.
- Operating expenses of the Fund increased for the year to \$2.2 million as compared to \$851 thousand in the prior year. This increase in expenses was primarily the result of significantly higher debt service expense in the amount of \$1.1 million. The debt service increase was a result of the change in interest rates from 0.632% for the bond year ending February 20, 2023, to the new rate of 5.069% through February 20, 2024. Other changes in operating expenses included an increase of \$59 thousand in personal services, and an increase of \$147 thousand in other expenses.

As a result of operations, the net of operating revenue and operating expenses resulted in an operating income for the Fund for the year of approximately \$210 thousand. This is in comparison to an operating income of approximately \$293 thousand in the previous fiscal year.

Cash and cash equivalents increased by approximately \$855 thousand for the fiscal year as compared to a net decrease in cash of approximately \$11.1 million in the prior fiscal year. For the fiscal year ended June 30, 2023, cash increased primarily due to greater return on investments.

Collections for principal and interest on loans decreased by \$3.1 million in 2023 as compared to 2022. The outflow for purchases of investments decreased by \$759 thousand. The inflow for sales and maturities of investments decreased by \$7.3 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Fund is a Proprietary Fund of the State's Annual Comprehensive Financial Report (ACFR), which is separately issued from these financial statements. The Fund is not an entire reporting entity as described within accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). However, the Fund provides this statutorily required report to account for State programs created under the Municipal Finance Consolidation Act and Economic Development Bond Act of the State.

The financial statements and footnotes follow this section of the report. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP.

The **STATEMENT OF FUND NET POSITION** provides information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the elements of Fund Net Position of the Fund as of the fiscal year ended June 30, 2023.

The **STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION** provides information on the various flows of operating revenues, operating expenses, non-operating revenues, and non-operating expenses for the Fund for the fiscal year ended June 30, 2023.

The **STATEMENT OF CASH FLOWS** presents information on the sources and uses of cash during the most recent fiscal year. The Statement of Cash Flows is subdivided into three major sections to show cash provided or used by operating, capital and related financing, and investing activities. GAAP requires this statement to be reported utilizing a direct relationship of cash to sources of flows with a reconciliation of net cash provided by or used for operating activities to net operating income.

The **NOTES TO THE BASIC FINANCIAL STATEMENTS** provide additional information that is essential to a full understanding of the data provided in the financial statements of the Fund.

Additional **REQUIRED SUPPLEMENTARY INFORMATION** is presented in accordance with GAAP related to the defined benefit pensions and other post-employment benefits (OPEB).

## FINANCIAL ANALYSIS

**FUND NET POSITION** The following is a condensed Statement of Fund Net Position as of June 30<sup>th</sup> as compared to the prior year.

### CONDENSED STATEMENT OF FUND POSITION

(amounts in thousands)

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<b>Assets</b>		
Non-Capital Assets	\$ 75,817	\$ 74,512
<b>Total Assets</b>	<u>75,817</u>	<u>74,512</u>
 <b>Deferred Outflows of Resources</b>	 97	 112
 <b>Liabilities</b>		
Current Liabilities	70,025	245
Noncurrent Liabilities	<u>382</u>	<u>69,030</u>
<b>Total Liabilities</b>	<u>70,407</u>	<u>69,275</u>
 <b>Deferred Inflows of Resources</b>	 72	 124
 <b>Fund Net Position</b>		
Restricted	5,422	5,213
Unrestricted	<u>13</u>	<u>12</u>
<b>Total Fund Net Position</b>	<u><b>\$ 5,435</b></u>	<u><b>\$ 5,225</b></u>

As of June 30, 2023, most of the assets remained composed of note and loan interest and principal receivable in accordance with the INTERCAP program presented in the Fund. As described in more detail in the notes to the basic financial statements, the Fund issues notes and loans for eligible Montana local governments, state agencies, and component units. The INTERCAP Revolving Loan Program is an intermediate term capital program administered by the Board.

At the end of the fiscal year, the total note and loan principal portfolio receivable was approximately \$70.0 million, as compared to approximately \$69.6 million at the beginning of the year. Approximately \$19.6 million in loans were funded during the fiscal year ended June 30, 2023, as compared to \$20.4 million in the prior year. The Fund received repayments of approximately \$21.3 million, including principal and interest.

The remaining assets are comprised of cash and cash equivalents, interest receivable related to cash and cash equivalents, and prepaid expenses.

Deferred outflows of resources and deferred inflows of resources are related to various elements of defined benefit pensions and OPEB recognized as part of future years' expenses due to time passage.

Most of the Fund's liabilities are bonds payable related to debt issuance that funds the INTERCAP loans for eligible Montana governmental units. The Board has adopted Resolution 249 which allows for the issuance of a new bond annually beginning in February 2023. As discussed in the Notes to the basic financial statements, the new bond is considered short-term debt, with a one-year maturity from date of issuance. New debt is renewed annually upon agreement between the Fund and the holder of the bond. The bond issued upon adoption of Resolution 249 was issued in January 2022 with a maturity of February 2023, and accordingly, was treated as a long-term obligation.

The total Fund Net Position comprises two elements as required by GAAP. Unrestricted Fund Net Position represents the accumulated unrestricted changes in fund net position since the Fund's inception. Restricted Fund Net Position is comprised of amounts related to the INTERCAP bonds and can only be reused in accordance with those provisions. There was an increase in Restricted Fund Net Position of \$209 thousand and an increase in Unrestricted Fund Net Position of less than \$1 thousand, solely related to the Fund's operations.

**CHANGES IN FUND NET POSITION** The following is a condensed Statement of Revenues, Expenses and Changes in Fund Net Position by major sources for the current and prior fiscal years ended June 30<sup>th</sup>.

**CONDENSED STATEMENT OF REVENUE,  
EXPENSES AND CHANGES IN FUND NET POSITION**

(amounts in thousands)

	For Fiscal Years Ending	
	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<b>Operating Revenues</b>		
Financing Income	\$ 2,163	\$ 1,127
Investment	<u>205</u>	<u>17</u>
<b>Total Operating Revenues</b>	2,368	1,144
<b>Operating Expenses</b>		
Debt Service	1,534	433
Personal Services	423	364
Other	<u>201</u>	<u>54</u>
<b>Total Operating Expenses</b>	2,158	851
<b>Operating Income (Loss)</b>	210	293
<b>Change in Fund Net Postion</b>	210	293
<b>Total Fund Net Postion as of the Beginning of the Year</b>	<u>5,225</u>	<u>4,932</u>
<b>Total Fund Net Postiton as of the End of the Year</b>	<u>\$ 5,435</u>	<u>\$ 5,225</u>



Operating revenues were primarily related to financing income related to the INTERCAP note and loan portfolio. Financing income increased \$1.0 million and investment revenue increased \$188 thousand.

Operating expenses primarily occur in two areas: debt service and personal services. Debt service on the bonds includes interest expense, bond issuance costs, and other debt service costs, which increased by \$1.1 million this year because of significantly higher interest rates, partially offset by savings of bond issuance cost. Personal services include employee compensation, compensated absence expense, sick leave and other compensatory time recognized during the fiscal year. These amounts increased by \$59 thousand.

Other amounts include contracted services, supplies and materials, communications, travel, rent, pensions, post-employment benefits, and other overhead expenses. These expenses increased by \$147 thousand during the year, primarily due to a \$95 thousand increase in pension expenses.

The net of all the flows resulted in a \$209 thousand increase to Restricted Fund Net Position and a \$1 thousand increase to Unrestricted Fund Net Position for the fiscal year ended June 30, 2023, most of which relates to the operating income from the INTERCAP program.

## **OPERATIONAL HIGHLIGHTS**

The Board experienced several efficiencies and cost savings for borrowers, despite the challenging interest rate environment. The Fund continues to support low-interest loans to Montana state agencies, universities, and local governments for various projects. As an additional benefit, the STIP participants were able to realize a higher yield.

## **ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS THAT MAY IMPACT THE FUND'S OPERATIONS IN THE FUTURE**

Rising interest rates along with large amounts of federal infrastructure funding will persist, potentially impacting loan demand. This will be offset by lower bond debt issued to accommodate less interest rate exposure.

*Requests for Information and Transparency* This financial report is designed to provide a general overview of the Fund's operations. Questions concerning any of the information contained in this report or requests for additional information about the Board's operations should be addressed to the Board at 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, Montana 59620-0126. The Board may be reached by phone at 406.444.0001. Board Meeting agenda and minutes are posted at <http://investmentmt.com/Board/Meetings>.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF FUND NET POSITION AS OF JUNE 30, 2023  
 (amounts in thousands)

## Assets

## Current Assets

Cash And Cash Equivalents	\$ 5,786
Interest Receivable From Investments	23
Notes/Loans Interest Receivable (Local Governments)	1,031
Notes/Loans Receivable (Local Governments)	6,772
Interfund Loans Receivable (Other Funds of the State)	1,907
Interfund Interest Receivable (Other Funds of the State)	120
Component Unit of the State of Montana Notes/Loans Receivable	1,078
Component Unit of the State of Montana Interest Receivable	<u>159</u>

Total Current Assets	<u>16,876</u>
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## Long-Term Assets

Notes/Loans Receivable (Local Governments)	43,340
Interfund Loans Receivable (Other Funds of the State)	9,235
Component Unit of the State of Montana Notes/Loans Receivable	<u>6,366</u>

Total Long-Term Assets	<u>58,941</u>
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Total Assets	<u>75,817</u>
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Deferred Outflows of Resources	<u>97</u>
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## Liabilities

## Current Liabilities

Accrued Expenses	17
Accrued Interest Payable	1,258
Compensated Absences	43
Current Bonds/Notes Payable	<u>68,707</u>

Total Current Liabilities	<u>70,025</u>
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## Long-Term Liabilities

Compensated Absences	23
Total OPEB Liability	9
Net Pension Liability	<u>350</u>

Total Long-Term Liabilities	<u>382</u>
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Total Liabilities	<u>70,407</u>
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Deferred Inflows of Resources	<u>72</u>
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## Fund Net Position

Restricted	5,422
Unrestricted	<u>13</u>

Total Fund Net Position	<u>\$ 5,435</u>
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The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023  
 (amounts in thousands)

Operating revenue	
Investment Revenue	\$ 205
Financing Revenue	<u>2,163</u>
Total Operating Revenue	<u>2,368</u>
Operating Expenses	
Personal Services	423
Contracted Services	26
Supplies and Materials	6
Communications	3
Travel	1
Rent	40
Indirect and Other Costs	69
OPEB Expense	2
Pension Expense	54
Debt Service	
Interest Expense	<u>1,534</u>
Total Operating Expenses	<u>2,158</u>
Operating Income (Loss)	<u>210</u>
Change In Fund Net Position	<u>210</u>
Total Fund Net Position, July 1	<u>5,225</u>
Total Fund Net Position, June 30	<u>\$ 5,435</u>

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2023  
 (amounts in thousands)

Cash Flows from Operating Activities	
Payments to Suppliers for Goods and Services	\$ (142)
Payments to Employees	<u>(455)</u>
Net Cash (Used for) Provided by Operating Activities	<u>(597)</u>
Cash Flows from Non-Capital Financing Activities:	
Payment of Interest on Bonds and Notes	<u>(464)</u>
Net Cash (Used for) Provided by Non-Capital Financing Activities	<u>(464)</u>
Cash Flows from Investing Activities:	
Collections for Principal and Interest on Loans	21,311
Cash Payments for Loans	(19,600)
Interest on Deposits/Investments	<u>205</u>
Net Cash (Used for) Provided by Investing Activities	<u>1,916</u>
Net (Decrease) Increase in Cash and Cash Equivalents	855
Cash and Cash Equivalents, July 1	<u>4,931</u>
Cash and Cash Equivalents, June 30	<u><u>\$ 5,786</u></u>

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2023  
 (amounts in thousands)

Reconciliation of Net Income to Net Cash (Used for) Operating Activities	
Net Operating Income (Loss)	\$ 210
Adjustments to Reconcile Net Income to Net Cash (Used for) Operating Activities	
Interest on Investments	(205)
Financing Income	(2,163)
Interest Expense	1,533
Change in Assets, Liabilities, Deferred Inflows, and Deferred Outflows:	
Decrease (Increase) in OPEB Deferred Outflows	3
Decrease (Increase) in Pension Deferred Outflows	12
Increase (Decrease) in Other Payables	(1)
Increase (Decrease) in Compensated Absences Payable	(3)
Increase (Decrease) in Net Pension Liability	96
Increase (Decrease) in OPEB Liability	(27)
Increase (Decrease) in OPEB Deferred Inflows of Resources	27
Increase (Decrease) in Pension Deferred Inflows of Resources	<u>(79)</u>
 Total Adjustments	 <u>(807)</u>
 Net Cash (Used for) Provided by Operating Activities	 \$ <u><u>(597)</u></u>
Schedule of Noncash Transactions:	
Increase in Short Term Debt	\$ 68,707
Decrease in Long Term Debt	<u>(68,707)</u>
 Total Noncash Transactions	 \$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

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## **NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

These financial statements present only the activity of the Enterprise Fund (the Fund) as managed by the Board of Investments (the Board). The Fund is reported as a proprietary fund within the State of Montana's (the State) Annual Comprehensive Financial Report (ACFR). Component unit activity of the Fund solely represents transactions with component units of the State and not of component units of the Fund. For a complete presentation of the State's balances and results of operations, the State's ACFR is available from the Montana Department of Administration's State Financial Services Division website <http://sfsd.mt.gov/SAB/acfr>; at Room 255 Mitchell Building, 125 North Roberts Street, PO Box 200102, Helena, MT 59620-0102 or at 406.444.3092.

### **1. DESCRIPTION OF FUND AND SIGNIFICANT ACCOUNTING POLICIES**

#### **DESCRIPTION OF FUND**

The Board uses the Fund to account for its programs created under the Municipal Finance Consolidation Act and the Economic Development Bond Act.

Municipal Finance Consolidation Act programs include:

- The INTERCAP Revolving Loan Program (INTERCAP) provides funds to eligible Montana state and local governments to finance capital expenditures for up to fifteen years or the useful life of the project, whichever is less.
- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not liable for the repayment of the bonds.
- Qualified School Construction Bond (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not liable for the repayment of the bonds.

One remaining Economic Development Bond Act program is in operation, the Conservation Reserve Enhancement Program (CRP). This program was created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The outstanding principal and interest within this program as of June 30, 2023, was \$4 thousand.

## BASIS OF ACCOUNTING

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting and have been prepared in conformity with accounting principles generally accepted in the United States for governments (GAAP) as established by the Governmental Accounting Standards Board (GASB).

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents are generally short-term, highly liquid investments with maturities of three months or less at the time of purchase and are reported at cost. For additional details, see Note 2 – Cash and Cash Equivalents.

## RECEIVABLES

Receivables primarily represent notes and loans classified in three categories as follows:

- 1) Notes and loans receivable from local governments.
- 2) Interfund notes and loans receivable from other funds of the State.
- 3) Component Unit notes and loans receivable from university units for which the State is financially accountable and are legally separate from the State.

Notes and loans generally have terms of less than 15 years. For additional detail, see Note 3 - Receivables.

## COMPENSATED ABSENCES

Compensated absences reflect the accrued benefits due to employees at the end of the fiscal year.

## PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

Information about the fiduciary net position of the Montana Public Employees Retirement Administration (MPERA) and the State Group Benefits Plan administered by the Montana Department of Administration, along with additions to and deductions from fiduciary net position have been determined on the same basis as those systems for the purposes of measuring the net pension liability and the net OPEB liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, respectively. Benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms for this purpose. Investments are measured at fair value. For additional detail, see Notes 8 – Pensions and 9 – OPEB.

## FUND NET POSITION

Fund Net Position represents the accumulated net profits of the Fund's programs, portions of which are restricted under bond indentures governing the use of these funds.



## OPERATING AND NONOPERATING REVENUES AND EXPENSES

Operating revenues reflect interest income on loans and investments, change in fair value of investments, and related investment expenses offsetting investment income. Operating expenses include interest expense, general, and administrative expenses. All revenues and expenses not meeting this definition are nonoperating.

## ACCOUNTING CHANGES

The Fund also implemented paragraphs 4 through 10 of GASB Statement No. 99, *Omnibus 2022* which allows for early adoption of particular elements of the standard. Note 4 contains disclosure of a nonexchange financial guarantee. The Fund also implemented *paragraphs 11 through 32 of the same standard*. *Beginning fund net* position was not impacted by these paragraphs.

Governmental Accounting Standards Board (GASB) Statement No. 96 – Subscription-Based Information Technology Arrangements, was implemented during the fiscal year, but did not have a material effect on the financial statements of the Fund.

## USE OF ESTIMATES

In conformity with GAAP, management may make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimated amounts.

## **2. CASH AND CASH EQUIVALENTS**

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as identified in the Statement of Fund Net Position, are as follows (amounts in thousands):

<b>CASH AND CASH EQUIVALENTS</b>		<u>June 30, 2023</u>
Cash in Treasury	\$	104
Short Term Investment Pool (STIP)		5,673
First American Government Obligation Fund		9
Total Cash and Cash Equivalents	\$	<u>5,786</u>

The Fund invests its operational cash in the Board's Short-Term Investment Pool (STIP), an external investment pool that is part of the Montana Unified Investment Program. The UIP is also managed by the Board. The Board is not registered with the U.S. Securities and Exchange Commission as an investment company. STIP is managed to preserve principal while providing daily liquidity for state agencies, component units, and local government participants. Funds may

be invested for one or more days. STIP participants own STIP shares not underlying investments. STIP is managed by the Board as a fiduciary for participants. Income is distributed monthly on a pro-rata basis. Cash and cash equivalents are reported at cost. STIP pool participation units are purchased and sold in the same manner as individuals investing in mutual funds. Therefore, the pool unit price is computed based on market prices on securities in the pool plus any additional assets, minus liabilities. The STIP participants purchase and sell units at \$1 per unit, at the participant's discretion.

The First American Government Obligation Fund is primarily comprised of cash, direct obligations of the U.S. Government, securities that will mature within one day, and similar investments. It is priced at a Net Asset Value of \$1 per share, but without a guarantee of stability. The fund traded at \$1.0000 per share as of fiscal year end.

#### CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the Board's custodial bank must be rated at a minimum, at the 6<sup>th</sup> largest investment grade rating by at least two Nationally Registered Statistical Ratings Organizations (NRSROs) and is reviewed on an annual basis.

#### CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. Investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds are excluded from the concentration of credit risk requirement.

#### CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

#### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. STIP interest rate risk is determined using the Weighted Average Maturity (WAM) method. As of June 30, 2023, the WAM for STIP was 57 days.

According to the STIP IPS, "The STIP portfolio will minimize interest rate risk by:

- 1) Structuring the investment portfolio so securities mature to meet cash requirements

for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity.

- 2) Maintaining a dollar-weighted average portfolio maturity (WAM) of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
- 3) STIP will maintain a reserve account."

Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value as of June 30<sup>th</sup>, the Board deemed the cash equivalents to have little discernible credit or interest rate risk.

### 3. RECEIVABLES

The INTERCAP loan program loans money to local governments, Interfund - Other Funds of the State and Component Unit of the State. Amounts related to the notes / loan receivable identified in the Statement of Fund Net Position as of June 30<sup>th</sup> are detailed as follows (amounts in thousands):

NOTE/LOAN RECEIVABLES					
	Local Government	Interfund - Other Funds of State	Component Unit of the State	Total	
Notes/Loans Receivable - ST	\$ 6,772	\$ 1,907	\$ 1,078	\$	9,757
Notes/Loans Receivable - LT	43,340	9,235	6,366		58,941
Interest Receivable	1,031	120	159		1,310
	<u>\$ 51,143</u>	<u>\$ 11,262</u>	<u>\$ 7,603</u>	<u>\$</u>	<u>70,008</u>

The Interfund (state agencies and other funds of the state) and Component Unit (State of Montana) note / loan receivables are further delineated as follows (amounts in thousands):

INTERFUND / COMPONENT UNIT RECEIVABLE BY FUND TYPE / CU					
	Interfund - Other Funds of the State		Component Unit of the State		
	Internal		Montana State		
	Debt Service	Service Fund	University	Total	
Interfund	\$ 15	\$ 11,127	\$ -	\$	11,142
Component Unit	-	-	7,444		7,444
Interest Receivable	-	120	159		279
	<u>\$ 15</u>	<u>\$ 11,247</u>	<u>\$ 7,603</u>	<u>\$</u>	<u>18,865</u>

#### 4. BONDS PAYABLE

The Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate to more than \$190 million by statute. The INTERCAP bonds provide funds for the Board to make loans to eligible government units.

##### GENERAL INFORMATION

On November 30, 2021, the Board adopted Resolution 249 which allowed for the redemption of all outstanding bonds of the INTERCAP program and the issuance of a new bond to the Board of Investments Unified Investment Program. The issuance of the new bond provided efficiencies in obtaining sources of funds and created savings to the INTERCAP program. The INTERCAP program benefited by decreases in bond counsel, remarketing, and credit enhancement fee costs.

Included in current bonds payable is \$68.7 million of a special, limited obligation bond of the Board payable solely from and secured by the revenues derived by the INTERCAP Loan Program under the Municipal Finance Consolidation Act. The Board has adopted Resolution 249 which allows for the issuance of a new bond annually beginning in February 2023. The new bond is considered short-term debt, with a one-year maturity from date of issuance. New debt is renewed annually as of February 21<sup>st</sup>, upon agreement between the Fund and the holder of the bond. The bond issued upon adoption of Resolution 249 was issued in January 2022 with a maturity of February 2023, and accordingly, was treated as a long-term obligation.

The principle of the bond can be advanced as needed up to a maximum of \$120 million. The bond is callable at any time. The interest rate on principal and any advances is 5.069% until February 20, 2024. There is no set expiration on the agreement. If the issuer and holder do not agree to renew the bond, there is one final renewal. The bond interest rate for the renewal period will be determined on February 15<sup>th</sup> and will be equal to the midpoint yield of the US Treasury Bill with the maturity closest to 365 days plus ten basis points. Interest is paid semi-annually on February 20<sup>th</sup> and August 20<sup>th</sup>. Interest is calculated based on a three hundred sixty-day year composed of twelve thirty-day months.

##### SHORT-TERM DEBT

Enterprise short-term bonds were outstanding as of June 30<sup>th</sup>, as follows (amounts in thousands):

<b>SHORT-TERM BONDS PAYABLE</b>				
<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>	<u>Balance June 30, 2023</u>
2022	\$ 68,707	Variable	2/20/2024	\$ 68,707
Bonds Payable	<u>\$ 68,707</u>			<u>\$ 68,707</u>

The INTERCAP program does not have principal payments except in the instance of an optional redemption by the Board.

The following schedule summarizes the short-term bond activity during the fiscal year (amounts in thousands):

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ -	\$ 68,707	\$ -	\$ 68,707

The bonds are payable with a one-year renewable option to the Unified Investment Program (UIP). Assuming the current variable rate of interest on the bonds of 5.069%, the following represents the projected debt service requirements as of June 30<sup>th</sup> as follows (amounts in thousands):

<b>Fiscal Year End</b>	<b>Principal *</b>	<b>Interest</b>
2024	\$ -	\$ 3,483
2025	\$ -	\$ 3,483
2026	\$ -	\$ 3,483
2027	\$ -	\$ 3,483
2028	\$ -	\$ 3,483
2029-2033 per year	\$ -	\$ 3,483
* Bond renewed annually.		

#### LONG - TERM DEBT

The following schedule summarizes the long-term bond activity during the fiscal year (amounts in thousands):

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 68,707	\$ -	\$ (68,707)	\$ -

#### BOND / LOAN GUARANTEES

As of June 30th, the Fund had received a nonexchange financial guarantee from the Coal Severance Tax Trust Fund and the Treasurer's Cash Fund for exposure to INTERCAP bond issues of \$68.7 million. Both the Coal Severance Tax Trust Fund and the Treasurer's Fund are part of the primary government for the State. The Board manages the Treasurer's Cash Fund which consists of fund balances of all the funds for the State whose investments earnings are permitted by law to flow to the debt and liability free account. The nonexchange financial guarantee was extended through the Board's management of the UIP. The amounts disclosed were measured prospectively from the date of implementation of GASB Statement No. 99, *Omnibus 2022*, paragraph 7 (July 1, 2022), and are not the actual amounts paid. The amounts represent the potential liability of the Fund and are guaranteed for the duration of the bond, which is one year. The Board has not had to perform on any loan guarantee in the past.

## 5. CHANGES IN OTHER LONG-TERM OBLIGATIONS

The Fund long-term activities for the year ended June 30<sup>th</sup>, were as follows (amounts in thousands):

CHANGES IN OTHER LONG-TERM OBLIGATIONS						
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Compensated Absences	\$ 70	\$ 66	\$ (70)	\$ 66	\$ 43	\$ 23

## 6. CONDUIT DEBT OBLIGATIONS

### QZAB DEBT

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit debt. The revenues, and in some cases the taxing power, of the obligors (borrowers) are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected in the Board's financial statements. The obligors have set money aside to be used for the repayment of these bonds in accounts that are held in trust by the Board in the amount of \$2.0 million. This amount is reported within a fiduciary fund for the State. Bonds issued and outstanding by the Board as QZAB conduit debt obligations are listed as follows (amounts in thousands):

CONDUIT DEBT OBLIGATIONS QZAB				
Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2023
Kalispell Elementary	October 2013	06/15/28	620	620
Kalispell High School	October 2013	06/15/28	1,587	1,587
Anaconda Elementary	August 2017	06/15/32	658	658
Anaconda High School	August 2017	06/15/32	707	707
Total Conduit Debt Obligations - QZAB			<u>\$ 3,572</u>	<u>\$ 3,572</u>

### QSCB DEBT

In this program, the Board is authorized to issue Qualified School Construction Bonds (QSCB), under the Municipal Finance Consolidation Act, as conduit debt. The revenues of the obligor are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected in the Board's financial statements. Bonds issued and outstanding by the Board as QSCB conduit debt obligations are as follows (amounts in thousands):

CONDUIT DEBT OBLIGATIONS QSCB				
<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2023</u>
Great Falls High Schools	April 2011	12/15/25	\$ 1,855	\$ 419
Great Falls Elementary	April 2011	12/15/25	6,510	1,470
Total Conduit Debt Obligations - QSCB			\$ 8,365	\$ 1,889

## 7. INTERCAP PROGRAM COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments as of June 30<sup>th</sup> totaled \$27.7 million.

## 8. PENSIONS

### DESCRIPTION OF PLANS

The Board and its employees contribute to either the Public Employees' Retirement System (PERS)-Defined Benefit Retirement Plan (DBRP) or the PERS-Defined Contribution Retirement Plan (DCRP). Both the DBRP and the DCRP are administered by MPERA. The DBRP is a multiple-employer, cost-sharing plan. The DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

All new members are initially members of the DBRP and have a 12-month window during which they may choose to remain in the DBRP or join the DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans.

Benefits are established by state law and can only be amended by the Legislature. DBRP Benefits are dependent upon eligibility, years of service and highest average compensation (HAC). Member rights are vested after five years of service.

The stand-alone financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, 406.444.3154 or both are available on the MPERA website at <https://mpera.mt.gov/about/annualreports1/annualreports>. The information contained within MPERA's ACFR will only display information regarding PERS in total and will not display information specific to the Fund as an entity. The Fund's activity is reported within the Department of Commerce GASB 68 employer report as prepared by MPERA and represents 2.06% of the agency's liability and .01% of the total liability for all employers for the fiscal year.

NET PENSION LIABILITY (NPL) - DBRP

At year end, the Fund recorded a liability of \$350 thousand for its .01% proportionate share of the DBRP NPL and \$54 thousand for its proportionate share of the pension expense. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period.

SUMMARY OF BENEFITS - DBRPMember's highest average compensation (HAC)

Hired prior to July 1, 2011,	HAC during any consecutive 36 months.
Hired on or after July 1, 2011,	HAC during any consecutive 60 months.

Compensation Cap

Hired on or after July 1, 2013,	110% annual cap on compensation considered as part of a member's HAC.
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Vesting

5 years of membership service

Eligibility for benefit*Service retirement:*

Hired prior to July 1, 2011,	Age 60, 5 years of membership service, or 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:*

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.

*Second Retirement* (requires returning to PERS-covered employment or PERS service)  
*Retired before January 1, 2016, and accumulate less than 2 years additional service credit, or*

*Retired on or after January 1, 2016, and accumulate less than 5 years additional service credit:*

- A refund of member's contributions plus regular interest (currently 2.02% effective July 1, 2018),
- No service credit for second employment,
- Start the same benefit amount the month following termination, and
- GABA starts again in the January immediately following the second retirement.



*Retired before January 1, 2016, and accumulate at least 2 years of additional service credit:*

- A recalculated retirement benefit based on provisions in effect after the initial retirement, and
- GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

*Retired on or after January 1, 2016, and accumulate 5 or more years of service credit:*

- The same retirement as prior to the return to service,
- A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date, and
- GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

#### Monthly Benefit Formula

Members hired prior to July 1, 2011

- Less than 25 years of membership service: 1.785% of HAC per year of service credit, or
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011

- Less than 10 years of membership service: 1.5% of HAC per year of service credit,
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit, or
- 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 each January, inclusive of other adjustments to the member's benefit.

- 3.0% 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:
  - 1.5% for each year PERS is funded at or above 90%,
  - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%. and
  - 0.0% whenever the amortization period for PERS is 40 years or more.

#### OVERVIEW OF CONTRIBUTIONS

The State Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Currently, plan members are required to contribute 7.90% of members' compensation. By statute, the members' 7.90% contributions are temporary and will be decreased to 6.90% 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.

As the employer, the State was required to contribute 9.07% of members' compensation for the fiscal year. Effective July 1, 2014, the 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, terminates 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 contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

PERS received 100% of the required contributions from the Fund in the amount of \$25 thousand for the fiscal year.

#### ACTUARIAL ASSUMPTIONS – DBRP

The total pension liability as of June 30, 2022, was determined on the results of an actuarial valuation date of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement. Among those assumptions were the following:

- Investment Return (net of investment expense) 7.30%
- General Wage Growth, (which includes inflation at 2.75%) 3.50%
- Merit Increases 0.00% to 4.80%
- 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.
  - 3.0% 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:
      - 1.5% for each year PERS is funded at or above 90%,
      - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%, and
      - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions for active participants are based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021. Projected generationally using MP-2021.
- Mortality assumptions for disabled retirees are based on PUB-2010 General Amount Weighted Disabled Retiree Mortality table, projected to 2021, set forward one year.

- Mortality assumptions for contingent survivors are based on PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year. Projected generationally using MP-2021.
- Mortality assumptions for healthy retirees are based on PUB-2010 General Amount Weighted Healthy Retiree Mortality table projected to 2021, with ages set forward one year and adjusted 104% for males and 103% for females. Projected generationally using MP-2021.

#### CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following changes in assumptions or other inputs were made that affected the measurement of the TPL:

- The discount rate was increased from 7.06% to 7.30%.
- The investment rate of return was increased from 7.06% to 7.30%.
- All mortality tables were updated to the PUB-2010 tables for general employees.
- The rates of withdrawal, retirement, and disability were updated.
- The payroll growth assumption was lowered from 3.50% to 3.25%.
- The inflation rate was increased from 2.40% to 2.75%.

#### DISCOUNT RATE - DBRP

The discount rate used to measure the Total Pension Liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under Montana Code Annotated. In addition, the State contributed a statutory appropriation from the General Fund.

Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. 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.

#### TARGET ALLOCATIONS – DBRP

The long-term expected return on pension plan investments is reviewed as part of the regular experience studies prepared for the Plan about every five years. The long-term rate of return as of the plan's measurement date of June 30, 2022, is based on analysis in the experience study report dated May 2, 2022, without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense, and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop 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 (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, are summarized in the following table:

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return Arithmetic Basis</b>
Cash	3.0%	-0.33%
Domestic Equities	30.0%	5.90%
International Equities	17.0%	7.14%
Private Investments	15.0%	9.13%
Real Assets	5.0%	4.03%
Real Estate	9.0%	5.41%
Core Fixed Income	15.0%	1.14%
Non-Core Fixed Income	6.0%	3.02%
<b>Total</b>	<b>100.0%</b>	

#### SENSITIVITY ANALYSIS – DBRP

The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.30%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate (amounts in thousands).

<b>Net Pension Liability Sensitivity</b>	<b>1.0% Decrease (6.30%)</b>	<b>Current Discount (7.30%)</b>	<b>1.0% Increase (8.30%)</b>
Enterprise Fund	\$ 504	\$ 350	\$ 220

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - DBRP

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used for the purposes of determining the NPL, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, the Fiduciary Net Position, and additions to/deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due, and 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.

The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers. The State contributed a Statutory Appropriation from the General Fund of \$34.6 million to the Plan. The change in the Fund's proportionate share of the Plan was determined as follows:

<b>As of Measurement Date June 30, 2022</b>	<b>NPL (amounts in thousands)</b>	<b>Percent of Collective NPL</b>	<b>Change in Percent of Collective NPL</b>
Fund Proportionate Share	\$ 350	0.015%	0.001%
State of Montana Proportionate Share associated with Employer	100	0.004%	-0.393%
<b>Total</b>	<b>\$ 450</b>	<b>0.019%</b>	<b>-0.392%</b>

#### DEFERRED PENSION INFLOW / OUTFLOW - DBRP

At year end, the Fund reported its proportionate share of the DBRP's deferred outflows of resources and deferred inflows of resources from the following sources (amounts in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference Between Expected vs. Actual Experience	\$ 5	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	10	-
Change of Assumptions	13	26
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	16	-
Contributions Subsequent to the Measurement Date	25	-
<b>Total</b>	<b>\$ 69</b>	<b>\$ 26</b>

Amounts reported as deferred outflows of resources related to pensions resulting from the Fund's contributions after the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows (amounts in thousands):

<b>For the Measurement Year Ended June 30:</b>	<b>Recognition of Deferred Outflows / Inflows in Future Years</b>
2023	\$ 16
2024	(10)
2025	(11)
2026	23
Thereafter	-

#### THE PERS-DEFINED CONTRIBUTION RETIREMENT PLAN (DCRP)

The PERS-DCRP is a defined contribution multiple-employer plan. DCRP benefits are based on eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after five years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per statute. Forfeitures are used to cover the administrative expenses of the DCRP.

At the plan level for the measurement period ended June 30, 2022, the DCRP employer did not recognize any NPL or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 344 employers that have participants in the DCRP totaled \$1.7 million.

### **9. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

#### GENERAL INFORMATION ABOUT THE NON-TRUST PLAN

The Fund participates in the State's OPEB plan provided in accordance with Section 2-18-704, MCA. The plan pays for post-employment healthcare benefits on a pay-as-you-go basis. This coverage applies to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State OPEB plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems and elect to start medical coverage within 60 days of leaving employment. Further details on state retirement plans are provided in Note 8.

#### PLAN DESCRIPTION

The OPEB plan is a single - employer defined benefit OPEB plan administered by statute by the Montana Department of Administration (DOA) Health Care and Benefits Division (HCBDB). The

Fund is reported within the primary government for reporting purposes.

The State pays for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-812, MCA gives the authority for establishing and amending the funding policy to the DOA. The healthcare OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

As of December 31, 2022, the State OPEB Plan's administratively established retiree medical contributions vary between \$466.00 and \$2,272.00 per month depending on coverage selected. Administratively established dental contributions vary between \$41.10 and \$70.00 per month, and vision hardware contributions vary between \$7.64 and \$22.26 per month, depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for Medicare.

#### BASIS OF ACCOUNTING

The OPEB liability is reported on an accrual basis. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable.

#### SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

The Fund's total OPEB liability of \$9 thousand is approximately 0.03% of the total primary government OPEB liability of \$30 million as measured on June 30, 2023. The following table presents the other items related to and changes in total OPEB liability (amounts in thousands):

	<b>Fund Share Total OPEB Liability</b>
Balance at 6/30/2022	\$ 37
Changes for the Year:	
Service Cost	2
Interest	1
Difference Between Expected and Actual Experience	(17)
Changes of Assumptions or Other Inputs	(13)
Benefit Payments	(1)
Net Changes	(28)
Balance at 6/30/2023	\$ 9

The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, rolled forward to March 31, 2023.

#### ACTUARIAL METHODS AND ASSUMPTIONS

The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<b>Contributions</b>	<b>Retiree / Surviving Spouse</b>	<b>Spouse</b>
(weighted average)		
Before Medicare Eligibility	\$15,372	\$7,370
After Medicare Eligibility	5,592	5,213
Actuarial Valuation Date	December 31, 2022	
Experience Study Period	January 1, 2022 through December 31, 2022	
Actuarial Measurement Date	March 31, 2023	
Actuarial Cost Method	Entry age normal funding method	
Amortization Method	Level percent of payroll, open basis	
Asset Valuation	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial Assumptions:		
Discount Rate	3.98%	
Projected Payroll Increases	3.50%	
Participation		
Future Retirees	40.00%	
Future Eligible Spouses	70.00%	
Marital Status At Retirement	70.00%	

#### *Mortality - Health*

Healthy mortality is assumed to follow the Pub-2010 General Employee table, projected generationally using MP-2021.

#### *Mortality – Disabled*

Disabled mortality is assumed to follow the Pub-2010 General Disabled table set forward 1 year for males and females, projected generationally using MP-2021.

#### *Changes in actuarial assumptions and methods since last measurement date:*

The discount rate increased from 3.31% to 3.98%.

#### *Changes in benefit terms since last measurement date:*

None.

#### SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the total OPEB liability of the Fund, as well as what the Fund's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower



(2.98%) or 1-percentage-point higher (4.98%) than the current discount rate (amounts in thousands):

<b>Net OPEB Liability Sensitivity</b>	<b>1% Decrease (2.98%)</b>	<b>Discount Rate (3.98%)</b>	<b>1% Increase (4.98%)</b>
Enterprise Fund	\$12	\$9	\$7

#### SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The actuarially assumed projected healthcare cost trend rates are 6.5% for the 2023 Plan Year, decreasing to 3.9% by the 2074 Plan Year and beyond. For Prescription Drug Benefits, actuaries assumed a 9% rate for the 2023 Plan Year decreasing also to 3.9% for the 2074 Plan Year and beyond, with an average of 6.5% to 9% for all years.

The following presents the total OPEB liability of the Fund, as well as what the Fund's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5%/8%) or 1-percentage-point higher (7.5%/10%) than the current healthcare cost trend rates (amounts in thousands):

<b>Net OPEB Liability Sensitivity</b>	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rate (6.5%/9%)</b>	<b>1% Increase</b>
Enterprise Fund	\$7	\$9	\$12

#### OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2023, the Fund recognized OPEB expense of \$2 thousand. On June 30, 2023, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (amounts in thousands):

	<b>Deferred Outflows of Resources</b>		<b>Deferred Inflows of Resources</b>	
Differences Between Expected and Actual Experience	\$	-	\$	20
Changes of Assumptions and Other Inputs		28		26
Total	\$	28	\$	46

Deferred outflows of resources and deferred inflows of resources related to total OPEB liability will be recognized as OPEB expense as follows (amounts in thousands):

<b>Year Ended June 30</b>	<b>Amount Recognized In OPEB Expense As An Increase Or (Decrease) To OPEB Expense</b>
2024	\$ (1)
2025	(1)
2026	(1)
2027	(1)
2028	(1)
Thereafter	(11)

#### GENERAL INFORMATION ABOUT THE PERS-DCRP DISABILITY PLAN

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana employees that participate in the Public Employee's Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability Plan.

The PERS-DCRP Disability is a multiple-employer cost-sharing plan that covers employees of the State who are not covered by a separate retirement system governed by Title 19, MCA. The plan provides disability benefits to plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust was established to provide disability benefits to plan members, and it is accounted for as a fiduciary fund of the State. The assets are held in a trust capacity for the beneficiaries. The PERS issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following: Public Employee Retirement Board, PO Box 200131, Helena MT 59620-0131.

## **10. SUBSEQUENT EVENTS**

Since June 30<sup>th</sup>, the Board made additional commitments to fund loans from the INTERCAP loan program of approximately \$4.6 million. Refer to Note 7 – INTERCAP Program Commitments for further detail. In addition, the Board requested an additional advance of \$2.0 million in November 2023 to cover INTERCAP fundings. Refer to Note 4 – Bonds Payable for further detail.

**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

## PENSION LIABILITY AS AN EMPLOYER ENTITY

RSI regarding the pension information is as follows. As additional years of data are available, 10 years will be presented. For further details, see Note 8 – Pensions.

<b>SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY</b> <b>LAST 9 FISCAL YEARS</b> (amounts in thousands except percentages)									
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Fund's Proportion of NPL	0.01%	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.02%	0.02%
Fund's Proportionate Share of NPL	\$ 350	\$ 254	\$ 404	\$ 269	\$ 345	\$ 419	\$ 385	\$ 291	\$ 245
State of Montana's Proportionate Share of NPL Associated with the Fund	\$ 100	\$ 72	\$ 123	\$ 84	\$ 111	\$ -	\$ -	\$ -	\$ -
Employer's Covered Payroll	\$ 272	\$ 250	\$ 289	\$ 210	\$ 269	\$ 264	\$ 307	\$ 241	\$ 220
Fund's Proportionate Share of NPL as a Percent of Covered Payroll	128.68%	101.60%	139.79%	128.10%	128.35%	159.92%	125.41%	120.75%	111.36%
Plan Fiduciary Net Position as a Percent Total Pension Liability	73.66%	79.91%	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%

<b>SCHEDULE OF CONTRIBUTIONS</b> <b>LAST 9 FISCAL YEARS</b> (amounts in thousands except percentages)									
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contributions	\$ 23	\$ 22	\$ 23	\$ 18	\$ 23	\$ 22	\$ 51	\$ 21	\$ 19
Contributions Made	\$ (23)	\$ (22)	\$ (23)	\$ (18)	\$ (23)	\$ (22)	\$ (51)	\$ (21)	\$ (19)
Contribution Deficiency/(Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's Covered Payroll	\$ 272	\$ 250	\$ 289	\$ 210	\$ 269	\$ 264	\$ 307	\$ 241	\$ 220
Contributions As A Percent Of Covered Payroll	8.46%	8.80%	7.96%	8.57%	8.56%	8.33%	16.61%	8.71%	8.64%

### NOTES TO PREVIOUS SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION:

#### RESTATEMENT OF REQUIRED SUPPLEMENTARY INFORMATION

There was an error in the calculation in the previous year tables; however, there is no impact to the Fund's previously issued financial statements. The changes were applied to Employer's Covered Payroll, the Fund's proportionate share of NPL as a percent of covered payroll, contractually required contributions, and contributions made.

## CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following Actuarial Assumptions and methods were used to determine contribution rates reported for fiscal year ending June 30, 2022, which were based on the results of the June 30, 2021, actuarial valuation:

- General Wage Growth 3.50%,
- Investment Rate of Return 7.65%, which includes inflation at 2.75%,
- Merit salary increase 0% to 8.47%,
- Asset valuation method: Four-year smoothed market,
- Actuarial cost method: Entry age Normal,
- Amortization method: Level percentage of payroll, open,
- Remaining amortization period: 30 years,
- Mortality (Healthy members): For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year,
- Mortality (Disabled members): For Males and Females: RP 2000 Combined Mortality Table, with no projections, and
- Administrative Expense as percentage of Payroll: 0.29%.

Administrative expenses are recognized by an extra amount added to the System's normal cost contribution rate. This amount will vary from year to year based on the prior year's actual administrative expenses.

The actuarial assumptions and methods utilized in the June 30, 2021, valuation, were developed in the six-year experience study for the period ending 2016.

## CHANGES OF BENEFIT TERMS

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

2017:

### *Working Retiree Limitations:*

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

### *Refunds:*

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

*Interest credited to member accounts:*

Effective July 1, 2017, the interest rate credited to member accounts increased from .25% to .77%.

*Lump sum payouts:*

Effective July 1, 2017, lump-sum payouts are limited to the member's accumulated contributions rather than the present value of the member's benefit.

**OTHER POST EMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)**

The State of Montana plan allows retirees to participate, as a group, at a rate that does not cover all related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures. For further details, see Note 9 – OPEB.

The following information is presented to reflect the funding progress of the OPEB plan as it relates to the Fund. As additional data is available, 10 years will be presented.

<b>SCHEDULE OF TOTAL OPEB LIABILITY AND RELATED RATIOS</b> <b>LAST 6 FISCAL YEARS</b> (amounts in thousands except percentages)						
	2023	2022	2021	2020	2019	2018
Proportion of Total OPEB Liability	0.03%	0.03%	0.03%	0.03%	0.04%	0.04%
Proportionate Share of Total OPEB Liability	\$ 9	\$ 37	\$ 45	\$ 14	\$ 20	\$ 19
Covered Employee Payroll	\$ 230	\$ 217	\$ 207	\$ 207	\$ 276	\$ 253
Total OPEB Liability as a Percentage Of Covered Payroll	3.91%	17.05%	21.74%	6.76%	7.25%	7.51%

## Notes to Schedule:

No assets are set aside to fund the OPEB benefits. The State funds the benefits on a pay-as-you-go basis from general assets.

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

*June 30, 2023:* Changes in assumptions for 2023 were due to an increase in the discount rate from 3.31% to 3.98%.

*June 30, 2022:* Changes in assumptions for 2022 were due to an increase in the discount rate from 2.23% to 3.31%.

*June 30, 2021:* Changes in assumptions for 2021 were due to no retiree contribution increase and a decrease in the discount rate from 2.75% to 2.23%.

*June 30, 2020:* Changes in actuarial assumptions include a participation rate reduction from 55% to 40% based on recent experience study, a revision to rates per the Retirement System pension valuations as of July 1, 2019, and the interest / discount rate was based on the average of multiple March 31, 2020, municipal bond rate sources.

*June 30, 2019:* Changes in actuarial assumptions include interest rate based upon March 31, 2019, 20-year municipal bond index.

*June 30, 2018:* Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GAAP. Changes in actuarial assumptions included revised rates per retirement system pension valuations as of July 1, 2017, and interest rate based upon the March 31, 2018, 20-year municipal bond index. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

#### CHANGES IN BENEFIT TERMS

*June 30, 2018:* Medical plans moved from Cigna to Allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.





# **Report on Internal Control and Compliance**



# LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Unified Investment Program and Enterprise Fund Program of the Montana Board of Investments, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated December 6, 2023.

### *Report on Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Report on Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 6, 2023

MONTANA BOARD OF  
INVESTMENTS

BOARD RESPONSE



# MONTANA

## BOARD OF INVESTMENTS

December 12, 2023

Angus Maciver, Legislative Auditor  
Legislative Audit Division  
Room 160 State Capitol Building  
PO Box 201705  
Helena MT 59620-1705

RECEIVED  
December 13, 2023  
LEGISLATIVE AUDIT DIV.

Mr. Maciver:

I am in receipt of the Financial-Compliance Audit dated December 2023 for the fiscal year ending June 30, 2023, issued by the Legislative Audit Division. There are no recommendations.

Thank you to Shandell VanDonsel, Courtney Johnson, Shira Lee, and Karen Cohlhepp for their knowledge and professionalism during the audit process.

Sincerely,



Dan Villa  
Executive Director

Cc: Jack Prothero, Chair  
Mark Barry, Chair of Board's Audit Committee