A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana Board of Investments

For the Fiscal Year Ended June 30, 2019

JANUARY 2020

LEGISLATIVE AUDIT
DIVISION

18-04B

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Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. 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 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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Audit Staff

Jeane Carstensen-Garrett
Jessica Curtis
Jennifer Erdahl
Katie Majerus
Delsi Osmanson

Reports can be found in electronic format at:
https://leg.mt.gov/lad/audit-reports

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report of the Montana Board of Investments for the fiscal year ended June 30, 2019. Included in this report are financial statements of the board's Unified Investment Program and Enterprise Fund Program. We issued unmodified opinions on the financial statements for these programs.

We performed this audit of the board in compliance with the Montana Constitution and state law. Our audit work included analyzing the financial statements, note disclosures, and required supplementary information, as well as examining the underlying financial activity, and testing selected control systems. The report does not contain any recommendations to the board.

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

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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Appointed and Administrative Officials

			Term Expires January 1
Montana Board of Investments	Karl Englund, Chairman	Missoula	2023
	Mark Noennig, Vice Chair	Billings	2021
	Teresa Olcott Cohea	Helena	2023
	Jim Edwards	Helena	2021
	Diane Fladmo	Helena	2023
	Jeffery Greenfield	Shepherd	2021
	Bruce Nelson	Bozeman	2023
	Maggie Peterson	Anaconda	2021
	Jack Prothero	Great Falls	2021
	Fred Thomas	Senate Liaison	
	Jim Hamilton	House of Representatives Liaison	

Administrative Officials

Dan Villa, Executive Director/Acting Chief Investment Officer

Peggy MacEwen, Deputy Director (effective December 2019)

Geri Burton, Deputy Director (through November 2018)

Joe Cullen, Chief Investment Officer (through July 2019)

Julie Feldman, Financial Manager

Louise Welsh, Acting Deputy Director (November 2018-December 2019)

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

Dan Villa, Executive Director
P.O. Box 200126
Helena, MT 59620-0126

e-mail: dvilla@mt.gov

Montana Legislative Audit Division

Financial Audit
Montana Board of Investments
For the Fiscal Year Ended June 30, 2019

January 2020 18-04B Report Summary

The Montana Board of Investments managed a combined $19.6 billion of investments for state entities and local governments as of June 30, 2019, with $11.5 billion exclusively held for the Teachers' and Public Employees' Retirement Systems. Additionally, the board had approximately $105 million in bonds payable and $80.5 million in loans receivable as of June 30, 2019, associated with the Intermediate Term Capital Program. Our audit work included analyzing the financial statements, note disclosures, and required supplementary information for the Unified Investment Program and the Enterprise Fund Program.

Context

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 public retirement system funds and state compensation insurance fund assets, in accordance with state law and the Montana Constitution. In addition, the board manages the investments of state agencies and certain local governments, such as cities, counties, and school districts.

To manage the UIP, the board has created three investment pools that operate similarly to mutual funds. State agencies and local governments may participate in the Short-Term Investment Pool (STIP) and the Trust Funds Investment Pool (TFIP), provided they meet the requirements for participation. The state's retirement systems are the only eligible participants for the Consolidated Asset Pension Pool (CAPP). The board also manages direct investments for eligible state agencies, including the investments of the Montana State Fund. These investments are commonly referred to as Separately Managed Investments (SMI).

As of, and for the fiscal year ended June 30, 2019, the board managed approximately $19.5 billion of investments in the UIP. Approximately 60 percent of those investments were in the CAPP, which holds investments exclusively for the Teachers and Public Employees Retirement Systems. Additionally, the board distributed approximately $205 million in income to participants of the STIP, TFIP, and SMI. CAPP does not distribute income to participants. The fair value of investments managed through the UIP increased approximately $976 million from June 30, 2018, to June 30, 2019.

The board also administers the state's Municipal Finance Consolidation Act (MFC) and the Economic Development Bond Act (EDB) programs which comprise the Enterprise Fund Program. Under the MFC Act, the board is authorized to issue up to $190 million in bonds. The proceeds of the Intermediate Term Capital (INTERCAP) bonds issued under the MFC are loaned to eligible Montana governments to finance capital improvements or other needs as authorized by law. The board makes firm commitments to fund loans through the INTERCAP program. At June 30, 2019, the board had approximately $105 million in bonds payable and $81 million in loans receivable

(continued on back)

for the INTERCAP program. Additionally, the board had $33 million in outstanding INTERCAP loan commitments as of the end of fiscal year 2019.

In addition to the INTERCAP program, under both the MFC and EDB acts, the board is authorized to provide governments with access to financing through the issuance of conduit (no-commitment) debt. Assets and revenues of the borrowers are pledged to repay the debt. Because the board has no obligation for this debt, the bonds are not reflected on the Enterprise Fund Program financial statements. They are, however, disclosed in the notes. At June 30, 2019, the total conduit debt outstanding under the MFC Act was $9.5 million, and there was no debt outstanding under the EDB Act.

Results

The Montana Constitution and state law require annual audits of the board. The board issues separate financial statements for the UIP and Enterprise Fund Program. Our audit work included analyzing the financial statements, note disclosures, and required supplementary information, as well as examining the underlying financial activity and tying it to support from external parties for both programs. Our work also included testing selected control systems related to the programs.

We followed up on the recommendation made in the prior audit report, related to a significant deficiency and a material weakness in internal controls over financial reporting. We determined the board implemented the prior audit recommendation and this report does not contain any additional recommendations to the board.

Chapter I – Introduction

Introduction

We performed a financial audit of the Montana Board of Investments (board) for the fiscal year ended June 30, 2019. The objectives of the audit were to:

1. Obtain an understanding of the board's control systems to the extent necessary to support an audit of the board's financial statements, and, if appropriate, make recommendations for improvement in management and the internal controls of the board.
2. Determine whether the board's Unified Investment Program financial statements present fairly the fiduciary net position and the changes in fiduciary net position of the program for the fiscal year ended June 30, 2019.
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 for the fiscal year ended June 30, 2019.
4. Determine compliance with selected state laws and regulations considered to have a direct effect on the determination of material amounts and disclosures in the financial statements.
5. Determine the implementation status of the prior audit recommendation.

Our audit efforts of the board's Unified Investment Program (UIP) focused primarily on cash and cash equivalent and investment balances, as well as purchases and sales by participants, net investment income, and income distributions to participants. We analyzed the financial statements, note disclosures, required supplementary information, and supplementary information, as well as examined the underlying financial activity. As part of this work, we compared investment-related transactions and balances recorded by the board to the reports of its custodial bank, which is charged with the safekeeping of the investment assets. In this role, the bank settles purchases and sales of securities, collects information regarding the assets and related income, and provides information and support to the board for its administration of the UIP. We also tested control systems related to the program.

Our audit efforts of the board's Enterprise Fund Program focused primarily on cash and cash equivalent, 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, as well as examined the underlying financial activity. As part of this work, we performed testing on a sample of loans with draws during the audit period. We also tested control systems related to the program.

Background

The board is allocated 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. The board's Chief Investment Officer (CIO) resigned in July 2019. Per the board's Governance Policy, the Executive Director is the acting CIO until the board hires a replacement in 2020. The staff members advise the board, implement board decisions, and perform daily investment, loan management, and record-keeping functions.

To manage the UIP, the board has created investment pools that operate similarly to mutual funds. The board establishes investment policies for each pool, outlining the investment strategy for the pools. The board's objectives for each of the pools, as well as information on the pool participants, are presented below:

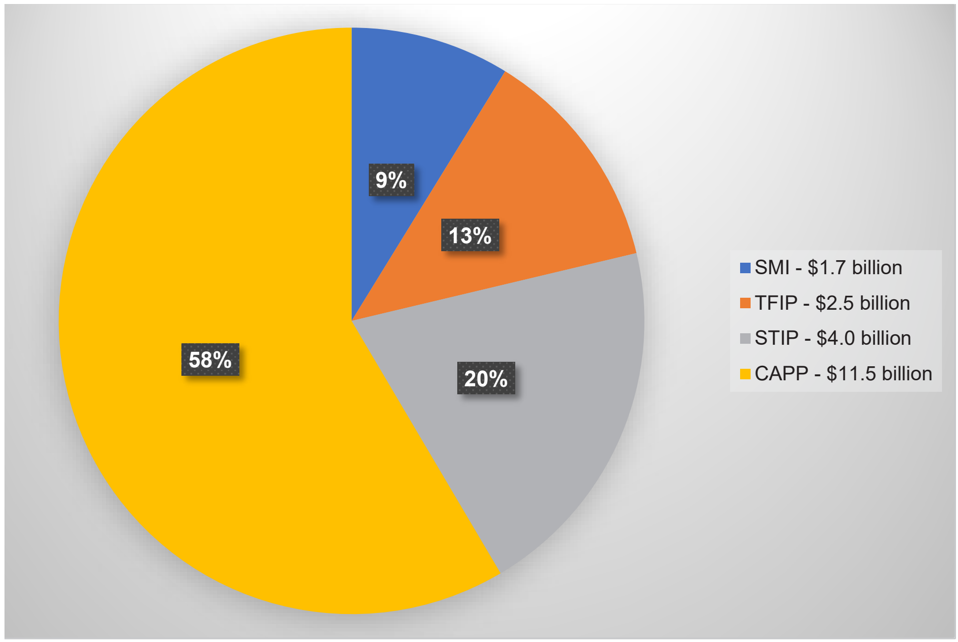
- **Short-Term Investment Pool (STIP):** The pool is designed to achieve a high level of management income that is compatible with the preservation of principal, providing participants with liquidity with one-day notification. State agencies, the state's retirement systems, and local governments are eligible to participate in STIP.
- **Trust Funds 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. CAPP participants are limited to the state's retirement systems. CAPP was established in fiscal year 2017 by consolidating the five pools previously used to manage pension investments into a single pool.

In addition to these pools, the board manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. These investments are reported collectively in the board's UIP financial statements as Separately Managed Investments (SMI). Figure 1 and Table 1 on page 3 present information on the investments managed in the pools and SMI at June 30, 2019. For more information on the investments managed by the board, refer to the note disclosures beginning on page A-12.

Figure 1

Total Investments Managed by Unified Investment Program Pools and Separately Managed Investments (SMI)

June 30, 2019



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

Table 1

Unified Investment Program Pool Investments by Type - June 30, 2019

(in thousands)

	STIP	TFIP	CAPP	SMI
Cash and Cash Equivalents	$1,995,098	$1,003	$577,976	$19,941
STIP		$35,143	$43,136	
Fixed Income Investments	$1,977,347	$2,264,300	$2,873,852	$1,285,705
Domestic Equity Investments			$3,463,018	$169,265
International Equity Investments			$1,967,247	
Commingle Equity Index Funds			$104,686	
Direct Real Estate Holdings		$19,185	$-	$-
Mortgages and Loans			$3,358	$167,356
Private Equity Partnerships			$1,551,573	
Core Real Estate Partnerships		$136,456	$398,513	$85,053
Non-Core Real Estate Partnerships			$405,297	
Timber Partnerships			$106,902	
Credit Default Swaps			$310	
Total	**$3,972,445**	**$2,456,087**	**$11,495,868**	**$1,727,320**

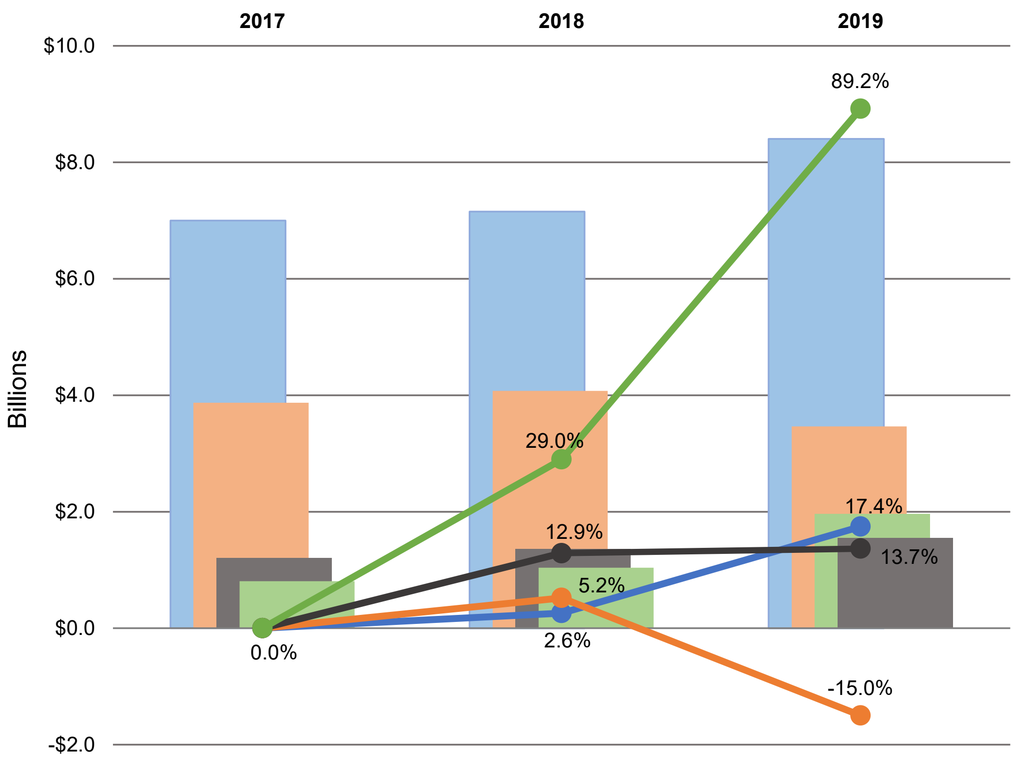
SOURCE: Compiled by the Legislative Audit Division from board records.

Overall, the types of investments reported for each pool in the table on page 3 have not changed significantly over the last few years. One change was made in fiscal year 2019, as the board directed the TFIP to purchase the direct real estate owned by CAPP for $19.4 million. In the graph below, the totals and percentage changes in the top four investment types of the board's portfolio are summarized for the last three years. Overall, the board has increased their investments in Fixed Income and International Investments, while decreasing their investment in Domestic Equity. The investment in Private Equity Partnerships has remained consistent over the same time period.

Figure 2

Totals and Changes to Fixed Income, Domestic Equity, Private Equity, and International Equity Investments Unified Investment Program

Fiscal Years 2017 - 2019



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

The board also administers the state Municipal Finance Consolidation Act (MFC) and Economic Development Bond Act (EDB) programs, which comprises the Enterprise Fund Program. Under the MFC Act, the board is authorized to issue up to $190 million in bonds. The board's Intermediate Term Capital Program (INTERCAP) bonds, issued under the MFC, are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. Under the MFC and EDB programs, the board also provides eligible Montana governments with access to financing through the issuance of conduit (no-commitment) debt. Assets and revenues of the borrower are pledged to repay the debt. Because the board has no obligation for this debt, the bond issues are not reflected on the board's Enterprise Fund Program financial statements but are disclosed in the notes.

The board publishes an annual report detailing the UIP and Enterprise Fund Program activity for the year. This report is available on the board's website or by contacting the board.

Prior Audit Recommendation

The prior financial-compliance audit contained one recommendation to the board. The recommendation was related to a significant deficiency and a material weakness in internal controls over financial reporting. We determined the board fully implemented the recommendation and this report does not contain any additional recommendations to the board.

Independent Auditor's Report and Unified Investment Program Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Fiduciary Net Position of the Montana Board of Investments' (board) Unified Investment Program as of June 30, 2019, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments' Unified Investment Program as of June 30, 2019, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed on page A-12 in the notes to the financial statements, the Montana Board of Investments' Unified Investment Program financial statements are intended to present the financial position and changes in financial position of only the portion of the financial reporting entity of the State of Montana that are attributed to the transactions of the Unified Investment Program at the board. They do not purport to, and do not present fairly the financial position of the state of Montana as of June 30, 2019, or the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

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, 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 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 consisted 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 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 financial statements as a whole. The Combining Statement of Fiduciary Net Position on pages A-32 and A-33 and the Combining

Statement of Changes in Fiduciary Net Position on pages A-34 and A-35 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of the Montana Board of Investments' 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 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 20, 2019

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 assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to 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 $19.6 billion in comparison to a beginning fiduciary net position of approximately $18.6 billion. With respect to the underlying components of the UIP:

- Consolidated Asset Pension Pool (CAPP) had a positive increase primarily due to investments in the private equity and real estate asset classes producing returns;
- the Trust Funds Investment Pool (TFIP) had a positive increase due to fixed income valuations;
- the Short-Term Investment Pool (STIP) increase in value was primarily driven by the contribution of additional capital into the pool;
- and the Separately Managed Investments (SMI) had a positive increase in the investment valuation, but this was entirely offset and more, by the participants experiencing greater cash outflows than inflows.

Below is a summary of the Change in Net Position by pool and SMI from the prior to current fiscal year:

Change in Fiduciary Net Position for Pool and SMI participants (in thousands)	**For Fiscal Years Ending** June 30, 2019	June 30, 2018
Consolidated Asset Pension Pool (CAPP)	$ 165,222	$ 671,765
Trust Funds Investment Pool (TFIP)	172,190	5,840
Short Term Investment Pool (STIP)	647,846	343,306
STIP included in investment pools	32,877	45,976
Separately Managed Investments (SMI)	(6,192)	(124,632)
Total Net Change in Net Position by Pool and SMI participants	**$ 1,011,943**	**$ 942,255**

The investment return net of fees of UIP is best characterized by describing the investment returns of the underlying pools.

	1-Year Total Return	
Pool	**2019**	**2018**
CAPP	5.8%	9.0%
TFIP	8.0%	0.3%
STIP	2.4%	1.5%

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

As of June 30th, the Board separately managed investments outside of the pools on behalf of 16 participants. The investments are combined for reporting purposes in the SMI portion of the UIP. SMI participants include the State Treasurer's Cash Fund, state agency insurance reserves and other state agencies. SMI participation is at the discretion of the Board staff for 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 SMI, as of the fiscal year ended June 30, 2019.

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 SMI, for the fiscal year ended June 30, 2019. 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 of the UIP. Additional supplementary information is presented which is not required by GAAP. Such information includes combining statements 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. As of June 30, 2019, the UIP had total fiduciary net position of approximately $19.6 billion in comparison to a beginning fiduciary net position of approximately $18.6 billion. The following is a condensed Statement of Fiduciary Net Position of the UIP as of June 30, 2019 as compared to the prior year:

Fiduciary Net Position Held in Trust for Pool and SMI participants (in thousands)	June 30, 2019	June 30, 2018
Assets		
Total investments	$ 19,573,441	$ 18,601,994
Receivables and other assets	237,404	201,494
Total assets	**19,810,845**	**18,803,488**
Liabilities		
Payables and other liabilities	198,005	202,591
Total liabilities	198,005	202,591
Fiduciary net position	**$ 19,612,840**	**$ 18,600,897**

As of June 30, 2019, 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 variations in fair value.

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.

SMI Montana Mortgages and Loans, Tax Abatement, Bond and Loan Guarantees. The SMI portfolio continues to include mortgages and loans funded by the Coal Severance Tax Trust Fund as authorized by statute. The carrying value of the mortgages and loans was approximately $167 million as compared to approximately $181 million as of the end of the prior year. During the fiscal year, approximately $78 thousand in mortgages and loans were written down after the property was sold.

The SMI 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, 2019, the amount claimed as credits against various forms of state taxation was approximately $3.8 million, as compared to approximately $1.4 million in the prior fiscal year. For further detail, see Note 10 – Tax Abatement.

Finally, various bond and loan guarantees are provided from STIP, TFIP, the Coal Severance Tax Trust, and the State Treasurer’s Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues and the Montana Facility Finance Authority. 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. STIP and TFIP are an 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 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 General Fund. As of the fiscal year ended June 30, 2019, the balance of guarantee activity was approximately $194 million as compared to approximately $187 million at the end of the prior fiscal year.

Changes in Fiduciary Net Position Held in Trust for Pool and SMI participants (in thousands)	**For Fiscal Years Ending June 30, 2019**	**June 30, 2018**
Additions		
Purchases by participants	$ 7,935,914	$ 7,884,031
Investment earnings	1,105,053	1,118,249
Investment fees and other expenses	(76,114)	(74,313)
Net investment income	1,028,939	1,043,936
Securities lending income, net of expense	1,937	1,753
Total additions	**8,966,790**	**8,929,720**
Deductions		
Sales by participants	7,750,236	7,796,023
Income distributions to participants	204,611	191,442
Total deductions	**7,954,847**	**7,987,465**
Change in fiduciary net position	**1,011,943**	**942,255**
Fiduciary net position, beginning of year (unadjusted)	**18,600,897**	**17,634,407**
Restatement	**-**	**24,235**
Fiduciary net position, end of year	**$ 19,612,840**	**$ 18,600,897**

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

Investment Fees and Other Expenses. Investment fees and other expenses include the flows to manage the UIP, custodial bank fees, external manager fees and other investment related expenses. The flows to manage the operations of the UIP, including general and investment costs, are set by the State Legislature biennially and approved by the Board as part of an annual budget. Custodial banking fees are paid through a statutory appropriation and external manager fees are paid directly from the accounts they manage. These flows comprise the 'overhead' of the UIP. For the fiscal year ending June 30, 2019, these flows represented 0.30% of ending fiduciary net position (or 30 basis points) versus 0.31% of fiduciary net position (or 31 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 $1.0 billion increase to fiduciary net position for the fiscal year ended June 30, 2019. This compares to an increase of approximately $967 million in the prior year.

Operational Highlights

No significant operational changes occurred during the reporting timeframe.

Economic Highlights

The U.S. economic conditions during the past fiscal year can be summarized as growth in economic activity, continued improvements in the labor market, with a backdrop of growing recessionary risks. The U.S. Consumer continues to buoy economic performance across sectors. Trade disputes and continued political uncertainty disrupted growth prospects.

Longer-term U.S. interest rates decreased during the last year with the ten-year rate dropping by 86.5 basis points to a nominal yield of 2.0051% by June 30,2019. The U.S. Dollar strengthened against most currencies during the fiscal year. Inflation is and should remain subdued.

Economic Factors and Currently Known Facts that May Impact UIP's Operations in the Future

In the future, UIP's financial status will be influenced by cash flows in and out of the underlying components as well as the change in investment income and valuations across the different areas of investments. The performance of investments will be influenced by the economic, political, social, environmental, and behavioral changes of economies, countries, and capital market participants.

U.S. and global growth will remain low with numerous economic risks on the horizon. Over shorter time periods, investment performance is expected to remain volatile. The Board will continue to manage the assets with belief that consistent execution of the investment process will have a significant influence on achieving the long-term objectives.

GASB Statement No. 84, Fiduciary Activities. Management of the Board is in the process of analyzing the changes that potentially may occur to the financial statements related to the issuance of GASB Statement No. 84, *Fiduciary Activities,* which will be implemented by the Board for the fiscal year ending June 30, 2020.

Requests for Information and Transparency. This financial report is designed to provide a general overview of the 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, 3rd 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/meetings.

STATEMENT OF FIDUCIARY NET POSITION
AS OF FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

Assets	
Investments:	
Cash and cash equivalents held at custodial bank	$ 2,594,018
Investments at cost	167,356
Investments at fair value	16,812,067
Total investments	19,573,441
Securities lending cash collateral	91,504
Receivables:	
Broker receivable for securities sold but not settled	76,923
Dividend and interest receivable	68,977
Total receivables	145,900
Total assets	19,810,845
Liabilities	
Payables:	
Broker payable for securities purchased but not settled	73,710
Income due participants	24,262
Other payables	5,180
Administrative fee payable	3,349
Total payables	106,501
Securities lending obligations	91,504
Total liabilities	198,005
Net position held in trust for pool and Separately Managed Investments (SMI) participants	$ 19,612,840

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

Additions	
Purchases by participants	$ 7,935,914
Net investment earnings	
Investment earnings:	
Net increase (decrease) on fair value of investments	684,813
Dividend/interest income	411,027
Other investment income	9,213
Investment earnings	1,105,053
Investment fees	(58,635)
Other investment expenses	(17,479)
Net investment income	1,028,939
Securities lending income	4,120
Securities lending expense	(2,183)
Net securities lending income	1,937
Total additions	8,966,790
Deductions	
Sales by participants	7,750,236
Income distributions to participants	204,611
Total deductions	7,954,847
Change in net position	1,011,943
Net position held in trust for pool and SMI participants - beginning of year	18,600,897
Net position held in trust for pool and SMI participants - end of year	$ 19,612,840

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

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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 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) Comprehensive Annual Financial Report (CAFR). The State's CAFR is available from the Montana Department of Administration's State Financial Services Division website http://sfsd.mt.gov/SAB/cafr; 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 Investments (SMI) to meet the financial goals and expectations of the agencies and entities which 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 CAFR.

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 held within Pools

Cash and cash equivalents generally are short-term, highly liquid investments with maturities of three months or less at time of purchase. The Consolidated Asset Pension Pool (CAPP), the Trust Funds Investment Pool (TFIP), the Short-Term Investment Pool (STIP), and SMI hold cash and cash equivalents that are 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.

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 fair value of investments also consists of the realized gains or losses. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Investment Fees

The State Legislature sets management fees the Board charges. The maximum fee is set at the aggregate level at the beginning of each fiscal year. The Board allocates the aggregate fees across the pools and SMI. Custodial bank fees are paid by a statutory appropriation from the State's general fund. The Board allocates custodial bank fees across the pools and SMI and deposits the funds required to pay the fee in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage.

Investment fees charged to each Pool and the SMI investments are shown in the following table:

Total Fiscal Year 2019 Investment Fees
(in thousands)

Pool and SMI	Board	Custodial Bank	External Managers	Total	Investment Fee Ratio
Consolidated Asset Pension Pool (CAPP)	$ 4,825	$ 1,257	$ 48,020	$ 54,102	0.47%
Trust Funds Investment Pool (TFIP)	377	125	1,587	2,089	0.08%
Short Term Investment Pool (STIP)	539	266	-	805	0.02%
Separately Managed Investments (SMI)	803	122	714	1,639	0.09%
Total	$ 6,544	$ 1,770	$ 50,321	$ 58,635	0.30%

Securities Lending

The collateral received under securities lending agreements where the pools and SMI 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 $4.1 million, and expenses associated with securities lending were $2.2 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. SMI distributes income when received. SMI 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 SMI distributable income also includes net securities lending earnings. CAPP retains all its investment earnings; therefore, it does not distribute to participants.

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.

Certain reclassifications have been made to the current year presentation from the prior year. These reclassifications had no effect on previously reported change in net position or net position held in trust for pool 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. SMI direct investments are purchased and sold at their respective fair market values at the dates of transaction. CAPP and TFIP units and SMI 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. SMI is not a pool; therefore, there are neither units outstanding nor unit values calculated.

2. INVESTMENT COMMITMENTS

Investments in alternative equity 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 for a minimum of 10 years. The following table shows the remaining Board commitments to CAPP alternative equity managers by pension asset class (PAC).

Commitments to Fund Managers as of June 30, 2019 (in thousands)		
Pension Asset Class	Original Commitment	Commitment Remaining
Private Equities PAC	$ 2,570,722	$ 761,179
Real Estate PAC	1,511,666	257,589
Natural Resources PAC	464,412	172,744
Total	$ 4,546,800	$ 1,191,512

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 hold short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization (NRSRO) with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

As of June 30th, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee 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. 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 SMI 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, $566.4 million was held in unrated money market funds and $9.8 million was invested in an overnight repurchase agreement collateralized at 102%.

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 30th, all the STIP money market investments were in US Governmental Money Markets. NRSRO provides the credit ratings presented in the following tables.

STIP Cash Equivalent Credit Quality Ratings as of June 30, 2019
(in thousands)

Cash Equivalent Investment Type		Total Cash Equivalents	Credit Quality Rating
Treasuries	$	310,466	A-1+
Agency or Government Related		356,614	A-1+
Asset Backed Commercial Paper		1,116,921	A-1+
Corporate:			
Commercial Paper		189,596	A-1+
Certificates of Deposit		21,501	A-1+
Total Cash Equivalent Held at Custodial Bank	$	1,995,098	

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 SMI investments at fair value are categorized to disclose credit and interest rate risk on the following table for fixed income securities. 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 as of June 30, 2019
Fair Values (in thousands)

Security Investment Types	CAPP	TFIP	SMI	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Durations (Years)
Treasuries	$ 1,337,688	$ 481,464	$ 346,460	$ 2,165,612	AAA	3.21-8.08
Agency or Government Related	218,805	340,285	150,949	710,039	AAA	2.97-4.22
Asset Backed Securities	33,332	75,392	57,708	166,432	AAA	1.88-1.99
Mortgage Backed Securities:						
Noncommercial	356,424	248,265	55,083	659,772	AAA	3.60-4.24
Commercial	162,244	220,519	27,312	410,075	AA+ to AAA	4.69-7.34
Corporate:						
Financial	248,750	324,236	270,351	843,337	BBB+ to A-	3.25-4.14
Industrial	492,119	500,951	356,212	1,349,282	BB to A-	3.63-6.44
Utility	24,490	21,222	21,630	67,342	BB+ to BBB+	1.94-3.07
High Yield Bond Fund	-	51,966	-	51,966	BB-	2.40
Commingled Asset Allocation Funds	104,686	-	-	104,686	NR	NA
Total Fixed Income Investments at Fair Value	$ 2,978,538	$ 2,264,300	$ 1,285,705	$ 6,528,543		

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM). Credit risk reflects the weighted security quality rating by investment type as of the June 30th report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been 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 41 days for the portfolio.

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2019
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	$ 129,877	A-1+	20
Agency or Government Related	873,181	A-1+	69
Corporate:			
Commercial Paper	200,145	A-1+	16
Notes	448,909	A-1+	61
Certificates of Deposit	325,235	A-1+	45
Total STIP Fixed Income Investments at Fair Value	$ 1,977,347		

Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value as of June 30th, 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, 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.

Foreign Currency Exposure by Country
Investment Type in U.S. Dollar Equivalent
(in thousands)
As of June 30, 2019

Foreign Currency Denomination	Currency	International Equities	Private Equity	Real Estate Equity
Australian Dollar	$ -	$ 29,752	$ -	$ -
Brazilian Real	58	19,314	-	-
Canadian Dollar	76	56,063	-	-
Czech Koruna	-	799	-	-
Danish Krone	-	10,939	-	-
EMU-Euro	110	180,950	18,510	1,422
Hong Kong Dollar	67	36,067	-	-
Hungarian Forint	18	1,873	-	-
Indonesian Rupiah	2	1,120	-	-
Japanese Yen	276	100,630	-	-
Malaysian Ringgit	1	1,596	-	-
Mexican Peso	4	4,976	-	-
New Israeli Sheqel	-	6,704	-	-
Korean Fortnit	2	15,948	-	-
New Zealand Dollar	-	211	-	-
Norwegian Krone	-	6,243	-	-
Philippine Peso	3	70	-	-
Polish Zloty	-	2,238	-	-
Pound Sterling	121	93,259	-	-
Singapore Dollar	1	12,220	-	-
South African Rand	19	11,715	-	-
South Korean Won	(97)	15,390	-	-
Swedish Krona	1	28,927	-	-
Swiss Franc	1	32,154	-	-
New Taiwan Dollar	8	4,178	-	-
Thailand Baht	-	5,142	-	-
Yuan Renminbi	316	8,898	-	-
Total	$ 987	$ 687,376	$ 18,510	$ 1,422

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. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30th, 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 80% and 20% 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.

During the fiscal year, the custodial bank loaned the Board's public securities and received as collateral either: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA- or Aa3 or higher; sovereign debt securities of the Group of Ten nations; or debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount 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 30th, 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 an average duration of 36 days and the average weighted final maturity of 109 days.

	Securities on Loan and Pledged Collateral (in thousands) as of June 30, 2019				
Pool and SMI	Fair Value On Loan	Collateral Cash	Collateral Securities	Collateral Total	% of Fair Value
Consolidated Asset Pension Pool (CAPP)					
Domestic	$ 395,270	$ 43,142	$ 359,013	$ 402,155	102%
International	28,799	11,399	18,730	30,129	105%
Trust Funds Investment Pool (TFIP)	171,116	28,916	145,718	174,634	102%
Separately Managed Investments (SMI)	128,509	8,047	123,105	131,152	102%
Total	$ 723,694	$ 91,504	$ 646,566	$ 738,070	

Pool and SMI	Fiscal Year 2019 Securities Lending Income and Expenses (in thousands) Gross Income	Expenses	Net Income
Consolidated Asset Pension Pool (CAPP)	$ 2,916	$ (1,463)	$ 1,453
Trust Funds Investment Pool (TFIP)	698	(429)	269
Separately Managed Investments (SMI)	506	(291)	215
Total	$ 4,120	$ (2,183)	$ 1,937

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

The Board approves all 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 SMI. 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 SMI participant, which provides board staff a broad strategic framework under which the investments are managed. The IPSs also reflects 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 asset classes differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Equities
- Natural Resources
- Real Estate
- U.S. Treasury Inflation-Protected Securities (TIPS)
- Broad Fixed Income
- U.S. Treasury/Agency
- Investment Grade
- Agency Mortgage Backed Securities
- High Yield
- Cash
- Diversifying Strategies

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 Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class, and High Yield 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 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (also known as 'Yankee bonds') and a 3% portfolio limit in non-agency mortgage pass-through (MBS) securities. TFIP invests primarily in investment grade, U.S. dollar denominated fixed income securities. The portfolio has high yield and core 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 US 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 60 days or less. STIP is managed to preserve principal while providing 24-hour 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 60 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."

SMI

SMI invests primarily in investment grade, U.S. dollar denominated fixed income securities. However, one participant portfolio has exposure to core real estate. The SMI portfolio also includes Veteran's Home Loan mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute. Please refer to Note 9 – SMI 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 TIPS PAC, U.S. Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage-Backed PAC, average duration will be maintained in a range within 20% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for SMI 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 SMI 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 30th.

Level 2 - Prices 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 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. During the fiscal year, the Board determined it to be more appropriate to report the investments in commingled equity index funds within the level 1 category due to there being a sufficient level of observable activity with this type of fund investments being valued using a daily published price. These investments were disclosed at net asset value (NAV) in prior years.

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.

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

For each of the pools and SMI the Board has the following fair value measurements as of June 30th:

Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 2,295,489	$ 2,295,489	$ -	$ -
Agency or Government Related	1,583,220	-	1,583,220	-
Asset Backed Securities	166,431	-	166,431	-
Mortgage Backed Securities:				
Noncommercial	659,772	-	659,772	-
Commercial	410,075	-	410,075	-
Corporate:				
Commercial Paper	200,145	-	200,145	-
Commercial Notes	448,909	-	448,909	-
Certificates of Deposit	325,235	-	325,235	-
Financial	843,337	-	843,337	-
Industrial	1,349,282	-	1,349,282	-
Utility	67,342	-	67,342	-
Equity investments	3,632,285	3,632,285	-	-
International equity investments	1,967,247	1,967,247	-	-
Direct Real Estate	19,185	-	-	19,185
Residential Mortgages	3,358	-	-	3,358
Investment derivate instruments:				
Credit default swaps	310	-	310	-
Total investments by fair value level	13,971,622	$ 7,895,021	$ 6,054,058	$ 22,543
Investments measured at the net asset value (NAV)				
Commingled Asset Allocation Funds	104,686			
Private Equity Partnerships	1,551,573			
Core Real Estate	620,022			
Non-Core Real Estate	405,296			
Timber	106,902			
High Yield Bond Fund	51,966			
Total investments measured at NAV	2,840,445			
Total investments measured at fair value	16,812,067			
Investments at cost				
Cash and cash equivalents held at custodial bank	2,594,018			
SMI Montana Mortgages and Loans	167,356			
Total investments not categorized	2,761,374			
Total investments	$ 19,573,441			

Investments at Net Asset Value (NAV)

The investments measured at NAV for the fiscal year are further detailed below:

Investments Measured at NAV (in thousands)	June 30, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Asset Allocation Funds	$ 104,686		Daily	1 day
Private Equity Partnerships	1,551,573	$ 919,698		
Core Real Estate	620,022		Monthly, quarterly	45-90 days
Non-Core Real Estate	405,296	257,589		
Timber	106,902	14,225		
High Yield Bond Fund	51,966		Monthly	30 day
Total investments measured at the NAV	$ 2,840,445	$ 1,191,512		

Commingled Asset Allocation Funds – This type consists of institutional investment funds that invest in global tactical asset allocation funds. The fair values of the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

Private Equity Partnerships - This type includes investments in limited partnerships. Generally speaking, the types of partnership strategies included in this portfolio: venture capital, growth equity, buyouts, special situations, mezzanine, energy 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. These investments can never be redeemed. 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.

Timber - This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. 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 12 to 20 years. These investments can never be redeemed with the funds. 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.

High Yield Bond Fund - This type consists of predominantly 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 DERIVATIVES INVESTMENTS

The UIP invests in, currency forward contracts, credit default swaps, index futures (long duration) and warrants which are classified as investment derivatives. The derivatives increased in fair value for the fiscal year ended June 30, 2019 by $698 thousand. The contracts had a fair value of $400 thousand as of the end of the fiscal year. The notional amount of the contracts was $14.4 million.

Counterparty Credit Risk – Investment Derivatives

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. The following table depicts the Board's counterparty credit risk exposure to its investment derivatives.

Counterparty Credit Risk - Credit Default Swaps - as of June 30, 2019

Maximum Loss before/after Netting and Collateral (in thousands)		
Maximum amount of loss the Board would face in case of default of all counterparties, i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30.	$	310
Effect of collateral reducing maximum exposure.		-
Liabilities subject to netting arrangements reducing exposure.		-
Resulting net exposure	$	310

The following table reflects the Board's applicable counterparty credit ratings and risk concentrations.

Risk Concentrations - Credit Default Swaps - as of June 30, 2019

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Goldman Sachs Capital	100%	BBB+	A	A3

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 30th, the Board had committed, but not yet purchased, $38.7 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $23.9 million for loans as of June 30th. An additional, $1.7 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The Board makes reservations to fund residential mortgages from the state's pension funds. As of June 30th, 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. SMI MONTANA MORTGAGES AND LOANS

The SMI portfolio includes mortgages and loans, funded by the Coal Severance Tax Trust Fund as authorized by statute. Mortgages and loans shown in the following table are reported at cost.

Montana Mortgages and Loans as of June 30, 2019
(in thousands)

Science and Technology Alliance	$	640
Montana University System - MSTA		7,696
Montana Facility Finance		5,347
Local Government Infrastructure		14,290
Veterans' Home Loan Mortgages		38,644
Intermediary Relending Program (IRP) Loans		4,079
Commercial Loans		96,660
Total Montana Mortgages and Loans at cost	$	167,356

During the fiscal year, a previously foreclosed property was sold and the remaining commercial loan balance of $78 thousand was written-off entirely by the Board.

10. TAX ABATEMENT

Within the Board's SMI 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. The Board is part of the primary government of the State.

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 $6.6 million, representing $5.9 million of principal and $723 thousand in interest. During the fiscal year, a total of $3.8 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.

Total Fiscal Year 2019 Infrastructure Credits Claimed

	For TY 2018		For TY 2017	
	Corporate Income Tax	Individual Income Tax	Corporate Income Tax	Individual Income Tax
Amount Claimed (in thousands)	$ -	$ 164	$ 319	$ 3,286
Number of Credits	-	16	*	*

* 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 30th, the Board had provided loan guarantees from STIP, 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 $105.1 million and to the Montana Facility Finance Authority (MFFA) amounting to approximately $88.9 million**.** The Board has not had to perform on any bond and loan guarantee in the past.

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 of Montana. 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 general fund. The Board has irrevocably pledged to make loans to cure INTERCAP reserve account deficiencies and to purchase tendered bonds not redeemed or remarketed. The outstanding bonds have final maturities of March 1, 2025 – March 1, 2042. The Board has not had to perform on any loan guarantee in the past. The amounts are merely commitments of the Board.

By statute, the Board is authorized to credit enhance the INTERCAP bonds and allows the Board to charge a fee for this service. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. If the Board was called on to purchase tendered bonds not redeemed or remarketed, INTERCAP's governing bond indenture requires the Board to be paid a fee equal to 25 basis points of the principal amount tendered bonds purchased. The credit enhancement fee received during the fiscal year was $158 thousand. Refer to Note 12 – STIP Reserve footnote for further detail.

MFFA is a discretely presented component unit of the State of Montana. 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 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. The credit enhancement fee received during the fiscal year was $133.5 thousand.

The following schedule summarizes the guarantee activity during the fiscal year:

Bond and Loan Guarantee Activity as of June 30, 2019
(in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance
INTERCAP	$ 105,110	$ -	$ 45	$ 105,065
MFFA	81,451	11,000	3,510	88,941

12. STIP RESERVE

The reserve account may be used to offset losses within the STIP portfolio. Refer to Note 11 –Bond and

Loan Guarantees for more detail. The following table details STIP Reserve activity:

STIP Reserve Activity as of June 30, 2019 (in thousands)	
Beginning STIP Reserve	$ 32,565
STIP Reserve activity	
Investment earnings:	
Net increase (decrease) on fair value of investments	49
Interest income	774
Transfer of daily STIP income	4,927
Recoveries from write offs	9,055
Credit enhancement fees	158
Total STIP Reserve activity	14,963
Ending STIP Reserve	$ 47,528

13. SUBSEQUENT EVENTS

In June 2019, the Board requested a 100% redemption in the amount of $101 million from one manager, pertaining to investments within TFIP. Since the date of the request, the redemption has been received.

The Board's Chief Investment Officer (CIO) resigned July 19, 2019. Per the Board's Governance Policy, the Executive Director will be the acting CIO until the Board hires a replacement.

In November 2017, the Governor called the Montana legislature into special session to address a significant budget shortfall in the State's general fund. Senate Bill 4 was passed into law and directed the Board to apply a 3% charge against the average total investments of the State Fund exceeding $1 billion providing certain conditions are met. The Board as statutorily directed transferred money from this charge to the State's Fire Suppression Fund. A lawsuit in District Court was filed by a group of Montana State Fund policyholders, to prevent the Board from charging the 3% management fee. In August 2019, the plaintiffs appealed the District Court Decision to the Montana Supreme Court.

Since June 30th, the Board has committed an additional $380 Million to alternative equity partnerships within CAPP, with allocations of $160 Million within the Private Equity Pension Asset Class, $50 Million within the Natural Resource Pension Asset Class and $170 Million within the Real Estate Pension Asset Class. Refer to Note 2 – Investments Commitments for further detail.

Since June 30th, the Board has received an additional $5.5 million in loan reservations from Montana Lenders and committed $17.8 million in loans from the Coal Severance Tax Permanent Fund's In-State Loan Programs. Refer to Note 8 – Coal Severance Tax Trust Fund Loan and Mortgage Commitments for further detail.

SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF FIDUCIARY NET POSITION
AS OF FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

			TFIP		
Assets	Total	CAPP	State Agencies	Local Governments	SMI
Investments:					
Cash and cash equivalents:					
Cash equivalent/STIP - held within pools	$ -	$ 43,136	$ 34,967	$ 176	$ -
Cash and cash equivalents held at custodial bank	2,594,018	577,976	998	5	19,941
Total cash and cash equivalents	2,594,018	621,112	35,965	181	19,941
Investments at cost	167,356	-	-	-	167,356
Investments at fair value	16,812,067	10,874,756	2,407,841	12,100	1,540,023
Total investments	19,573,441	11,495,868	2,443,806	12,281	1,727,320
Securities lending cash collateral	91,504	54,541	28,771	145	8,047
Receivables:					
Broker receivable for securities sold but not settled	76,923	26,923	49,750	250	-
Dividend and interest receivable	68,977	33,479	14,123	71	8,292
Total receivables	145,900	60,402	63,873	321	8,292
Total assets	19,810,845	11,610,811	2,536,450	12,747	1,743,659
Liabilities					
Payables:					
Broker payable for securities purchased but not settled	73,710	73,710	-	-	-
Income due participants	24,262	-	7,850	39	8,292
Other payable	5,180	5,178	2	-	-
Administrative fee payable	3,349	3,303	46	-	-
Total payables	106,501	82,191	7,898	39	8,292
Securities lending obligations	91,504	54,541	28,771	145	8,047
Total liabilities	198,005	136,732	36,669	184	16,339
Net position held in trust for pool and SMI participants	$ 19,612,840	$ 11,474,079	$ 2,499,781	$ 12,563	$ 1,727,320

Statements continue onto the next page.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
AS OF FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

Assets	STIP State Agencies	STIP Local Governments	STIP Reserve	Reserve included in STIP**	STIP included in investment pools*
Investments:					
Cash and cash equivalents:					
Cash equivalent/STIP - held within pools	$ -	$ -	$ -	$ -	$ (78,279)
Cash and cash equivalents held at custodial bank	1,269,304	683,767	42,027	-	-
Total cash and cash equivalents	1,269,304	683,767	42,027	-	(78,279)
Investments at cost	-	-	-	-	-
Investments at fair value	1,285,082	692,265	-	-	-
Total investments	2,554,386	1,376,032	42,027	-	(78,279)
Securities lending cash collateral	-	-	-	-	-
Receivables:					
Broker receivable for securities sold but not settled	-	-	-	-	-
Dividend and interest receivable	4,882	2,629	5,501	-	-
Total receivables	4,882	2,629	5,501	-	-
Total assets	2,559,268	1,378,661	47,528	-	(78,279)
Liabilities					
Payables:					
Broker payable for securities purchased but not settled	-	-	-	-	-
Income due participants	5,252	2,829	-	-	-
Other payable	-	-	-	-	-
Administrative fee payable	-	-	-	-	-
Total payables	5,252	2,829	-	-	-
Securities lending obligations	-	-	-	-	-
Total liabilities	5,252	2,829	-	-	-
Net position held in trust for pool and SMI participants	$ 2,554,016	$ 1,375,832	$ 47,528	$ -	$ (78,279)

*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.

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

	Total	CAPP	TFIP State Agencies	TFIP Local Governments	SMI
Additions					
Purchases by participants	$ 7,935,914	$ 66,110	$ 100,573	$ -	$ 506,596
Net investment earnings					
Investment earnings:					
Net increase (decrease) on fair value of investments	684,813	458,043	106,069	534	68,343
Dividend/interest income	411,027	247,830	82,606	418	44,740
Other investment income	9,213	-	-	-	-
Investment earnings	1,105,053	705,873	188,675	952	113,083
Investment fees	(58,635)	(54,102)	(2,079)	(10)	(1,639)
Other investment expenses	(17,479)	(17,453)	(26)	-	-
Short Term Investment Pool reserve expense	-	-	-	-	-
Net investment income	1,028,939	634,318	186,570	942	111,444
Securities lending income	4,120	2,916	695	3	506
Securities lending expense	(2,183)	(1,463)	(427)	(2)	(291)
Net securities lending income	1,937	1,453	268	1	215
Total additions	8,966,790	701,881	287,411	943	618,255
Deductions					
Sales by participants	7,750,236	536,659	35,084	-	581,131
Income distributions to participants	204,611	-	80,672	408	43,316
Total deductions	7,954,847	536,659	115,756	408	624,447
Change in net position	1,011,943	165,222	171,655	535	(6,192)
Net position held in trust for pool and SMI participants - beginning of year	18,600,897	11,308,857	2,328,126	12,028	1,733,512
Net position held in trust for pool and SMI participants - end of year	$ 19,612,840	$ 11,474,079	$ 2,499,781	$ 12,563	$ 1,727,320

Statements continue onto the next page.

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

	STIP State Agencies	STIP Local Governments	STIP Reserve	Reserve included in STIP**	STIP included in investment pools*
Additions					
Purchases by participants	$ 6,319,297	$ 1,499,733	$ -	$ -	$ (556,395)
Net investment earnings					
Investment earnings:					
Net increase (decrease) on fair value of investments	33,528	18,287	49	(49)	9
Dividend/interest income	25,374	13,846	774	(774)	(3,787)
Other investment income	5,961	3,252	14,140	(14,140)	-
Investment earnings	64,863	35,385	14,963	(14,963)	(3,778)
Investment fees	(521)	(284)	-	-	-
Other investment expenses	-	-	-	-	-
Short Term Investment Pool reserve expense	(9,681)	(5,282)	-	14,963	-
Net investment income	54,661	29,819	14,963	-	(3,778)
Securities lending income	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Net securities lending income	-	-	-	-	-
Total additions	6,373,958	1,529,552	14,963	-	(560,173)
Deductions					
Sales by participants	5,841,270	1,345,355	-	-	(589,263)
Income distributions to participants	54,346	29,656	-	-	(3,787)
Total deductions	5,895,616	1,375,011	-	-	(593,050)
Change in net position	478,342	154,541	14,963	-	32,877
Net position held in trust for pool and SMI participants - beginning of year	2,075,674	1,221,291	32,565	-	(111,156)
Net position held in trust for pool and SMI participants - end of year	$ 2,554,016	$ 1,375,832	$ 47,528	$ -	$ (78,279)

*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

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Investments' (board) Enterprise Fund Program as of June 30, 2019, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments' Enterprise Fund Program as of June 30, 2019, and the changes in fund net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed on page A-51 in the notes to the financial statements, the Montana Board of Investments' Enterprise Fund Program financial statements are intended to present the financial position, changes in net position, and cash flows of only the portion of the financial reporting entity of the state of Montana that are attributed to the transactions of the Enterprise Fund Program at the board. They do not purport to, and do not present fairly the financial position of the State of Montana as of June 30, 2019, or the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-42, the Schedule of Net Pension Liability on page A-72 the Schedule of Contributions on page A-72, and the Schedule of Total OPEB Liability on page A-73 be presented to supplement the basic financial statements. Such information, 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 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 consisted 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report December 20, 2019, on our consideration of the Montana Board of Investments' 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 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 20, 2019

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 assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to 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 net position for fiscal years ending June 30, 2019 and June 30, 2018 were approximately $5.4 million and $5.1 million, respectively. The net position increased $303 thousand for the year ended June 30, 2019 as compared to June 30, 2018.

- Operating revenue of the Fund increased for the year ending June 30, 2019 to $3.2 million as compared to $2.6 million in the prior year. This was primarily due to an increase in investment revenue in the amount of $433 thousand and an increase in financing revenue in the amount of $212 thousand.

- Operating expenses of the Fund increased for the year to $2.9 million as compared to $2.6 million in the prior year. This increase in expenses was primarily the result of higher interest paid on outstanding bonds in the amount of $209 thousand and an increase of $21 thousand in personal services primarily related to the retirement benefit payouts of employees.

- The net of operating revenue and operating expenses resulted in an operating income for the Fund for the year of approximately $303 thousand. This is in comparison to an operating loss of approximately $57 thousand in the previous fiscal year.

- Cash flow of the Fund increased by approximately $3.6 million for the fiscal year as compared to a net increase in cash flow of approximately $17.4 million in the prior fiscal year. During fiscal year 2019, the loans funded were in the amount of $27.0 million as compared to $20.6 million in the prior year. The outflow for payment of principal and interest on bonds was $2.2 million in 2019 as compared to $4.5 million in 2018. Collections for principal and interest on loans also decreased by $5.1 million in 2019 as compared to 2018 from $36.3 million to $31.2 million.

Overview of the Financial Statements

The Fund is a Proprietary Fund of the State's Comprehensive Annual Financial Report (CAFR), 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 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 Net Position** provides information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the elements of Net Position of the Fund as of the fiscal year ended June 30, 2019.

The **Statement of Revenues, Expenses and Changes in 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, 2019.

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. A further schedule is also provided for non-cash transactions, primarily relating to the increase or decrease in the fair value of the Fund's investments that occurred during the fiscal year but did not result in cash flows.

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 postemployment benefits (OPEB).

Financial Analysis

Net Position. The following is a condensed Statement of Net Position of the Fund as of June 30, 2019 as compared to the prior year:

Condensed Statement of Net Position (in thousands)	**As of June 30,** **2019**	**2018**
Assets		
Non-capital assets	$113,851	$113,120
Capital assets, net of accumulated depreciation	0	1
Total Assets	**113,851**	**113,121**
Deferred Outflows of Resources	**80**	**90**
Liabilities		
Current liabilities	105,809	105,747
Noncurrent liabilities	2,627	2,338
Total Liabilities	**108,436**	**108,085**
Deferred Inflows of Resources	**82**	**17**
Net Position:		
Invested in Capital Assets	0	1
Restricted Net Position	1,693	1,368
Unrestricted Net Position	3,720	3,740
Total Net Position	**$5,413**	**$5,109**

As of June 30, 2019, 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.

At the end of the fiscal year, the total note and loan principal portfolio receivable was approximately $79.7 million, as compared to approximately $81.0 million at the beginning of the year. Approximately $27.0 million in loans were funded during the fiscal year ended June 30, 2019. The Fund received repayments of approximately $30.9 million, including principal and interest. None of the portfolio is considered in default as of the end of the fiscal year.

The remaining assets are comprised of cash and cash equivalents, interest receivable related to investments, and investments at fair value. As described in the Notes to the basic financial statements, most of the fair value of investments are held in either United States Treasury securities, United States government indirect obligations or similar funds utilizing a short duration and minimal risk.

Deferred outflows of resources and deferred inflows of resources are related to various elements of defined benefit pensions and OPEB that are recognized as part of future years' expenses due to the passage of time. The prior period adjustment was an increase to the beginning net position by one thousand dollars, which was the result of an increase of Pension Deferred Outflows of one thousand dollars.

Most of the Fund's liabilities are bonds payable related to debt issuances that fund the INTERCAP loans for eligible Montana governmental units. As discussed in the Notes to the basic financial statements, the amounts are deemed current liabilities as they may be payable on demand each March 1st prior to final maturity in 2042.

The total net position of the Fund is comprised of three elements as required by GAAP. Unrestricted Net Position is the largest element that represents the accumulated unrestricted changes in net position since the inception of the Fund. Restricted Net Position is comprised of amounts related to Montana Economic Development Bonds and the Conservation Reserve Enhancement Program. Restricted Net Position can only be reused in accordance with those provisions.

Changes in Net Position. The following is a condensed Statement of Revenues, Expenses and Changes in Net Position by major sources for the current and prior fiscal years ended June 30th.

Condensed Statement of Revenues, Expenses and Changes in Net Position (in thousands)	**Fiscal Years Ended June 30, 2019**	**2018**
Operating Revenues		
Financing Income	$2,516	$2,307
Other	724	287
Total Operating Revenues	**3,240**	**2,591**
Operating Expenses		
Debt Service	2,255	1,906
Personal Services	402	381
Other	280	361
Total Operating Expenses	**2,937**	**2,648**
Operating Income (Loss)	**303**	**(57)**
Nonoperating Income (Loss)		
Reduction in Pension Expense	-	6
Change in Fund Net Position	**303**	**(51)**
Total Fund Net Position as of the Beginning of the Year, unadjusted	**5,109**	**5,084**
Prior Period Adjustment	**1**	**76**
Total Fund Net Position as of the Beginning of the Year, Restated	**5,110**	**5,160**
Total Fund Net Position as of the End of Year	**$5,413**	**$5,109**

Operating revenues were primarily related to financing income related to the INTERCAP note and loan portfolio. Financing income primarily increased from the prior year due to the borrower interest rate increasing in February 2019 to 3.37% from 3.15% and increasing in February 2018 to 3.15% from 2.50%. Other operating revenues are comprised of investment income, primarily from investment interest and changes in fair value.

Operating expenses occur in two areas: debt service and personal services. Debt service on the bonds includes interest expense, trustee fees and similar, which increased this year because of higher interest rates. Personal services include employee compensation, compensated absence expense, sick leave and other compensatory time recognized during the fiscal year. These amounts increased this year due to the retirement of employees. Such amounts are part of a legislatively approved rate and a Board approved budget.

Other amounts include contracted services, supplies and materials, communications, travel, rent, pensions, postemployment benefits, and other overhead expenses. These expenses decreased during the year, primarily due to a decrease of $82 thousand in contracted services.

The net of all the flows resulted in a $20 thousand decrease to Unrestricted Net Position for the fiscal year ended June 30, 2019, a $325 thousand increase to Restricted Net Position, and an increase of approximately $304 thousand in Total Net Position.

Economic Factors and Currently Known Facts that may Impact the Fund's Operations in the Future

The Board's 25-year tax-exempt Municipal Finance Consolidated Act Bonds used to fund low variable interest rate loans through INTERCAP provide bondholders with an annual tender option that, if tendered, are remarketed every February. Market conditions that include, but are not limited to, supply and demand along with other similar rated credits pricing at the time of remarketing influence the bond yield negotiated each year.

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, fax at 406.449.6579 or TDD at 406.841.2702. Board Meeting agenda and minutes are posted at http://investmentmt.com/meetings.

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STATEMENT OF NET POSITION AS OF JUNE 30, 2019
(in thousands)

Assets	
Current assets:	
Cash and cash equivalents	$ 27,723
Interest receivable	551
Notes/loans receivable	7,817
Interfund notes/loans	1,834
Interfund interest receivable	12
Component Unit notes/loans	2,915
Component Unit interest receivable	313
Short-term investments at fair value	2,684
Total current assets	43,849
Noncurrent assets:	
Restricted investments at fair value	701
Notes/loans receivable	39,009
Interfund notes/loans and interest receivable	5,961
Component Unit notes/loans receivable	22,120
Property held in custody for others	2,211
Equipment	3
Accumulated depreciation	(3)
Total noncurrent assets	70,002
Total assets	113,851
Deferred outflows of resources	80
Liabilities	
Current liabilities:	
Accounts payable	7
Accrued expenses	20
Accrued interest payable	655
Arbitrage rebate tax payable	43
Compensated absences	19
Current bonds/notes payable	105,065
Total current liabilities	105,809
Noncurrent liabilities	
Compensated absences	50
Arbitrage rebate tax payable	1
Total OPEB liability	20
Held in custody for others	2,211
Net pension liability	345
Total noncurrent liabilities	2,627
Total liabilities	108,436
Deferred inflows of resources	82
Net position	
Restricted	1,693
Unrestricted	3,720
Total net position	$ 5,413

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(in thousands)

Operating revenue		
Reimbursements	$	41
Investment revenue		683
Financing revenue		2,516
Total operating revenue		3,240
Operating expenses		
Personal services		402
Contracted services		85
Supplies and materials		8
Communications		7
Travel		4
Rent		51
Indirect and other costs		63
OPEB expense		1
Pension expense		34
Arbitrage rebate tax expense		27
Debt service		
Interest expense		1,811
Trustee fee expense		67
Credit enhancement fee		158
Other debt service expense		219
Total operating expenses		2,937
Operating income (loss)		303
Nonoperating revenue		0
Nonoperating income (loss)		0
Change in fund net position		303
Total fund net position, July 1, as previously reported		5,109
Prior period adjustment (Note 2)		1
Total fund net position, July 1, as restated		5,110
Total fund net position, June 30	$	5,413

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019
(in thousands)

Cash flows from operating activities:		
Reimbursements	$	41
Payments to suppliers for goods and services		(239)
Payments to employees		(427)
Net cash (used for) operating activities		(625)
Cash flows from non-capital financing activities:		
Payment of principal and interest on bonds and notes		(2,223)
Net cash (used for) provided by non-capital financing activities		(2,223)
Cash flows from investing activities:		
Collections for principal and interest on loans		31,181
Cash payments for loans		(26,977)
Purchase of investments		(8,448)
Proceeds from sales or maturities of investments		10,064
Interest on deposits/investments		666
Net cash (used for) provided by investing activities		6,486
Net (decrease) increase in cash and cash equivalents		3,638
Cash and cash equivalents, July 1		24,085
Cash and cash equivalents, June 30	$	27,723

Statement continued on next page.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019
(in thousands)

Reconciliation of net income to net cash (used for) operating activities:		
Net operating income (loss)	$	303
Adjustments to reconcile net income to net cash (used for) operating activities		
Interest on investments		(683)
Financing income		(2,516)
Interest expense		2,255
Change in assets, liabilities, deferred inflows, and deferred outflows:		
Decrease (increase) in other assets		5
Decrease (increase) in OPEB deferred outflows		(1)
Decrease (increase) in pension deferred outflows (Notes 11, 14)		11
Increase (decrease) in accounts payable		6
Increase (decrease) in other payables		(6)
Increase (decrease) in compensated absences payable		8
Increase (decrease) in net pension liability		(74)
Increase (decrease) in OPEB liability		1
Increase (decrease) in pension deferred inflows of resources		66
Total adjustments		(928)
Net cash (used for) operating activities		(625)
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments		(18)
Total noncash transactions	$	(18)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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) Comprehensive Annual Financial Report (the CAFR). The State's CAFR is available from the Montana Department of Administration's State Financial Services Division website http://sfsd.mt.gov/SAB/cafr; 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.

Economic Development Bond Act programs include:

- The Conservation Reserve Enhancement Program (CRP), 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 principle and interest within this program as of June 30, 2019 was $19 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 time of purchase and are reported at cost. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities. For additional detail, see Note 3 – Cash and Investments.

INVESTMENTS

Investments are presented in the Statement of Net Position at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied by the Board's trustee. For additional detail, see Note 3 – Cash and Investments.

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 state agency governments.
3) Component Unit notes and loans receivable from university units for which the State is financially accountable.

Notes and loans generally have terms of less than 15 years. For additional detail, see Note 4 - Receivables.

CAPITAL ASSETS AND DEPRECIATION

Capital assets include equipment with a cost of $5 thousand or more. Capital assets are valued at historical cost. In accordance with state policy, the capital assets are depreciated on a straight-line methodology over an estimated useful life of 5 - 10 years. The capital assets within the fund represent equipment. Assets less than $5 thousand at time of acquisition are expensed.

ARBITRAGE REBATE

The amount of investment income the Fund may earn and retain on the proceeds of various bonds is limited by federal tax law. Earnings more than the allowable amount must be rebated to the United States Treasury. As of June 30, 2019, $44 thousand of such excess earnings are recorded as part of liabilities.

Arbitrage as of June 30, 2019
(in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance
Current	$ -	$ 43	$ -	$ 43
Non-Currrent	$ 17	$ -	$ (16)	$ 1
Total	$ 17	$ 43	$ (16)	$ 44

COMPENSATED ABSENCES

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

PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Information about the fiduciary net position of the Montana Public Employees Retirement Association (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. For additional detail, see Notes 9 – Pensions and 10 – OPEB.

NET POSITION

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 directly 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.

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. OTHER ACCOUNTING CHANGES

PRIOR PERIOD ADJUSTMENT

The prior period adjustment was an increase to the beginning net position by one thousand dollars, which was the result of an increase of Pension Deferred Outflows of one thousand dollars.

NEW ACCOUNTING GUIDANCE IMPLEMENTED

For the year ended June 30, 2019, the Board implemented GASB Statement 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This Statement clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

In addition, for the fiscal year, GASB Statement No. 83 - Asset Retirement Obligations became effective. The elements of the Statement had no impact on the Fund.

3. CASH AND INVESTMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as identified in the Statement of Net Position, are as follows:

Cash and Cash Equivalents
(in thousands)

		June 30, 2019
Cash in treasury	$	184
Short Term Investment Pool (STIP)		30
First American Government Obligation Fund		1,104
U.S. Treasury Bills		26,405
Total Cash and Cash Equivalents	$	27,723

The Fund invests its operational cash in the Board's Short-Term Investment Pool (STIP), an external investment pool. STIP is managed to preserve principal while providing 24-hour liquidity for state agencies, component units, and local government participants. Funds may be invested for one or more days. The STIP investments and the income are owned by the participants and are managed on their behalf by the Board. Cash and cash equivalents are reported at cost.

INVESTMENTS AND INVESTMENT RISKS

The Fund deposits and investments are restricted by the bond trust indenture to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. The bond trust indenture addresses custodial credit risk, concentration of credit risk, credit risk, interest rate and credit quality risk by detailing the permitted investments. The Board's STIP Investment Policy Statement (IPS) details custodial credit risk, concentration of credit risk, and credit risk. Deposits and investments must be made with Montana banks or in the STIP administered by the Board.

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 institution must hold short-term and long-term credit rating by at least one Nationally Registered Statistical Ratings Organization (NRSRO) with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash
Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by the Trustee in the name of the Board.

Investments
As of June 30th, Fund securities were recorded by the Trustee in the name of the Board by specific account.

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. The STIP Investment Policy Statement (IPS) limits concentration of credit risk 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 concentration risk was within the policy as set by the Board.

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. The Permitted Investments, as described in the Indenture, include "Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

The Board's STIP IPS specifies that STIP securities have a minimum of two credit ratings as provided by national recognized statistical rating organizations to assist in the monitoring and management of credit risk. The purchase of STIP securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. 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. The Permitted Investments as described in the Indenture details the allowable investments, including those in STIP. STIP interest rate risk is determined using the Weighted Average Maturity (WAM) method.

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 60 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."

Fund investments are categorized as follows to disclose credit and interest rate risk as of June 30th. Credit risk reflects the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by Board staff. The credit quality ratings have been calculated excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as Management of the Board determined that these securities did not contain these risk elements. There were no derivative transactions during the fiscal year for investments held by the Trustee.

Credit Quality Rating and Effective Duration as of June 30, 2019 (in thousands)				
Security Investment Type		Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Short-term investments				
US Treasury Obligations	$	2,684	AA+	0.15
Restricted investments				
US Treasury Obligations		701	AA+	1.45
Total investments by fair value level	$	3,385		

1) Credit Quality Rating and Effective Duration are weighted.

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

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 30th.

Level 2 - Prices 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.

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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.

The Board has the following fair value measurements for the Fund as of June 30th:

Enterprise Fund Investments Measured at Fair Value (in thousands)				
		Fair Value Measurements Using		
	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Short-term investments at fair value				
US Treasury Obligations	$ 2,684	$ 2,684	$ -	$ -
US Agency Obligations	-	-	-	-
Restricted investments at fair value				
US Treasury Obligations	701	701	-	-
Total investments by fair value level	$ 3,385	$ 3,385	$ -	$ -

4. RECEIVABLES

The INTERCAP loan program loans money to local governments, state agencies (Interfund) and component units of the State. Amounts related to the notes/loan receivable identified in the Statement of Net Position, are detailed as follows:

Note/Loan Receivables For Year Ended June 30, 2019 (in thousands)				
	Local Government	Interfund	Component Unit	Total
Notes/Loans Receivable - ST	$ 7,817	$ 1,834	$ 2,915	$ 12,566
Notes/Loans Receivable - LT	39,009	5,961	22,120	67,090
Interest Receivable	551	12	313	876
	$ 47,377	$ 7,807	$ 25,348	$ 80,532

The interfund and component unit note/loan receivables are further broken down by fund type and component unit as follows:

Interfund / Component Unit Receivable by Fund Type / CU
For Year Ended June 30, 2019
(in thousands)

	Interfund		Component Unit		
	Debt Service	Internal Service Fund	Montana State University	University of Montana	Total
Interfund	$ 2,590	$ 5,206	$ -	$ -	$ 7,796
Component Unit	-	-	12,833	12,215	25,048
Interest Receivable	4	8	160	153	325
	$ 2,594	$ 5,214	$ 12,993	$ 12,368	$ 33,169

5. 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.

The bonds are not a debt or liability of the State. The bonds are limited obligations of the Board payable solely from:

a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments;
b) investment income under the Indenture; and
c) an irrevocable pledge by the Board. The Board has no taxing power.

These bonds may be tendered at the bondholder's option or they may be redeemed at the Board’s option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Fund.

The Board annually remarkets the bonds and annually adjusts the interest in accordance with the Bonds’ Indenture of Trust. Interest is paid semi-annually on September 1st and on March 1st. Interest is computed based on a year of 360 days. The interest rate paid to bondholders on September 1, 2018 and March 1, 2019 was 1.65%. The interest rate effective for March 1, 2019 – February 29, 2020 is 1.87%.

In accordance with the Indenture, the Board can issue additional bonds at any time that would bear the interest rate determined at the time of issuance until the next remarketing date. No new bonds were issued in the fiscal year ending June 30, 2019.

The INTERCAP program does not have principal payments except in the instance of an optional redemption by the Board. The bonds are remarketed each February and are treated as a new issuance. Interest expense attributable to the current year was $1.8 million (See Statement of Revenues, Expenses, and Changes in Fund Net Position).

Bonds Payable at June 30, 2019
(in thousands)

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2019
2000	15,000	Variable	2025	14,255
2003	15,000	Variable	2028	14,330
2004	18,500	Variable	2029	18,000
2007	15,000	Variable	2032	14,650
2010	12,000	Variable	2035	11,900
2013	12,000	Variable	2038	11,970
2017	20,000	Variable	2042	19,960
Total INTERCAP Debt	$ 107,500			$ 105,065
Current Bonds Payable				$ 105,065

The following schedule summarizes the INTERCAP activity during the fiscal year (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$ 105,110	$ -	$ 45	$ 105,065

BOND/LOAN GUARANTEES

As of June 30th, the Fund had received a nonexchange financial guarantee from the STIP, TFIP, Coal Severance Tax Trust Fund, and the Treasurer's Cash Fund for exposure to INTERCAP bond issues in the amount of $105.1 million. STIP and TFIP are external investment pools managed by the Board. 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 State's General Fund. The nonexchange financial guarantee was extended through the Board's management of the Unified Investment Program. The Board has irrevocably pledged to make loans to cure INTERCAP reserve account deficiencies and to purchase tendered bonds not redeemed or remarketed. The outstanding bonds have final maturities of March 1, 2025 – March 1, 2042. The Board has not had to perform on any loan guarantee in the past.

The Board is authorized to credit enhance the INTERCAP bonds and is allowed to charge a fee for this service by statute. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. If the Board was called on to purchase tendered bonds not redeemed or remarketed, INTERCAP's governing bond indenture requires the Board to be paid a fee equal to 25 basis points of the principal amount of tendered bonds actually purchased. The credit enhancement fee paid to the Board's Unified Investment Program during the fiscal year was $158 thousand.

Per the Bond Indenture, an Event of Default includes a default in the due and punctual payment of any interest or principle, proceeding by or against the Issuer commenced under law, and default in the performance of the Indenture. The Bond Trustee may, upon written request of the Bondholders of not less than twenty-five percent in aggregate of the principle amount of the outstanding Bonds, declare the outstanding principle and interest to be due and payable immediately. Upon Event of Default, the Bond Trustee may pursue any available remedy under law. There has not been an Event of Default on any bond in the past.

6. CHANGES IN LONG-TERM DEBT

The fund long-term activities for the year ended June 30th, were as follows:

Changes in Long-Term Debt for year ended June 30, 2019 (in thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Compensated Absences	62	70	(63)	69	19	50

7. CONDUIT (NO COMMITMENT) DEBT

QZAB Debt

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. The borrower has 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 $2.211 million. Bonds issued and outstanding by the Board as QZAB conduit (no-commitment) debt are listed as follows:

QZAB Debt as of June 30, 2019
(in thousands)

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2019
Cut Bank Elementary	August 2005	08/18/21	$ 825	$ 825
Cut Bank High School	August 2005	08/18/21	625	625
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 QZAB conduit debt			$ 5,022	$ 5,022

Beginning Balance	Additions	Reductions	Ending Balance
$ 5,022	$ -	$ -	$ 5,022

QSCB Debt

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

QSCB Debt as of June 30, 2019 (in thousands)				
Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2019
Great Falls High Schools	April 2011	12/15/25	$ 1,855	$ 995
Great Falls Elementary	April 2011	12/15/25	6,510	3,490
Total QSCB conduit debt			$ 8,365	$ 4,485

Beginning Balance	Additions	Reductions	Ending Balance
$ 5,060	$ -	$ 575	$ 4,485

8. 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 30th, totaled $33 million.

9. PENSIONS

PLAN DESCRIPTION - DEFINED BENEFIT RETIREMENT PLAN (DBRP)

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 the Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan and the DCRP is a multiple-employer plan. Both the DBRP and DCRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be 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 under certain constitutional requirements. Benefits are dependent upon eligibility, years of service, and highest average compensation (HAC). Contributions are a percentage of the member's compensation. The pension liability, pension deferred inflows, and pension deferred outflows are reported within these financial statements related to DBRP members.

The PERS financial information is reported in the Montana Public Employees Retirement Board (MPERB) Comprehensive Annual Financial Report (CAFR). MPERB's CAFR information including PERS stand-alone financial statements and latest actuarial valuation reports can be found on MPERA's web site at http://mpera.mt.gov/index.shtml; at 100 North Park, PO Box 200131, Helena MT 59620-0131; or at 406-444-3154. The information contained within MPERB's CAFR will only display information regarding PERS in total and will not display information specific to the Fund as an entity. The Fund activity is reported within the Department of Commerce GASB 68 employer report as prepared by MPERA and represents 2.65% of the agency's liability and .02% of the total liability for all employers for the fiscal year.

Net Pension Liability (NPL)

At year end, the Fund recorded a liability of $345 thousand for its 0.02% proportionate share of the DBRP NPL and $34 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 - DBRP

Member'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.

Vesting

5 years of membership service

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011	Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS-covered employer 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 .77% effective July 1, 2017);
- 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.

Retire 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.

Retire 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;
- 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;

- 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
Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend the statutory contribution rates to the plan.

Currently, plan members are required to contribute 7.90% of members' compensation. Contributions are deducted from each member's salary and remitted by participating employers. 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 8.67% of members' compensation for the fiscal year. Beginning July 1, 2014, the employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and 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. Per statute, state agencies are required to pay their own additional contributions as employer contributions.

PERS received 100% of the required contributions from the Fund in the amount of $14 thousand for the fiscal year.

ACTUARIAL ASSUMPTIONS - DBRP
GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the last actuarial experience study, dated May 5, 2017 for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.65%
- Admin Expense as a % of Payroll 0.26%
- General Wage Growth* 3.50%
  *includes inflation at 2.75%
- Merit Increases 0.00% to 4.8%
- 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.

- o 3.0% for members hired prior to July 1, 2007
- o 1.5% for members hired between July 1, 2007 and June 30, 2013
- o 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%; or
  - ▪ 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables with no projections.

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

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

Changes in proportionate share:
Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have a significant effect on the employer's proportionate share of the collective NPL.

DISCOUNT RATE - DBRP

The discount rate used to measure the Total Pension Liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund.

Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

TARGET ALLOCATIONS - DBRP

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period July 1, 2010 to June 30, 2016, was outlined in a report dated May 5, 2017, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized as follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash Equivalents	2.6%	4.00%
Domestic Equity	36.0%	4.55%
Foreign Equity	18.0%	6.35%
Fixed Income	23.4%	1.00%

Private Equity	12.0%	7.75%
Real Estate	8.0%	4.00%
Total	100.0%	

SENSITIVITY ANALYSIS - DBRP

The table as follows represents the employer's sensitivity of the NPL calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate (in thousands).

Net Pension Liability Sensitivity Analysis	1.0% Decrease (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
Enterprise Fund	$ 499	$ 345	$ 218

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - DBRP

DBRP financial statements are prepared using the accrual basis of accounting. The same accrual basis was used for the purposes of measuring 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. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America and applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

PERS has a special funding situation in which the State, as a non-employer contributing entity paid to the plan, is legally responsible for making contributions directly to PERS on behalf of local government and school district entities.

Non-Employer Contributions:

- Special Funding
  - The state contributed 0.1% of members' compensation on behalf of local government entities.
  - The state contributed 0.37% of members' compensation on behalf of school district entities.
  - The state contributed a Statutory Appropriation from the General Fund of $33,454,182.

Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. Contributions provided by the Statutory Appropriation attributable to the Fund was $7 thousand.

DEFERRED PENSION INFLOW / OUTFLOW - DBRP

At year end, the employer recognized a deferred outflow of resources of $80 thousand for expected versus actual experience and changes in assumptions. The pension deferred inflows were $82 thousand, which related to the net difference between projected and actual earning on pension plan investments.

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows (in thousands):

For the Measurement Year ended June 30:	Recognition of Deferred Outflows/Inflows in future years as an

	increase/(decrease) to pension expense	
2019	$	2
2020		(2)
2021		(24)
2022		(2)
2023		0
Thereafter		0

GENERAL INFORMATION ABOUT THE PERS-DCRP PLAN

PERS also manages a defined contribution retirement plan (PERS-DCRP). PERS-DCRP benefits are also based on individual account balances. Member rights are immediately vested in their own contributions and attributable income. Members 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 pay the administrative expenses of the DCRP. At the plan level, the DCRP employer did not recognize any Net Pension Liability (NPL) or pension expense. For the year ended June 30, 2019, plan level non-vested forfeitures for the more than 300 employers that have participants in the PERS-DCRP totaled $746 thousand.

Employees of the fund may or may not be members of the DCRP. Based on confidentiality requirements, PERS is not able to provide detail on DCRP members.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

GENERAL INFORMATION ABOUT THE STATE EMPLOYEE GROUP BENEFITS (SEGB) OPEB PLAN

Plan description. The Board's defined benefit OPEB plan, the SEGB, provides optional OPEB in accordance with Section 2-18-704, MCA. 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. The SEGB OPEB plan is a single-employer defined benefit OPEB plan administered by statute by the Montana Department of Administration Health Care and Benefits Division (HCBD). The Fund is reported within the primary government for reporting purposes.

SEGB is not administered through a trust. There are no assets accumulated to offset the total OPEB liability. The State funds the benefits on a pay-as-you-go basis from general assets. Section 2-18-8, 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.

Benefits provided. A retiree may continue coverage with the SEGB if the retiree is eligible to receive a monthly retirement benefit under their particular retirement system at the time of leaving active employment and elect to start medical coverage within 60 days of leaving employment. The Board's employees retire under either the PERS DBRP or the PERS DCRP.

Non-Medicare retirees may continue the core plan, which includes medical, dental, and basic life insurance. Vision coverage is optional. Medical, dental, and vision coverage is optional for dependents. Medicare eligible retirees may continue medical coverage. Dental and vision coverage is optional, and no life insurance is available. Medical, dental, and vision coverage is optional for dependents. Medicare eligible retirees must enroll in both Part A and Part B Medicare coverage.

A retiree may continue coverage for a spouse who does not work for the State. If coverage is not continued, the spouse may only be added when the spouse loses eligibility for other coverage. If the retiree and spouse both work for the State, the retiree may elect to be covered under the working spouse and retains the right to exercise the transfer option. Dependent medical or dental coverage can only be continued if the retiree continues medical and/or dental coverage.

A surviving spouse may elect to continue their medical, dental, or vision coverage until Medicare age, at which time they will be offered COBRA and no longer be eligible for the plan. For surviving spouses already of Medicare age, they will be offered COBRA and lose eligibility under the plan at the end of the offering month.

Board staff and dependents are eligible to receive medical and dental health care through the SEGB. The State funds claims on a pay-as-you-go basis. Montana DOA established premiums vary depending on family coverage and eligibility. Agencies contribute $1,054 per month per eligible current State employee in addition to the employee's monthly contribution as shown below:

Premiums	Calendar Year 2018 and 2019
Medical	$30.00 - $327.00
Dental (optional)	$0.00 - $28.90
Vision Hardware (optional)	$7.64 - $22.26

Retiree Premiums. DOA-established retiree premiums vary depending on family coverage and Medicare eligibility. Per statute, retirees are responsible for their premiums and State agencies do not contribute an employer's share. The administratively-established retiree medical contributions vary between $439 and $1,633 per month depending on coverage selected. Administratively established dental contributions vary between $41.10 and $70 monthly, and vision hardware contributions vary between $7.64 and $22.26 monthly, depending on coverage selected. Spouses, unmarried dependent children, and surviving spouses are also eligible for coverage.

TOTAL OPEB LIABILITY

The Board's total OPEB liability of $20 thousand is approximately 0.04% of the total primary government OPEB liability of $55.697 million as measured on March 31, 2019 as a basis of the total group insurance premiums paid. The Board's proportionate share was unchanged from the prior valuation. The total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as December 31, 2017 with a rolled forward actuarial valuation measurement date of March 31, 2019.

Actuarial 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:

Actuarial valuation date	December 31, 2017, rolled forward to March 31, 2019
Interest/discount rate	3.79%
Projected payroll increases	4.00%
Actuarial funding method	Entry age normal funding method
Amortization method	Open basis
Asset valuation	Not applicable since no assets meet the definition of plan assets
Average retirement age	62.05 years
Participation (at retirement)	55% future retirees and 60% of future eligible spouses
Marital status	70%
Mortality - Healthy	Assumed to follow RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.
Mortality – Disabled	Assumed to follow the RP2000 Combined Mortality Table with no projections.
Healthcare cost trend rates	7.5% for both medical and prescription initially, decreasing 0.5% per year until 2021, and thereafter decreasing 0.1% or 0.2% per year to an ultimate rate of 3.8% in 2075. Cost increases are assumed to apply at the end of the plan year.
Retiree Contribution Increases	Current year was based on actual trend. For retiree/surviving spouse and spouse

	the increase is to 7.0% in 2019 decreasing 0.5% per year until 2021, and thereafter decreasing 0.1% or 0.2% per year to an ultimate rate of 3.8% in 2075 with the rate of 5.2% used for years 2027 – 2043 prior to again decreasing thereafter. .

- Changes in actuarial assumptions and methods since last measurement date:
  - Interest rate based on the March 31, 2019 20-year municipal bond index as provided by the State's actuary.

- Retiree Contributions. The following retiree contributions are a weighted average of all retiree contributions for the period January 1, 2017 to December 31, 2017:

Medical and Prescription Drug	Retiree/Surviving Spouse	Spouse
Before Medicare Eligibility	$13,572	$5,268
After Medicare Eligibility	$5,271	$4,403

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate (DR) that is 1-percentage-point lower (DR-1 percent) or 1-percentage-point higher (DR+1 percent) than the current discount rate (in thousands):

	1% Decrease (2.79%)	Discount Rate (3.79%)	1% Increase (4.79%)
Total OPEB liability (asset)	$26	$20	$18

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (in thousands):

		Healthcare Cost Trend Rates	
	1% Decrease (6.5% decreasing to an ultimate rate of 2.8%)	(7.5% decreasing to an ultimate rate of 3.8%)	1% Increase (8.5% decreasing to an ultimate rate of 4.8%)
Total OPEB liability (asset)	$17	$20	$27

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

For the year ended June 30, 2019, the Board recognized OPEB expense of $1 thousand. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$-	$2
Total	$-	$2

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as less than one thousand dollars for each year during 2020 – 2024 and as less than one thousand dollars thereafter.

TOTAL PROJECTED CLAIMS COST

To determine total projected costs for the valuation period, an analysis of claims experience for the medical and prescription drug plans was completed based on information provided by the State of Montana. For purposes of the valuation, all medical plans are grouped together and all prescription drug plans are grouped together.

Medical and prescription drug claims for the period January 2015 through December 2017 were tabulated for retirees, and an average annual amount determined. Next, adjustments were applied for the following:

- A participation adjustment to account for differences in exposures between the experience period and the current census.
- A factor to trend historical claims from the midpoint of the experience periods to the midpoint of the valuation base period.
- An adjustment to restate paid claims on an incurred basis, incorporating actual paid claims data for historical periods and best estimates of future claim lags based on State of Montana historical data. Separate adjustments were made for medical and prescription drugs.
- Benefit adjustments to account for changes in plan design components between the experience periods and the valuation base period.
- Vendor contract adjustments to reflect changes in underlying discounts, fees and financial arrangements.

Administrative costs are then added to the medical claims. The result is total projected costs for the period January 1, 2017 to December 31, 2017, for the two plans.

GENERAL INFORMATION ABOUT THE DCRP OPEB PLAN

Per statute, participants that choose the PERS-DCRP retirement system are covered by the PERS-DCRP long-term disability plan. The disability plan provides disability benefits to plan members who are vested in the plan and are currently ineligible for retirement. A separate trust has been established for purposes of providing disability benefits to members. 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 PERS at 100 North Park, Suite 200, PO Box 200131, Helena, MT 5620-0131.

11. NON-PENSION EMPLOYEE BENEFITS PLANS

DEFERRED COMPENSATION PLAN

The Board's permanent employees are eligible to participate in the State's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

12. SUBSEQUENT EVENTS

The Board's Chief Investment Officer (CIO) resigned July 19, 2019. Per the Board's Governance Policy, the Executive Director will be the acting CIO until the Board hires a replacement.

Since June 30th, the Board made additional commitments to fund loans from the INTERCAP loan program in the amount of $12.8 million.

During October 2019, a single state entity borrower pre-paid $11.5 million in principle on outstanding INTERCAP loans.

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, a total of 10 years will be presented. For further detail, see Note 9 - Pensions.

Schedule of RSI
Schedule of Net Pension Liability
(in thousands except percentages)

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of NPL	0.02%	0.02%	0.03%	0.02%	0.02%
State's NPL	$ 111	$ -	$ -	$ -	$ -
Proportionate share of NPL	$ 345	$ 419	$ 385	$ 291	$ 245
Employer's covered pay	$ 167	$ 262	$ 307	$ 241	$ 220
Proportionate share of NPL as % of payroll	128.25%	158.88%	143.92%	121.24%	111.22%
Plan fiduciary net position as % of total NPL	73.47%	73.75%	74.71%	78.40%	79.87%

Schedule of RSI
Schedule of Contributions
(in thousands except percentages)

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 14	$ 22	$ 51	$ 21	$ 19
Contributions made	$ (14)	$ (22)	$ (51)	$ (21)	$ (19)
Contribution deficiency/ (excess)	$ -	$ -	$ -	$ -	$ -
Share of pensionable payroll	$ 167	$ 262	$ 307	$ 241	$ 220
Contributions as a % of pensionable payroll	8.56%	8.39%	8.47%	8.77%	8.83%

Changes in Actuarial Assumptions and Methods

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%
- Lowered the inflation rate from 3.00% to 2.75%
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table
- Increased rates of withdrawal
- Lowered the merit component of the total salary increase

- Lowered the wage base component of the total salary increase from 4.00% to 3.50%
- Decreased the administrative expense load from .27% to .26%

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- The payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%, which includes inflation at 2.75%.

Changes in benefit terms:
Effective July 1, 2017, the following benefit changes were made:

- The interest rate credited to member accounts increased from .25% to .77%
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit
- If a 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.

Changes in proportionate share:
Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have a significant effect on the employer's proportionate share of the collective NPL.

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.

OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

Retirees are allowed to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an 'implied rate' subsidy or total OPEB liability in the related financial statements and footnotes. As additional data is available, a total of 10 years will be presented. For further detail, see Note 10 – OPEB.

Schedule of Total OPEB Liability
As of June 30, 2019
(in thousands except percentages)

	June 30, 2019	June 30, 2018
Proportion of Total OPEB liability	0.04%	0.04%
Proportionate share of Total OPEB liability	$20	$19
Covered employee payroll	$276	$253
Total OPEB liability as a percentage of covered payroll	7.93%	7.47%

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.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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 (UIP) and the Enterprise Fund Program financial statements of the Montana Board of Investments (board), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the board's financial statements, and have issued our report thereon December 20, 2019.

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 to determine the 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

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. 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 20, 2019

Montana Board of Investments

Board Response

MONTANA BOARD OF INVESTMENTS

Department of Commerce

Street Address:
2401 Colonial Drive, 3rd Floor
Helena, MT 59601

Mailing Address:
P.O. Box 200126
Helena, MT 59620-0126

Phone: 406/444-0001
Facsimile: 406/449-6579
Rateline: 406/444-3557
Website: www.investmentmt.com

RECEIVED
January 13, 2020
LEGISLATIVE AUDIT DIV.

January 6, 2020

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

Mr. Maciver,

I am in receipt of the Financial-Compliance Audit dated January 2020 for the fiscal year ending June 30, 2019, issued by the Legislative Audit Division. There are no recommendations.

Let me please compliment your team of Katie Majerus, Jessica Curtis, Jeane Carstensen-Garrett and Delsi Osmanson for their professionalism during the audit process.

Sincerely,

DAN VILLA
Executive Director/Acting Chief Investment Officer