A Report to the Montana Legislature

Financial-Compliance Audit

Montana Board of Investments

For the Fiscal Year Ended June 30, 2022

January 2023

Legislative Audit Division

22-04

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Financial-Compliance Audits

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

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

Audit Staff

Chris G. Darragh
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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

January 2023

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana Board of Investments for the fiscal year ended June 30, 2022. Included in this report are financial statements of the board's Unified Investment Program (UIP) and Enterprise Fund Program. We issued unmodified opinions on the financial statements for each of these programs.

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

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

- Short-Term Investment Pool (STIP): The pool is designed to preserve capital and maintain high liquidity. State agencies, the state's retirement systems, and local governments are eligible to participate in STIP.
- Trust 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.

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

The board also administers the state Municipal Finance Consolidation (MFC) Act and Economic Development Bond (EDB) Act programs, which comprise the board's Enterprise Fund Program. Through this program, the board administers the Intermediate Term Capitalization Program (INTERCAP), which uses bond proceeds to provide loans to local Montana governments to finance capital expenditures for up to 15 years.

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

The board was charged with administering the Down Payment Assistance Program during fiscal year 2022, funded by a portion of the American Rescue Plan Act (ARPA) funds received by the state of Montana. This program was developed to allow growing businesses to retain working capital instead of using it for down payments on necessary equipment or building purchases or expansions. The activity takes place in the Department of Commerce accounting records and will fall within the scope of the next Department of Commerce financial-compliance audit (#23-34). The state's basic financial statements also present ARPA expenditure activity.

We thank the members of the board and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

Appointed and Administrative Officials

	Name	Representative of	City	Term Expires January 1
Montana Board of Investments	Karl Englund, Chair	Law	Missoula	2023
	Jack Prothero, Vice Chair	Financial Community	Great Falls	2025
	Mark Barry	Financial Community	Helena	2025
	Teresa Olcott Cohea	Financial Community	Helena	2023
	Diane Fladmo	Labor	Helena	2023
	Jeff Meredith	Small Business	Kalispell	2025
	Bruce Nelson	Agriculture	Bozeman	2023
	Maggie Peterson	PERS	Anaconda	2025
	Danial Trost	TRS	Helena	2025
	Ryan Lynch, Senate Liaison			
	Ken Walsh, House of Representatives Liaison			

Administrative Officials

Dan Villa, Executive Director

Peggy MacEwen, Deputy Director

Jon Putnam, Chief Investment Officer

Julie Feldman, Financial Manager

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

Dan Villa, Executive Director
Montana Board of Investments
P.O. Box 200126
Helena, MT 59620-0126

e-mail: dvilla@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit
Montana Board of Investments
For the Fiscal Year Ended June 30, 2022

A report to the Montana Legislature

Background

Article VIII, Section 13 of the Montana Constitution requires the Legislature to provide for a Unified Investment Program (UIP) for public funds, and §17-6-201, MCA, requires the Montana Board of Investments (board) to administer the program. The board has sole authority to invest public retirement system funds and state compensation insurance fund assets, in accordance with state law and the Montana Constitution. The UIP is comprised of both internal and external investment pools as well as Separately Managed Accounts (SMA) for state agencies.

In addition, the board manages the investments of state agencies and certain local governments, such as cities, counties, and school districts.

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, which provides loans to Montana governments to finance capital expenditures.

During fiscal year 2022, in response to anticipated changes to the program, the board paid off all outstanding bonds for the Enterprise Fund INTERCAP program and issued new bonds. These bonds were purchased by the Short-Term Investment Pool (STIP). As of June 30, 2022, bonds outstanding totaled approximately $69 million.

The Unified Investment Program's net position increased to $25.5 billion in fiscal year 2022, up from $24.9 billion in the previous year. While most investment returns were negative, STIP saw a positive investment return of 0.3 percent contributing to the positive change in net position. Additionally, STIP saw increases due in part to the state investing American Rescue Plan Act funds.

AUDITOR'S OPINIONS (page A-1 and A-43):
Unified Investment Program: UNMODIFIED
Enterprise Fund Program: UNMODIFIED

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

For the full context of the board's financial activity, see the UIP and Enterprise Fund financial statements and notes beginning on pages A-5 and A-47, respectfully.

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the Montana Board of Investments: 0
To the legislature: 0

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

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

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

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

SUMMARY OF AUDIT WORK:

The purpose of our audit was to:

1. Obtain an understanding of the board's internal control systems to the extent necessary to support our audit of the financial statements, and, if appropriate, make recommendations for improvements in management and internal controls of the board.
2. Determine whether the board's Unified Investment Program financial statements present fairly the fiduciary net position and the changes in fiduciary net position of the program.
3. Determine whether the board's Enterprise Fund Program financial statements present fairly the net position, changes in net position, and cash flows of the program.
4. Determine whether the board complied with selected state laws and regulations.

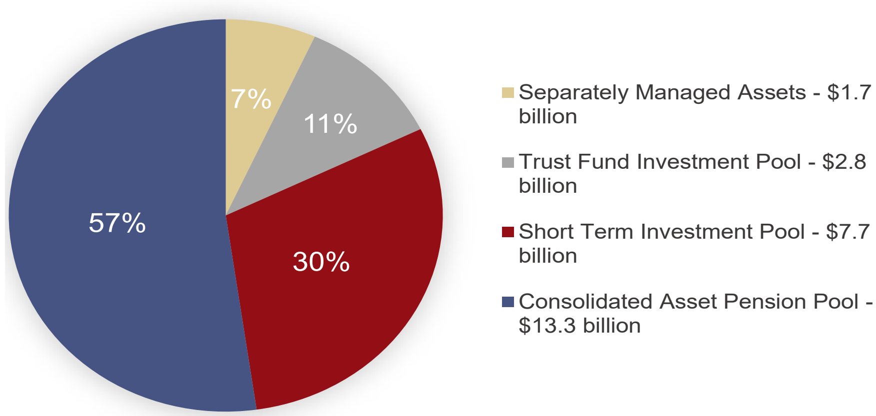
Our audit efforts over the board's UIP focused primarily on cash and cash equivalents and investment balances. It also included purchases and sales by participants, the net change in fair value of investments, dividend and interest income, and income distributions to participants.

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

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

The figure below presents information on the investments managed in the pools and SMA on June 30, 2022. For details of the investments the board manages, refer to the note disclosures beginning on page A-5.

Total Investments Managed of $25.5 billion
Unified Investment Program Pools and Separately Managed Assets | June 30, 2022



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

Independent Auditor’s Report and Unified Investment Program Financial Statements

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Montana Board of Investments Unified Investment Program, which are comprised of the Statement of Fiduciary Net Position as of June 30, 2022, the related Statement of Revenues, Expenses and Changes in Fiduciary Net Position, for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the board's Unified Investment Program as of June 30, 2022, and the changes in net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the accompanying financial statements are intended to present the financial position and the changes in financial position of only the Montana Board of Investments Unified Investment Program. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2022, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page A-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Combining Statement of Fiduciary Net Position on pages A-36 and A-37, and the Combining Statement of Changes in Fiduciary Net Position on pages A-38 and A-39 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2022, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 1, 2022

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 $25.5 billion in comparison to a beginning fiduciary net position of approximately $24.9 billion. With respect to the underlying components of the UIP:

- Consolidated Asset Pension Pool (CAPP) decreased in fiduciary net position due to a decrease in most public market asset classes, including domestic equity, international equity, core fixed income, and non-core fixed income. The annual investment return for CAPP was -4.4%;
- The Trust Funds Investment Pool (TFIP) realized a decrease in fiduciary net position due to an annual investment return of -2.8%;
- The Short-Term Investment Pool (STIP) increase in value was primarily driven by the contributions of additional capital into the pool and a modest annual return of 0.3%; and
- The Separately Managed Accounts (SMA) decrease in fiduciary net position was primarily due to expenditures of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) funds invested by the State in the UIP.

The rates of return reflect the volatility of the global markets that all investors are experiencing. It was only a short time ago that the UIP began the year with the hope that COVID-19 would abate, and the global economy would return to some normality. However, multiple factors have sent the global economy into a period of uncertainty, including:

- Global inflationary pressures,
- Global supply-chain issues, some of which resulting from the return of consumer spending,
- The invasion of Ukraine by Russia and the impact on global commodity supplies,
- Tight labor markets due to demographics and other pressures, and
- Continued viral strains of not only COVID but other contagions.

All of these led to the Federal Reserve raising interest rates aggressively throughout the fiscal year and after the fiscal year end, though not as much as other central banks. This caused the Federal Reserve to decrease the assets it had previously purchased, which led to bond market volatility and a net investment loss for the UIP for the year.

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

CHANGES IN FIDUCIARY NET POSITION FOR POOL AND SMA PARTICIPANTS (in thousands)	For Fiscal Years Ending June 30, 2022	June 30, 2021
Consolidated Asset Pension Pool (CAPP)	$ (1,045,542)	$ 2,738,755
Trust Funds Investment Pool (TFIP)	82,833	96,914
Short Term Investment Pool (STIP)	1,311,462	1,781,937
STIP included in investment pools	203,428	(56,439)
Separately Managed Accounts (SMA)	(37,871)	(1,182,829)
Total Change in Net Position by Pool and SMA participants	**$ 514,310**	**$ 3,378,338**

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

	1-YEAR TOTAL RETURN	
POOL	2022	2021
CAPP	-4.4%	28.1%
TFIP	-2.8%	1.5%
STIP	0.3%	0.2%

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements and footnotes follow this section of the report. The **STATEMENT OF FIDUCIARY NET POSITION** provides information on the types of investments, other assets, and liabilities of the pools and SMA, as of the fiscal year ended June 30, 2022.

The **STATEMENT OF CHANGES IN FIDUCIARY NET POSITION** provides information on investment performance and other increases (additions) and decreases (deductions) in the fiduciary net position of the pools and SMA, for the fiscal year ended June 30, 2022. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

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

FINANCIAL ANALYSIS

FIDUCIARY NET POSITION The fiduciary net position is the accumulated excess of assets over liabilities from the inception of the UIP. As of June 30, 2022, the UIP had a total fiduciary net position of approximately $25.5 billion in comparison to a beginning fiduciary net position of approximately $24.9 billion. The following is a condensed Statement of Fiduciary Net Position of the UIP as of June 30, 2022, as compared to the prior year:

FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS (in thousands)	June 30, 2022	June 30, 2021
Assets		
Total investments	$ 25,447,372	$ 24,924,703
Receivables and other assets	322,178	250,953
Total assets	**25,769,550**	**25,175,656**
Liabilities		
Payables and other liabilities	316,880	237,296
Total liabilities	316,880	237,296
Fiduciary net position	**$ 25,452,670**	**$ 24,938,360**

As of June 30, 2022, most of the assets were composed of investments at either fair value or at net asset value (NAV) in accordance with GAAP. There is a large measure of unpredictability in these balances from year-to-year due to constant changes in the value of the investments.

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

SMA MONTANA MORTGAGES AND LOANS, TAX ABATEMENT, BOND, AND LOAN GUARANTEES The SMA portfolio includes mortgages and loans funded by the Coal Severance Tax Trust Fund as authorized by statute, of which the carrying value was approximately $190 million as compared to approximately $192 million as of the end of the prior year.

The SMA also includes a tax abatement program by statute. The eligible abatements are administered by local governments but approved by the Board. Various eligibility requirements are in statute to afford the business an interest rate reduction on an infrastructure loan. For the fiscal year ended June 30, 2022, the amount claimed as credits against various forms of state taxation was approximately $5.1 million, as compared to approximately $5.3 million in the prior fiscal year. For further detail, see Note 10.

Finally, loan guarantees are provided from STIP, TFIP, the Coal Severance Tax Trust, and the State Treasurer's Cash Fund to the Montana Facility Finance Authority and from the TFIP and Coal Severance Tax Trust, and the State Treasurer's Cash Fund to the INTERCAP. As of the end of the fiscal year, the Board has not had to perform on the guarantees, despite the volatility of the economy. The amounts are merely commitments of the Board. STIP and TFIP are external investment pools managed by the Board. The Coal Severance Tax Trust Fund is part of the primary government for the State. The Board manages the State Treasurer's Cash Fund which consists of fund balances of all the funds of the State whose investment earnings are permitted by law to flow to the State's General Fund. As of the fiscal year ended June 30, 2022, the balance of guarantee activity was approximately $182 million as compared to approximately $191 million at the end of the prior fiscal year.

CHANGES IN FIDUCIARY NET POSITION The change in fiduciary net position is the annual additions and deductions of the UIP. As of June 30, 2022, the UIP had change in fiduciary net position of approximately $0.5 billion in comparison to the prior year change of approximately $3.4 billion. The following is a condensed Statement of Changes in Fiduciary Net Position of the UIP as of June 30, 2022, as compared to the prior year:

(see following table)

CHANGES IN FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS (in thousands)	For Fiscal Years Ending June 30, 2022	June 30, 2021
Additions		
Purchases by participants	$ 10,319,990	$ 13,477,346
Investment earnings	(644,575)	3,452,102
Investment costs	(64,773)	(66,336)
Other investment expenses	(41,621)	(21,969)
Net investment income (loss)	(750,969)	3,363,797
Securities lending income, net of expense	1,397	1,200
Total additions	**9,570,418**	**16,842,343**
Deductions		
Sales by participants	8,906,365	13,332,604
Income distributions to participants	149,743	131,401
Total deductions	**9,056,108**	**13,464,005**
Change in fiduciary net position	**514,310**	**3,378,338**
Fiduciary net position, beginning of year	**24,938,360**	**21,560,022**
Fiduciary net position, end of year	**$ 25,452,670**	**$ 24,938,360**

PURCHASES, SALES, AND DISTRIBUTIONS Purchases, sales, and distributions to participants vary annually based upon activity of the participants and their cash flow needs.

INVESTMENT EARNINGS – ECONOMIC HIGHLIGHTS Returns across asset classes were mixed in fiscal year 2022. The portfolio benefited from the diversification and strong returns of private markets. Conversely, public market valuations suffered from higher inflation, increasing interest rates, and geopolitical turmoil. Real Estate (23.52%), Private Investments (22.12%), Real Assets (13.90%), and Cash (0.46%) posted positive returns. International Equity (-20.87%), Non-Core Fixed Income (-13.66%), Domestic Equity (-13.62%), and Core Fixed Income (-9.24%) posted negative returns.

INVESTMENT COSTS Investment fees include the Board management fees, investment expenses to manage the investments in the pools and SMA, and external management fees. Board management fees are set by the State Legislature biennially and approved by the Board as part of an annual budget. External manager fees are paid directly from the accounts they manage, and investment expenses are directly allocated to the pools and SMA they impact. These flows comprise the ‘overhead’ of the UIP. For the fiscal year ending June 30, 2022, these flows represented 0.25% of ending fiduciary net position (or 25 basis points) versus 0.27% of fiduciary net position (or 27 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 $0.5 billion increase to fiduciary net position for the fiscal year ended June 30, 2022. This compares to an increase of approximately $3.4 billion in the prior year.

OPERATIONAL HIGHLIGHTS

Board operations returned to pre-pandemic “in office” work. Additional funds from the American Rescue Plan Act (ARPA) were received on behalf of the State totaling approximately $850 million. Investment earnings on ARPA dollars have been dedicated by the Governor to specific purposes and will be treated as program income by the appropriate state agency.

ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS THAT MAY IMPACT UIP’S OPERATIONS IN THE FUTURE

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

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

Requests for Information and Transparency. This financial report is designed to provide a general overview of 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/Board/Meetings.

MONTANA UNIFIED INVESTMENT PROGRAM
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2022
(in thousands)

Assets	
Investments	
Cash and cash equivalents held at custodial bank	$ 4,041,044
Investments at cost	258,795
Investments at fair value	21,147,533
Total investments	25,447,372
Securities lending cash collateral	192,568
Receivables	
Broker receivable for securities sold but not settled	29,066
Dividend and interest receivable	100,544
Total receivables	129,610
Total assets	25,769,550
Liabilities	
Payables	
Broker payable for securities purchased but not settled	93,069
Income due participants	24,899
Other payables	2,954
Administrative fee payable	3,390
Total payables	124,312
Securities lending obligations	192,568
Total liabilities	316,880
Net position held in trust for pool and Separately Managed Accounts (SMA) participants	$ 25,452,670

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

MONTANA UNIFIED INVESTMENT PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR FISCAL YEAR ENDING JUNE 30, 2022
(in thousands)

Additions	
Purchases by participants	$ 10,319,990
Net investment earnings	
Investment earnings	
Net increase (decrease) on fair value of investments	(1,151,048)
Dividend/interest income	506,022
Other investment income	451
Investment earnings	(644,575)
Investment costs	(64,773)
Other investment expenses	(41,621)
Net investment income (loss)	(750,969)
Securities lending income	1,777
Securities lending expense	(380)
Net securities lending income	1,397
Total additions	9,570,418
Deductions	
Sales by participants	8,906,365
Income distributions to participants	149,743
Total deductions	9,056,108
Change in net position	514,310
Net position held in trust for pool and SMA participants - beginning of year	24,938,360
Net position held in trust for pool and SMA participants - end of year	$ 25,452,670

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

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

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

BASIS OF ACCOUNTING

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

CASH AND CASH EQUIVALENTS HELD WITHIN POOLS

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

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

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

TOTAL FISCAL YEAR 2022 INVESTMENT COSTS
(in thousands)

	Board Management Fees	External Manager Fees	Total	Investment Fee Ratio
Consolidated Asset Pension Pool (CAPP)	$ 5,217	$ 50,959	$ 56,176	0.42%
Trust Funds Investment Pool (TFIP)	907	5,198	6,105	0.22%
Short Term Investment Pool (STIP)	805	-	805	0.01%
Separately Managed Accounts (SMA)	542	1,145	1,687	0.10%
Total	$ 7,471	$ 57,302	$ 64,773	0.25%

SECURITIES LENDING

The collateral received under securities lending agreements where the pools and SMA can spend, pledge, or sell collateral without borrower default is included in the Statement of Fiduciary Net Position. Liabilities resulting from these transactions are also included in the Statement of Fiduciary Net Position. Costs associated with the securities lending transactions, including broker commissions and lending fees paid to custodians are reported as components of investment expenses in the Statement of Changes in Fiduciary Net Position. Securities lending income reported for the fiscal year was $1.8 million, and expenses associated with securities lending were $0.4 million. For further detail, see Note 4 - Securities Lending.

PURCHASES AND SALES BY PARTICIPANTS AND INCOME DISTRIBUTIONS

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

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.

REGULATORY OVERSIGHT

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

POOL PARTICIPANT UNITS

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

2. INVESTMENT COMMITMENTS

Investments in alternative financial assets are usually made via limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last for a minimum of 10 years. The following table shows the Board's remaining commitments as of June 30th to active alternative investment funds with approximately $2.354 billion related to CAPP and $88 million related to TFIP:

(See following table)

COMMITMENTS TO FUND MANAGERS (in thousands)	Original Commitment	Commitment Remaining
Private Investments	$ 3,831,878	$ 1,223,193
Real Assets	839,938	366,957
Real Estate	3,113,601	851,488
Total	$ 7,785,417	$ 2,441,638

3. INVESTMENT RISK DISCLOSURES

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

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

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

Of the CAPP's cash equivalents position held at its custodial bank on June 30th, $136 million was held in unrated money market funds.

As a matter of STIP investment policy, the Board's fixed income investment staff can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30th, all the STIP money market investments were in US Governmental Money Markets and $153 million was held on deposit in short-term investment vehicles. NRSRO provides the credit ratings presented in the following table as of June 30th:

STIP CASH EQUIVALENT CREDIT QUALITY RATINGS
(in thousands)

Cash Equivalent Investment Type		Total Cash Equivalents	Credit Quality Rating
Agency or government related	$	196,111	A-1+
Asset backed commercial paper		2,750,228	A-1+
Corporate:			
Commercial paper		784,191	A-1+
Interest Bearing Demand Deposit Accounts		153,000	NR
Total cash equivalents held at custodial bank	$	3,883,530	

INTEREST RATE RISK

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

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

CREDIT QUALITY RATING AND EFFECTIVE DURATION
FAIR VALUES (in thousands)

Security Investment Types	CAPP	TFIP	SMA	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Durations (Years)
Treasuries	$ 645,358	$ 408,628	$ 317,079	$1,371,065	AAA	4.31-11.29
Agency or government related	273,369	165,965	100,130	539,464	A+ to AAA	2.56-5.87
Asset backed securities	117,536	109,481	86,529	313,546	AAA	2.15-2.77
Mortgage backed securities:						
Noncommercial	295,986	244,066	163,938	703,990	AAA	5.08-5.91
Commercial	191,620	239,542	79,105	510,267	AAA	3.72-5.33
Corporate:						
Financial	373,804	279,424	192,305	845,533	BBB+ to A-	2.73-3.71
Industrial	721,364	577,064	273,752	1,572,180	BB+ to BBB+	4.45-5.58
Utility	35,249	10,088	6,323	51,660	BBB-	3.12-5.12
Total Fixed Income Investments at Fair Value	$2,654,286	$ 2,034,258	$1,219,161	$5,907,705		

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30th. 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 has $68.7 million of investments reported at cost that are not rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months, or years – weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 68 days for the portfolio.

STIP CREDIT QUALITY RATINGS AND WEIGHTED AVERAGE MATURITY
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	$ 520,928	A-1	17
Asset Backed Commercial Paper	69,929	A-1	2
Agency or Government Related	1,242,500	A-1	40
Corporate:			
Commercial Paper	838,725	A-1	27
Notes	253,992	A-1	8
Certificates of Deposit	752,070	A-1	24
Total STIP Fixed Income Investments at Fair Value	$ 3,678,144		

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.

(See following table)

FOREIGN CURRENCY EXPOSURE BY COUNTRY
INVESTMENT TYPE IN U.S. DOLLAR EQUIVALENT
AS OF JUNE 30, 2022
(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	International Equities	Private Investments	Real Estate	Real Assets
Australian Dollar	$ (120)	$ -	$ 44,281	$ -	$ -	$ -
Brazilian Real	$ 269	$ 5,933	$ 23,738	$ -	$ -	$ -
Canadian Dollar	$ 57	$ -	$ 75,211	$ -	$ -	$ -
Chilean Peso	$ 68	$ 1,900	$ 120	$ -	$ -	$ -
Columbian Peso	$ 12	$ 2,783	$ -	$ -	$ -	$ -
Czech Koruna	$ -	$ -	$ 56	$ -	$ -	$ -
Danish Krone	$ 26	$ -	$ 23,845	$ -	$ -	$ -
Egyptian Pound	$ -	$ -	$ 62	$ -	$ -	$ -
EMU-Euro	$ 32	$ 2,781	$ 190,155	$ 13,179	$ 145	$ 29,404
Hong Kong Dollar	$ 201	$ -	$ 78,288	$ -	$ -	$ -
Hungarian Forint	$ 43	$ 2,253	$ 1,499	$ -	$ -	$ -
Hryvnia	$ 281	$ 947	$ -	$ -	$ -	$ -
Indonesian Rupiah	$ 114	$ 3,483	$ 12,518	$ -	$ -	$ -
Japanese Yen	$ 459	$ -	$ 134,236	$ -	$ -	$ -
Kazakhstan Tenge	$ -	$ 462	$ -	$ -	$ -	$ -
Malaysian Ringgit	$ 54	$ 2,086	$ 8,485	$ -	$ -	$ -
Mexican Peso	$ 62	$ 7,262	$ 14,510	$ -	$ -	$ -
New Israeli Sheqel	$ -	$ -	$ 11,262	$ -	$ -	$ -
New Taiwan Dollar	$ -	$ -	$ 38,694	$ -	$ -	$ -
New Zealand Dollar	$ -	$ -	$ 308	$ -	$ -	$ -
Norwegian Krone	$ -	$ -	$ 15,547	$ -	$ -	$ -
Philippine Peso	$ 10	$ -	$ 1,164	$ -	$ -	$ -
Polish Zloty	$ -	$ 423	$ 4,942	$ -	$ -	$ -
Pound Sterling	$ 632	$ -	$ 90,162	$ -	$ -	$ -
Romanian Leu	$ 35	$ 698	$ -	$ -	$ -	$ -
Russian Ruble	$ 27	$ -	$ -	$ -	$ -	$ -
Singapore Dollar	$ 20	$ -	$ 10,657	$ -	$ -	$ -
SOL	$ -	$ 4,791	$ -	$ -	$ -	$ -
South African Rand	$ 24	$ 6,472	$ 2,883	$ -	$ -	$ -
South Korean Won	$ 55	$ -	$ 36,832	$ -	$ -	$ -
Swedish Krona	$ 70	$ -	$ 33,148	$ -	$ -	$ -
Swiss Franc	$ 1	$ -	$ 41,035	$ -	$ -	$ -
Thailand Baht	$ 13	$ -	$ 7,393	$ -	$ -	$ -
Turkish Lira	$ -	$ -	$ 620	$ -	$ -	$ -
Uruguayan Peso	$ -	$ 2,553	$ -	$ -	$ -	$ -
Uzbekistan Sum	$ -	$ 308	$ -	$ -	$ -	$ -
Yuan Renminbi	$ 76	$ (2)	$ 17,694	$ -	$ -	$ -
Total	$ 2,521	$ 45,133	$ 919,345	$ 13,179	$ 145	$ 29,404

4. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. On any day, including June 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 85% and 15%, respectively, on securities lending activities. The Board retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the Board's credit risk exposure to the borrowers. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

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

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

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

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

The Board imposed no restrictions on the 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 1 days and the average weighted final maturity of 31 days.

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

SECURITIES ON LOAN AND PLEDGED COLLATERAL
(in thousands)

	Fair Value On Loan	Collateral Cash	Collateral Securities	Collateral Total	% of Fair Value
Consolidated Asset Pension Pool (CAPP)					
Domestic	$ 486,973	$ 130,491	$ 379,002	$ 509,493	105%
International	79,590	7,649	78,236	85,885	108%
Trust Funds Investment Pool (TFIP)	89,145	43,219	49,938	93,157	105%
Separately Managed Accounts (SMA)	126,807	11,209	118,877	130,086	103%
Total	$ 782,515	$ 192,568	$ 626,053	$ 818,621	

SECURITIES LENDING INCOME AND EXPENSE
(in thousands)

	Gross Income	Expenses	Net Income
Consolidated Asset Pension Pool (CAPP)	$ 1,451	$ (319)	$ 1,132
Trust Funds Investment Pool (TFIP)	178	(34)	144
Separately Managed Accounts (SMA)	148	(27)	121
Total	$ 1,777	$ (380)	$ 1,397

5. SUMMARY OF INVESTMENT POLICY – LEGAL AND CONTRACTUAL PROVISIONS

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

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

ALLOWED INVESTMENTS

As discussed previously in Notes 1 and 4, the Board approves all IPSs.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMA. Currently, only the nine retirement funds that participate in CAPP, the Defined Contribution Disability Plan, and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. The Board approves a separate IPS for each pool and SMA participant, which provides board staff 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 Pension Asset Classes (PAC) differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

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

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

TFIP

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

STIP

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

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 120 days or less. STIP is managed to preserve principal while providing 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 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3) STIP will maintain a reserve account."

SMA

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

OTHER POLICY CONSIDERATIONS

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

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

6. FAIR VALUE MEASUREMENT

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

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

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

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

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

FAIR VALUE LEVEL

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

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

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

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

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

(See following table)

INVESTMENTS MEASURED AT FAIR VALUE
(in thousands)

		Fair Value Measurements Using		
		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	$ 1,891,993	$ 1,891,993	$ -	$ -
Agency or government related	1,781,964	-	1,781,964	-
Asset backed securities	313,546	-	313,546	-
Mortgage backed securities:				
Noncommercial	703,990	-	703,990	-
Commercial	510,267	-	510,267	-
Corporate:				
Commercial paper	908,654	-	908,654	-
Commercial notes	253,992	-	253,992	-
Certificates of deposit	752,070	-	752,070	-
Financial	845,533	-	845,533	-
Industrial	1,572,180	-	1,572,180	-
Utility	51,660	-	51,660	-
Domestic equity investments	4,301,691	4,301,691	-	-
International equity investments	2,152,673	2,152,673	-	-
Direct real estate	21,105	-	-	21,105
Residential mortgages	1,279	-	-	1,279
Investment derivative instruments	(143)	-	(143)	-
Total investments by fair value level	16,062,454	$ 8,346,357	$ 7,693,713	$ 22,384
Investments measured at the net asset value (NAV)				
Private Investments	2,242,757			
Core Real Estate	1,313,303			
Non-Core Real Estate	903,261			
Real Assets	450,245			
Real Estate High Income Fund	175,513			
Total investments measured at NAV	5,085,079			
Total investments measured at fair value	21,147,533			
Investments at cost				
Cash and cash equivalents held at custodial bank	4,041,044			
INTERCAP Bonds	68,707			
SMA Montana Mortgages and Loans	190,088			
Total investments not categorized	4,299,839			
Total investments	$ 25,447,372			

INVESTMENTS AT NET ASSET VALUE (NAV)

The investments measured at NAV for the fiscal year are further detailed below as of June 30th:

INVESTMENTS MEASURED AT NAV (in thousands)

	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Investments	$ 2,242,757	$ 1,223,193		
Core Real Estate	1,313,303	130,593	Monthly, quarterly	45-90 days
Non-Core Real Estate	903,261	720,895		
Real Assets	450,245	366,957		
Real Estate High Income Fund	175,513	-	Daily	1 -3 days
Total investments measured at the NAV	$ 5,085,079	$ 2,441,638		

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

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

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

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

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

7. FAIR VALUE OF DERIVATIVE INSTRUMENTS

Within CAPP, the UIP invests in, currency forward contracts, credit default swaps, interest rate swaps, index futures (long and short duration), rights, and warrants which are classified as investment derivative instruments. The investment derivative instruments decreased in fair value for the fiscal year ended June 30, 2022, by $1.5 million. The derivative instruments had a fair value of $(143) thousand as of the end of the fiscal year and a notional amount of $70.4 million.

INVESTMENT DERIVATIVE INSTRUMENTS AS OF JUNE 30, 2022
(in thousands)

Security Investment Types	Classification	Changes in Fair Value Included in Investment Income	Fair Value	Notional Amount
Credit default swaps bought	Investment	$ 430	$ 132	$ 4,405
Credit default swaps written	Investment	(1,190)	(454)	23,696
Currency Forward Contracts	Investment	412	92	39,162
Index Futures Short	Investment	266	-	(6,500)
Index Futures Long	Investment	(1,408)	-	4
Pay fixed interest rate swaps	Investment	21	21	1,620
Receive fixed interest rate swa|	Investment	7	2	7,947
Rights	Investment	1	42	4
Warrants	Investment	(34)	22	19
Totals		$ (1,495)	$ (143)	$ 70,357

COUNTERPARTY CREDIT RISK – DERIVATIVE INSTUMENTS

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

The maximum amount of loss to the Board in case of default of all counterparties as of June 30th was $742 thousand.

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

RISK CONCENTRATIONS - CREDIT DEFAULT SWAPS AS OF JUNE 30, 2022

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
HSBC Bank USA	58%	A+	AA-	Aa3
UBS ICE	20%	A+	AA-	Aa3
Barclays Bank PLC Wholesale	10%	A	A+	A1
BNP Paribas SA	7%	A+	A+	Aa3
UBS LCH	4%	A+	AA-	Aa3
Citibank N.A.	1%	A+	A+	Aa3

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, $25.8 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $23.0 million for loans as of June 30th. An additional $1 million represented lender reservations for the Veterans' Home Loan Mortgage (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. SMA MONTANA MORTGAGES AND LOANS

The SMA 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 as of June 30th.

MONTANA MORTGAGES AND LOANS
(in thousands)

Science and Technology Alliance	$	447
Montana University System - MSTA		7,365
Montana Facility Finance		12,657
Local Government Infrastructure		11,195
Veterans' Home Loan Mortgages		47,240
Multifamily Coal Trust Homes		5,787
Intermediary Relending Program (IRP) Loans		4,947
Commercial Loans		100,450
Total Montana Mortgages and Loans at cost	$	190,088

10. TAX ABATEMENT

Within the Board's SMA Commercial Loan Program, by statute, the Infrastructure Loan Program is funded by an $80 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to the Board for the loan repayment. The Board reviews each loan and only upon verification that the entities meet the loan requirements is the loan approved by the Board. 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 $4.0 million, representing $3.5 million of principal and $0.5 million in interest. During the fiscal year, a total of $5.1 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.

INFRASTRUCTURE CREDITS CLAIMED FOR THE FISCAL YEAR 2022

	For TY 2021		For TY 2020	
	Corporate Income Tax	Individual Income Tax	Corporate Income Tax	Individual Income Tax
Amount Claimed (in thousands)	$ -	$ 66	$ 399	$ 4,654
Number of Credits	-	*	11	*

* 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 TFIP, the Coal Severance Tax Trust Fund, and the Treasurer's Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to approximately $68.7 million and from STIP, TFIP, the Coal Severance Tax Trust Fund to the Montana Facility Finance Authority (MFFA) amounting to approximately $113.6 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. 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 not had to perform on any loan guarantee in the past. The amounts are merely commitments of the Board.

MFFA is a discretely presented component unit of the State. MFFA guarantee requests are submitted to the Board for review and approval. The Board's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into MFFA's statutorily allowed capital reserve account is explicitly limited by statute which requires the Board to act prudently. The 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 $385 thousand.

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

Bond and Loan Guarantee Activity
(in thousands)

	Beginning Balance		Additions		Reductions		Ending Balance	
INTERCAP	$	90,600	$	68,707	$	90,600	$	68,707
MFFA		100,248		18,000		4,675	$	113,573

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 for the year ended June 30th.

STIP RESERVE ACTIVITY
(in thousands)

Beginning STIP Reserve	$	54,212
Additions		
Investment earnings:		
Net increase (decrease) on fair value of investments		117
Interest income		18
Transfer of daily STIP income		2,340
Recoveries from write offs		407
Total investment earnings		2,882
Total STIP Reserve activity		2,882
Ending STIP Reserve	$	57,094

13. SUBSEQUENT EVENTS

Since June 30th, the Board has committed an additional $150 million within Real Estate, $300 million within Real Assets, and $135 million within Private Investments, of which $435 million related to CAPP and $150 million to TFIP. Refer to Note 2 – Investments Commitments for further detail.

Since June 30th, the Board has funded an additional $5.1 million to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program. Reservations in the amount of $3.6

million were made for the VHLM residential mortgage purchases. Refer to Note 8 – Coal Severance Tax Trust Fund Loan and Mortgage Commitments for further detail.

SUPPLEMENTARY INFORMATION

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2022
(in thousands)

Assets	Total	CAPP	TFIP State Agencies	TFIP Local Governments	SMA
Investments					
Cash and cash equivalents					
Cash equivalent/STIP - held within pools	$ -	$ 44,895	$ 25,320	$ 110	$ -
Cash and cash equivalents held at custodial bank	4,041,044	149,127	6,628	29	1,730
Total cash and cash equivalents	4,041,044	194,022	31,948	139	1,730
Investments at cost	258,795	-	-	-	190,088
Investments at fair value	21,147,533	13,152,845	2,782,234	12,110	1,522,200
Total investments	25,447,372	13,346,867	2,814,182	12,249	1,714,018
Securities lending cash collateral	192,568	138,140	43,032	187	11,209
Receivables					
Broker receivable for securities sold but not settled	29,066	27,964	959	4	139
Dividend and interest receivable	100,544	74,159	14,209	62	6,787
Total receivables	129,610	102,123	15,168	66	6,926
Total assets	25,769,550	13,587,130	2,872,382	12,502	1,732,153
Liabilities					
Payables					
Broker payable for securities purchased but not settled	93,069	91,220	1,664	7	178
Income due participants	24,899	-	11,298	49	6,118
Other payable	2,954	2,954	-	-	-
Administrative fee payable	3,390	3,210	160	1	19
Total payables	124,312	97,384	13,122	57	6,315
Securities lending obligations	192,568	138,140	43,032	187	11,209
Total liabilities	316,880	235,524	56,154	244	17,524
Net position held in trust for pool and SMA participants	$ 25,452,670	$ 13,351,606	$ 2,816,228	$ 12,258	$ 1,714,629

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2022
(in thousands)

	STIP				STIP
Assets	State Agencies	Local Governments	Reserve	Reserve included in STIP**	STIP included in investment pools*
Investments					
Cash and cash equivalents					
Cash equivalent/STIP - held within pools	$ -	$ -	$ -	$ -	$ (70,325)
Cash and cash equivalents held at custodial bank	2,954,212	928,013	1,305	-	-
Total cash and cash equivalents	2,954,212	928,013	1,305	-	(70,325)
Investments at cost	52,283	16,424	-	-	-
Investments at fair value	2,756,466	865,894	55,784	-	-
Total investments	5,762,961	1,810,331	57,089	-	(70,325)
Securities lending cash collateral	-	-	-	-	-
Receivables					
Broker receivable for securities sold but not settled	-	-	-	-	-
Dividend and interest receivable	4,050	1,272	5	-	-
Total receivables	4,050	1,272	5	-	-
Total assets	5,767,011	1,811,603	57,094	-	(70,325)
Liabilities					
Payables					
Broker payable for securities purchased but not settled	-	-	-	-	-
Income due participants	5,657	1,777	-	-	-
Other payable	-	-	-	-	-
Administrative fee payable	-	-	-	-	-
Total payables	5,657	1,777	-	-	-
Securities lending obligations	-	-	-	-	-
Total liabilities	5,657	1,777	-	-	-
Net position held in trust for pool and SMA participants	$ 5,761,354	$ 1,809,826	$ 57,094	$ -	$ (70,325)

*STIP holdings, purchases, sales, and investment earnings within investment
**STIP Reserve investment earnings and reserve expense within STIP are offset to calculate a combining total.

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022
(in thousands)

			TFIP		
	Total	CAPP	State Agencies	Local Governments	SMA
Additions					
Purchases by participants	$ 10,319,990	$ 121,228	$ 249,079	$ -	$ 430,540
Net investment earnings					
Investment earnings					
Net increase (decrease) on fair value of investments	(1,151,048)	(860,279)	(156,755)	(694)	(134,293)
Dividend/interest income	506,022	355,712	92,794	420	43,663
Other investment income	451	-	-	-	-
Investment earnings	(644,575)	(504,567)	(63,961)	(274)	(90,630)
Investment costs	(64,773)	(56,176)	(6,077)	(28)	(1,687)
Other investment expenses	(41,621)	(41,513)	(53)	-	(14)
Short Term Investment Pool reserve expense	-	-	-	-	-
Net investment income (loss)	(750,969)	(602,256)	(70,091)	(302)	(92,331)
Securities lending income	1,777	1,451	178	-	148
Securities lending expense	(380)	(319)	(34)	-	(27)
Net securities lending income	1,397	1,132	144	-	121
Total additions	9,570,418	(479,896)	179,132	(302)	338,330
Deductions					
Sales by participants	8,906,365	565,646	8,720	-	336,230
Income distributions to participants	149,743	-	86,884	393	39,971
Total deductions	9,056,108	565,646	95,604	393	376,201
Change in net position	514,310	(1,045,542)	83,528	(695)	(37,871)
Net position held in trust for pool and SMA participants - beginning of year	24,938,360	14,397,148	2,732,700	12,953	1,752,500
Net position held in trust for pool and SMA participants - end of year	$ 25,452,670	$ 13,351,606	$ 2,816,228	$ 12,258	$ 1,714,629

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022
(in thousands)

	STIP				STIP
	State Agencies	Local Governments	Reserve	Reserve included in STIP**	STIP included in investment pools*
Additions					
Purchases by participants	$ 9,435,141	$ 1,289,044	$ -	$ -	$ (1,205,042)
Net investment earnings					
Investment earnings					
Net increase (decrease) on fair value of investments	506	467	117	(117)	-
Dividend/interest income	10,142	3,384	18	(18)	(93)
Other investment income	338	113	2,747	(2,747)	-
Investment earnings	10,986	3,964	2,882	(2,882)	(93)
Investment costs	(604)	(201)	-	-	-
Other investment expenses	(31)	(10)	-	-	-
Short Term Investment Pool reserve expense	(2,160)	(722)	-	2,882	-
Net investment income (loss)	8,191	3,031	2,882	-	(93)
Securities lending income	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Net securities lending income	-	-	-	-	-
Total additions	9,443,332	1,292,075	2,882	-	(1,205,135)
Deductions					
Sales by participants	8,073,824	1,330,415	-	-	(1,408,470)
Income distributions to participants	16,936	5,652	-	-	(93)
Total deductions	8,090,760	1,336,067	-	-	(1,408,563)
Change in net position	1,352,572	(43,992)	2,882	-	203,428
Net position held in trust for pool and SMA participants - beginning of year	4,408,782	1,853,818	54,212	-	(273,753)
Net position held in trust for pool and SMA participants - end of year	$ 5,761,354	$ 1,809,826	$ 57,094	$ -	$ (70,325)

*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
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Montana Board of Investments Enterprise Fund Program, which are comprised of the Statement of Net Position as of June 30, 2022, the related Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the board's Enterprise Fund Program as of June 30, 2022, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 4 to the financial statements the board paid off all outstanding bonds and issued new bonds in fiscal year 2022. The new bonds were purchased by the Unified Investment Program, Short Term Investment Pool (STIP). Our opinion is not modified with respect to this matter.

As discussed in Note 1, the accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows of only the Montana Board of Investments Enterprise Fund Program. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2022, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-47, the Schedule of Proportionate Share of Net Pension Liability on page A-80, the Schedule of Contributions on page A-80, and the Schedule of Total OPEB Liability and Related Ratios on page A-81 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2022, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 1, 2022

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 year ending June 30, 2022, was $5.2 million as compared to $4.9 million for the fiscal year ending June 30, 2021. The net position increased $293 thousand for the year ended June 30, 2022, as compared to a $439 thousand decrease in the fiscal year end June 30, 2021.

Operating revenue of the Fund decreased for the year ending June 30, 2022, $18 thousand as compared to the prior year. This was due to a decrease in other operating revenue of $39 thousand, an increase in investment revenue in the amount of $12 thousand and an increase in financing revenue in the amount of $9 thousand.

Operating expenses of the Fund decreased for the year to $851 thousand as compared to $1.6 million in the prior year. This decrease in expenses was primarily the result of lower interest paid on outstanding bonds in the amount of $371 thousand, a decrease of $68 thousand in personal service, and a decrease of $249 thousand in other expenses.

As a result of operations, the net of operating revenue and operating expenses resulted in an operating income for the Fund for the year of approximately $293 thousand. This is in comparison to an operating loss of approximately $439 thousand in the previous fiscal year.

Cash flow of the Fund decreased by approximately $11.1 million for the fiscal year as compared to a net decrease in cash flow of approximately $10.5 million in the prior fiscal year. As explained in Note 4 to the basic financial statements, during fiscal year 2022, the Board refunded the entirety of INTERCAP Bonds. This included a cash defeasance of $21.9 million and issuance of refunding bonds for the remaining former debt.

Collections for principal and interest on loans increased by $621 thousand in 2022 as compared to 2021. The outflow for purchases of investments decreased by $20.6 million. The inflow for sales and maturities of investments decreased by $6.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Fund is a Proprietary Fund of the State's Annual Comprehensive Financial Report (ACFR), which is separately issued from these financial statements. The Fund is not an entire reporting entity as described within accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). However, the Fund provides this 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, 2022.

The **STATEMENT OF REVENUES, EXPENSES AND CHANGE 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, 2022.

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 post-employment benefits (OPEB).

FINANCIAL ANALYSIS

NET POSITION The following is a condensed Statement of Net Position of the Fund as of June 30th as compared to the prior year.

CONDENSED STATEMENT OF POSITION (in thousands)	June 30, 2022	June 30, 2021
Assets		
Non-capital assets	$ 74,512	$ 96,046
Capital assets, net of accumulated depreciation	-	1
Total assets	74,512	96,047
Deferred Outflows of Resources	112	130
Liabilities		
Current liabilities	245	90,696
Noncurrent liabilities	69,030	509
Total liabilities	69,275	91,205
Deferred Inflows of Resources	124	40
Net Position		
Invested in Capital Assets	-	1
Restricted Net Position	5,213	405
Unrestricted Net Position	12	4,526
Total Net Position	**$ 5,225**	**$ 4,932**

As of June 30, 2022, most of the assets remained composed of note and loan interest and principal receivable in accordance with the INTERCAP program presented in the Fund. As described in more detail in the notes to the basic financial statements, the Fund issues notes and loans for eligible Montana local governments, state agencies, and component units. The INTERCAP Revolving Loan Program is an intermediate term capital program administered by the Board.

At the end of the fiscal year, the total note and loan principal portfolio receivable was approximately $69.6 million, as compared to approximately $72.5 million at the beginning of the year. Approximately $20.4 million in loans were funded during the fiscal year ended June 30, 2022 as compared to $25.6 million in the prior year. The Fund received repayments of approximately $24.4 million, including principal and interest.

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

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.

Most of the Fund's liabilities are bonds payable related to debt issuance that funds the INTERCAP loans for eligible Montana governmental units. On November 30, 2021, the Board adopted Resolution 249 which allowed for the redemption of all outstanding bonds of the Fund and the issuance of a new bond. As discussed in the Notes to the basic financial statements, the new bond is considered long-term debt, whereas the old bonds were short-term. The new debt is extendable annually upon agreement between the Fund and the holder of the bond with no limit on the number of additional extension periods beginning in February 2023.

The total net position of the Fund is comprised of three elements as required by GAAP. Unrestricted Net Position represents the accumulated unrestricted changes in net position since the inception of the Fund. Restricted Net Position is comprised of amounts related to the INTERCAP bonds and can only be reused in accordance with those provisions. There was a decrease in Unrestricted Net Position of $4.5 million and an increase of Restricted Net Position of $4.8 million related to the defeasement and refunding of the bonds during fiscal year 2022. For additional detail, see Note 4 – Bonds Payable. Governmental Accounting Standards Board (GASB) Statement No. 87 – Leases, was implemented during the fiscal year contemporaneously with the retirement of an existing equipment lease.

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 REVENUE, EXPENSES AND CHANGES IN NET POSITION
(in thousands)

	For Fiscal Years Ending June 30, 2022	June 30, 2021
Operating Revenues		
Financing Income	$ 1,127	$ 1,118
Other	17	44
Total Operating Revenues	1,144	1,162
Operating Expenses		
Debt Service	433	866
Personal Services	364	432
Other	54	303
Total Operating Expenses	851	1,601
Operating Income (Loss)	293	(439)
Change in Fund Net Postion	293	(439)
Total Fund Net Postion as of the Beginning of the Year	4,932	5,371
Total Fund Net Postiton as of the End of the Year	$ 5,225	$ 4,932

Operating revenues were primarily related to financing income related to the INTERCAP note and loan portfolio. Financing income increased $9 thousand and investment revenue increased $12 thousand. Other operating revenues decreased by $39 thousand.

Operating expenses primarily occur in two areas: debt service and personal services. Debt service on the bonds includes interest expense, trustee fees, bond issuance costs, and other debt service costs, which decreased by $433 thousand this year because of lower interest rates and decreased bond costs. Personal services include employee compensation, compensated absence expense, sick leave and other compensatory time recognized during the fiscal year. These amounts decreased by $68 thousand.

Other amounts include contracted services, supplies and materials, communications, travel, rent, pensions, post-employment benefits, and other overhead expenses. These expenses decreased by $249 thousand during the year, primarily with a reduction of pension expense of $137 thousand.

The net of all the flows resulted in a $4.5 million decrease to Unrestricted Net Position and a $4.8 million increase to Restricted Net Position for the fiscal year ended June 30, 2022, primarily due to the cash defeasance and the refunding of bonds. For additional detail, see Note 4 – Bonds Payable. Total Net Position increased by $293 thousand from the prior year.

OPERATIONAL HIGHLIGHTS

The Board made several programmatic changes to modernize the INTERCAP program. Resolution 249 was adopted by the Board expanding lending opportunities and creating significant cost savings for the eligible governmental entities. As an additional benefit, the STIP participants were able to realize a higher yield.

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

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

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF NET POSITION AS OF JUNE 30, 2022
(in thousands)

Assets		
Current assets		
Cash and cash equivalents	$	4,931
Interest receivable		285
Notes/loans receivable		7,296
Interfund notes/loans		1,730
Interfund interest receivable		33
Component Unit notes/loans		1,260
Component Unit interest receivable		51
Prepaid expense		1
Total current assets		15,587
Noncurrent assets		
Notes/loans receivable		42,228
Interfund notes/loans		8,952
Component Unit notes/loans receivable		7,745
Total noncurrent assets		58,925
Total assets		74,512
Deferred outflows of resources		112
Liabilities		
Current liabilities		
Accrued expenses		19
Accrued interest payable		188
Compensated absences		38
Total current liabilities		245
Noncurrent liabilities		
Compensated absences		32
Total OPEB liability		37
Net pension liability		254
Bonds/notes payable		68,707
Total noncurrent liabilities		69,030
Total liabilities		69,275
Deferred inflows of resources		124
Net position		
Restricted		5,213
Unrestricted		12
Total net position	$	5,225

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(in thousands)

Operating revenue		
Investment revenue	$	17
Financing revenue		1,127
Total operating revenue		1,144
Operating expenses		
Personal services		364
Contracted services		12
Supplies and materials		2
Communications		3
Rent		14
Indirect and other costs		59
OPEB expense		5
Pension expense		(41)
Debt service		
Interest expense		279
Trustee fee expense		45
Bond issuance cost		79
Other debt service expense		30
Total operating expenses		851
Operating income (loss)		293
Change in fund net position		293
Total fund net position, July 1		4,932
Total fund net position, June 30	$	5,225

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2022
(in thousands)

Cash flows from operating activities		
Payments to suppliers for goods and services	$	(96)
Payments to employees		(400)
Net cash (used for) provided by operating activities		(496)
Cash flows from non-capital financing activities:		
Payment of interest on bonds and notes		(136)
Payment of principal on bonds defeased using existing resources		(21,893)
Payment of principal on bonds defeased using refunding		(68,707)
Proceeds from issuance of bonds and notes		68,707
Payment of trustee and other debt service costs		(75)
Payment of bond issue costs		(79)
Net cash (used for) provided by non-capital financing activities		(22,183)
Cash flows from investing activities:		
Collections for principal and interest on loans		24,373
Cash payments for loans		(20,359)
Proceeds from sales or maturities of investments		7,523
Interest on deposits/investments		17
Net cash (used for) provided by investing activities		11,554
Net (decrease) increase in cash and cash equivalents		(11,125)
Cash and cash equivalents, July 1		16,056
Cash and cash equivalents, June 30	$	4,931

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2022
(in thousands)

Reconciliation of net income to net cash (used for) operating activities		
Net operating income (loss)	$	293
Adjustments to reconcile net income to net cash (used for) operating activities		
Interest on investments		(17)
Financing income		(1,127)
Interest expense		433
Change in assets, liabilities, deferred inflows, and deferred outflows:		
Decrease (increase) in OPEB deferred outflows		4
Decrease (increase) in pension deferred outflows (Notes 11, 14)		14
Increase (decrease) in accounts payable		(1)
Increase (decrease) in lease payable		(1)
Increase (decrease) in other payables		(5)
Increase (decrease) in compensated absences payable		(15)
Increase (decrease) in net pension liability		(150)
Increase (decrease) in OPEB liability		(8)
Increase (decrease) in OPEB deferred inflows of resources		9
Increase (decrease) in pension deferred inflows of resources		75
Total adjustments		(789)
Net cash (used for) operating activities	$	(496)
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	$	(1)
Total noncash transactions	$	(1)

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

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

These financial statements present only the activity of the Enterprise Fund (the Fund) as managed by the Board of Investments (the Board). The Fund is reported as a proprietary fund within the State of Montana's (the State) Annual Comprehensive Financial Report (ACFR). The State's ACFR is available from the Montana Department of Administration's State Financial Services Division website http://sfsd.mt.gov/SAB/acfr; at Room 255 Mitchell Building, 125 North Roberts Street, PO Box 200102, Helena, MT 59620-0102 or at 406.444.3092.

1. DESCRIPTION OF FUND AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUND

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

Municipal Finance Consolidation Act programs include:

- The INTERCAP Revolving Loan Program (INTERCAP) provides funds to eligible Montana state and local governments to finance capital expenditures for up to fifteen years or the useful life of the project, whichever is less.

- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not liable for the repayment of the bonds.

- Qualified School Construction Bond (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not liable for the repayment of the bonds.

One remaining Economic Development Bond Act program is in operation, the Conservation Reserve Enhancement Program (CRP). This program was created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The outstanding principal and interest within this program as of June 30, 2022, was $8 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. For additional details, see Note 2 – Cash and Cash Equivalents.

RECEIVABLES

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

1) Notes and loans receivable from local governments.
2) Interfund notes and loans receivable from 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 3 - Receivables.

COMPENSATED ABSENCES

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

PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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 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.

OTHER ACCOUNTING CHANGES - DEFEASED AND REFUNDED DEBT

On November 30, 2021, the board adopted Resolution 249. Resolution 249 allowed the redemption of all outstanding bonds of the INTERCAP program and the issuance of a new bond to the Board of Investments Unified Investment Program (UIP). On January 25, 2022, the new special, limited obligation bond was issued for $68.7 million. The proceeds of the bond were placed in an escrow account for the defeasance of the current outstanding bond along with $21.9 million of cash and cash equivalents. On March 1, 2022, the existing debt of $90.6 million in principal and $65 thousand in interest was defeased. For additional detail, see Note 4 – Bonds Payable.

2. CASH AND CASH EQUIVALENTS

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, 2022
Cash in treasury	$	69
Short Term Investment Pool (STIP)		4,858
First American Government Obligation Fund		4
Total Cash and Cash Equivalents	$	4,931

The Fund invests its operational cash in the Board's Short-Term Investment Pool (STIP), an external investment pool that is part of the Montana Unified Investment Program (UIP). The UIP is also managed by the Board. The Board is not registered with the U.S. Securities and Exchange Commission as an investment company. STIP is managed to preserve principle while providing

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

The First American Government Obligation Fund is primarily comprised of cash, direct obligations of the U.S. Government, securities that will mature within one day, and similar investments. It is priced at a Net Asset Value of $1 per share, but without a guarantee of stability. The fund traded at $0.9995 per share as of fiscal year end.

CUSTODIAL CREDIT RISK

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

CONCENTRATION OF CREDIT RISK

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

CREDIT RISK

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. STIP interest rate risk is determined using the Weighted Average Maturity (WAM) method. As of June30, 2022, the WAM for STIP was 68 days.

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

1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open

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

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

3. RECEIVABLES

The INTERCAP loan program loans money to local governments, 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
JUNE 30, 2022
(in thousands)

	Local Government	Interfund	Component Unit	Total
Notes/Loans Receivable - ST	$ 7,296	$ 1,730	$ 1,260	$ 10,286
Notes/Loans Receivable - LT	42,228	8,952	7,745	58,925
Interest Receivable	285	33	51	369
	$ 49,809	$ 10,715	$ 9,056	$ 69,580

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
JUNE 30, 2022
(in thousands)

	Interfund		Component Unit	
	Debt Service	Internal Service Fund	Montana State University	Total
Interfund	$ 2,000	$ 8,682	$ -	$ 10,682
Component Unit	-	-	9,005	9,005
Interest Receivable	11	22	51	84
	$ 2,011	$ 8,704	$ 9,056	$ 19,771

4. BONDS PAYABLE

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

GENERAL INFORMATION

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

Included in long-term debt is $68.7 million of a special, limited obligation bond of the Board payable solely from and secured by the revenues derived by the INTERCAP Loan Program under the Municipal Finance Consolidation Act. The bond was issued January 25, 2022. The bond may be extended annually as of February 21st, with no limit on the number of extensions. Principal of the bond can be advanced as needed up to a maximum of $120 million. The proceeds of the bond were used to redeem outstanding limited obligation bonds. The interest rate on principal and any advances is 0.632% until February 20, 2023. The bond is extendable each year upon agreement of the issuer and holder in writing for a period of one year. There is no limit on the number of additional extension periods. If the issuer and holder to do not agree to extend the bond, there is one final extension period before the bond is redeemed. The bond interest rate for the extension period will be determined on February 15th and will be equal to the midpoint yield of the US Treasury Bill with the maturity closest to 365 days plus ten basis points. Interest is paid semi-annually on February 20th and August 20th. Interest is calculated on the basis of a three hundred sixty-day year composed of twelve thirty day months.

LONG-TERM DEBT

Enterprise long-term bonds were outstanding as of June 30th, as follows (in thousands):

BONDS PAYABLE
(in thousands)

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2022
2022	$ 68,707	Variable	N/A	$ 68,707
Bonds Payable	$ 68,707			$ 68,707

The INTERCAP program does not have principal payments except in the instance of an optional redemption by the Board beginning in February 2023.

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

Beginning Balance	Additions	Reductions	Ending Balance
$ -	$ 68,707	$ -	$ 68,707

The bonds are payable with a one-year extension option to the Unified Investment Program (UIP). The current variable rate of interest on the bonds is 0.632% resulting in projected debt service requirements as of June 30th as follows (in thousands):

Fiscal Year End	Principal *	Interest
2023	$ -	$ 434
2024	$ -	$ 434
2025	$ -	$ 434
2026	$ -	$ 434
2027	$ -	$ 434
2028-2032 per year	$ -	$ 434
* Bond redemption period can be extended		

DEFEASED DEBT USING EXISTING RESOURCES AND REFUNDED DEBT

On January 25, 2022, $21.9 million of cash and cash equivalents from the fund was utilized to defease $21.9 million in existing debt and accrued interest. The funds were placed with an escrow agent and invested in United States Treasury securities. As of June 30, 2022, there was no defeased debt outstanding and there was no gain or loss on the transaction. To accomplish the transaction, the fund incurred $79 thousand of issuance costs.

(in thousands)

Beginning Balance	Additions	Reductions	Ending Balance
$ 90,600	$ -	$ (90,600)	$ -

Contemporaneously to the cash defeasance, the Fund issued at par $68.7 million of Taxable Series 2022 bonds for the purpose of refunding the remaining $90.6 million then outstanding short-term bonds payable. The outstanding bond proceeds are used to fund the revolving INTERCAP loan program and the principal will be repaid with program resources from the repayment of outstanding loans. The economic gain on the refunding was $721 thousand.

BOND/LOAN GUARANTEES

As of June 30th, the Fund had received a nonexchange financial guarantee from the - Coal Severance Tax Trust Fund and the Treasurer's Cash Fund for exposure to INTERCAP bond issues in the amount of $68.7 million. Both the Coal Severance Tax Trust Fund and the Treasurer's Fund are part of the primary government for the State. The Board manages the

Treasurer's Cash Fund which consists of fund balances of all the funds for the State whose investments earnings are permitted by law to flow to the State's General Fund. The nonexchange financial guarantee was extended through the Board's management of the UIP. The Board has not had to perform on any loan guarantee in the past.

5. CHANGES IN OTHER LONG-TERM DEBT

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

CHANGES IN OTHER LONG-TERM DEBT
(in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Compensated Absences	$ 85	$ 140	$ (155)	$ 70	$ 38	$ 32

6. 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 $1.8 million. This amount is reported within a fiduciary fund for the State. Bonds issued and outstanding by the Board as QZAB conduit (no-commitment) debt are listed as follows:

QZAB DEBT
(in thousands)

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2022
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			$ 3,572	$ 3,572

QZAB:							
(in thousands)							
Beginning Balance		Additions		Reductions		Ending Balance	
$	5,022	$	-	$	1,450	$	3,572

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
(in thousands)

Project	Issue Date	Maturity Date		Amount Issued		Balance June 30, 2022
Great Falls High Schools	April 2011	12/15/25	$	1,855	$	567
Great Falls Elementary	April 2011	12/15/25		6,510		2,011
Total QSCB conduit debt			$	8,365	$	2,578

QSCB:							
(in thousands)							
Beginning Balance		Additions		Reductions		Ending Balance	
$	3,248	$	-	$	670	$	2,578

7. INTERCAP PROGRAM COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments as of June 30th totaled $26.6 million**.**

8. PENSIONS

DECRIPTION OF PLANS

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

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

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

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

The stand-alone financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, 406.444.3154 or both are available on the MPERA website at https://mpera.mt.gov/about/annualreports1/annualreports. The information contained within PERB's ACFR 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 2.03% of the agency's liability and .01% of the total liability for all employers for the fiscal year.

NET PENSION LIABILITY (NPL) - DBRP

At year end, the Fund recorded a liability of $254 thousand for its .01% proportionate share of the DBRP NPL and ($41) 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

<u>Eligibility for benefit</u>

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:

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.

<u>Second Retirement</u> (requires returning to PERS covered employment or PERS service)

Retire before January 1, 2016 and accumulate less than 2 years additional service credit, or

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

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

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.

<u>Monthly Benefit Formula</u>

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

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

Currently, plan members are required to contribute 7.90% of members' compensation. By statute, the members' 7.90% contributions are temporary and will be decreased to 6.90% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

As the employer, the State was required to contribute 8.97% of members' compensation for the fiscal year. Effective July 1, 2014, the employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

PERS received 100% of the required contributions from the Fund in the amount of ($2) thousand for the fiscal year.

ACTUARIAL ASSUMPTIONS – DBRP

The total pension liability as of June 30, 2021, was determined on the results of an actuarial valuation date of June 30, 2020, and applying roll forward procedures, using the following actuarial assumptions, applied to all periods included in the measurement. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.06%
- Admin Expense as a % of Payroll 0.28%
- General Wage Growth* 3.50%
  *includes inflation at 2.40%
- Merit Increases 0.00% to 4.80%
- Guaranteed Annual Benefit Adjustment (GABA)
  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - 3.0% for members hired prior to July 1, 2007;
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions 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

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

- The discount rate was lowered from 7.34% to 7.06%.
- The investment rate of return was lowered from 7.34% to 7.06%.

CHANGES IN BENEFIT TERMS

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

CHANGES IN PROPORTIONATE SHARE

There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to 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 7.06%. 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 contributed 0.10% 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 Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. 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 studies prepared for the Plan. The long-term rate of return as of June 30, 2021, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2021 Edition* by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.66%. The assumed inflation is based on the intermediate inflation of 2.40% in the *2021 OASDI Trustees Report* used by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized as follows:

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

SENSITIVITY ANALYSIS – DBRP

The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.06%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate (in thousands).

Net Pension Liability Sensitivity	1.0% Decrease (6.06%)	Current Discount (7.06%)	1.0% Increase (8.06%)
Enterprise Fund	$403	$254	$129

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - DBRP

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used for the purposes of determining the NPL, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, the Fiduciary Net Position, and additions to/deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due, and employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. 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).

The State, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers. The State contributed a Statutory Appropriation from the General Fund of $34.3 million.

Per Montana law, state agencies and universities paid their own additional contributions. The Fund paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

As of Measurement Date June 30, 2021	NPL (in thousands)	Percent of Collective NPL	Change in Percent of Collective NPL
Fund Proportionate Share	$ 254	0.014%	0.001%
State of Montana Proportionate Share assoiated with Employer	72	0.004%	<0.001%
Total	$ 326	0.018%	0.001%

DEFERRED PENSION INFLOW / OUTFLOW - DBRP

At year end, the Fund recognized a deferred outflow of resources of $81 thousand for expected versus actual experience and changes in assumptions. The pension deferred inflows were $105 thousand, which is 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 Fund's contributions after the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

For the Measurement yeare ended June 30:	Recognition of Deferred Outflows/Inflows in future years (in thousands)	
2022	$	11
2023		1
2024		(25)
2025		(33)
2026		-
Thereafter	$	-

THE PERS-DEFINED CONTRIBUTION RETIREMENT PLAN (DCRP)

The DCRP is a defined contribution multiple-employer plan. DCRP benefits are based on eligibility and individual account balances. Participants are immediately vested in their own contributions and attributable income. DCRP Participants are vested after five years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per statute. Forfeitures are used to cover the administrative expenses of the DCRP. At the plan level for the measurement period ended June 30, 2021, the DCRP employer did not recognize any Net Pension Liability (NPL) or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 340 employers that have participants in the DCRP totaled $1.1 million.

9. OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Plan description. The Board participates in the State's defined benefit OPEB plan, the SEGB. The plan provides optional post employment health care benefits 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 (DOA) 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. 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. Reported contributions are not a result of direct funding to the plans or for associated liabilities but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

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 DBRP or the DCRP.

Non-Medicare retirees may continue the core plan, which includes medical, dental, and basic life insurance. Vision coverage is optional. Medical, dental, and/or vision coverage is optional for dependents. Medicare eligible retirees may continue medical coverage, with dental and vision being optional. Medical, dental, and vision coverage is optional for dependents of Medicare eligible retirees. 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 Years 2021 - 2022**
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. As of December 31, 2021, the State OPEB Plan's administratively established retiree medical contributions vary between $457.00 and $2,172.00 per month depending on coverage selected. Administratively established dental contributions vary between $41.10 and $70.00 per month, and vision hardware contributions vary between $7.64 and $22.26 per month, depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. Spouses, unmarried dependent children, and surviving spouses are also eligible for coverage.

TOTAL OPEB LIABILITY

The Board's total OPEB liability of $37 thousand is approximately 0.03% of the total primary government OPEB liability of $120 million as measured on June 30, 2022. The total OPEB liability was determined by an actuarial valuation as of December 31, 2020, rolled forward to March 31, 2022.

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

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:

Contributions (weighted average)	**Retiree / Surviving Spouse**	**Spouse**
Before Medicare eligibility	$15,072	$6,908
After Medicare eligibility	5,484	4,820
Actuarial valuation date	December 31, 2020	
Discount rate	3.31%	
Projected payroll increases	2.50%	
Actuarial cost method	Entry age normal funding method	
Amortization method	Level percent of payroll, open basis	
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75	
Participation	Future retirees 40% Future eligible spouses 70%	
Marital status (at retirement)	70%	

Mortality - Health
Healthy mortality is assumed to follow the RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality – Disabled
Disabled mortality is assumed to follow the RP2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date:

- Interest/discount rate changed from 2.23% to 3.31%.

Changes in benefit terms since last measurement date: None.

Healthcare cost trend rates

SEGB assumed projected healthcare cost trend rates at 6.0% for the 2021 Plan Year, decreasing to 3.8% by the 2077 Plan Year and beyond. For Prescription Drug Benefits, SEGB assumed a 9% rate for the 2020 Plan Year decreasing also to 3.8% for the 2077 Plan Year and beyond, with an average of 6.0% for all years.

Retiree Contribution Increases

Retiree Contribution Increases to SEGB were assumed to be 0% for retirees and surviving spouses in the 2021 Plan Year and with varying increases and decreases until settling at 3.8% in the 2078 Plan Year.

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 (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate (in thousands):

	1% Decrease (2.31%)	**Discount Rate** (3.31%)	**1% Increase** (4.31%)
Total OPEB liability	$46	$37	$30

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 (5%) or 1-percentage-point higher (7%) than the current healthcare cost trend rates (in thousands):

	Healthcare Cost Trend Rates		
	1% Decrease (5.0%)	Healthcare Cost Trend Rate (6.0%)	1% Increase (7.0%)
Total OPEB liability	$29	$37	$48

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

For the year ended June 30, 2022, the Board recognized OPEB expense of $5 thousand. On June 30, 2022, 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	$ -	$ 5
Changes of assumptions and other inputs	31	14
Total	$ 31	$ 19

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as $1 thousand for each year during 2022 – 2026 and $6 thousand 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. For purposes of the valuation, all medical plans are grouped together, and all prescription drug plans are grouped together.

Medical and prescription drug claims were based on the most recent contribution rate development calculations for retirees, utilizing the most current claims cost experience and adjusting for the following:

- 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 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, 2020 to December 31, 2020, for the two plans.

GENERAL INFORMATION ABOUT THE DCRP OPEB PLAN

Per statute, participants that choose the DCRP retirement system are covered by the DCRP long-term disability plan. The disability plan is a multiple employer plan that 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 and is accounted for as a fiduciary fund of the State. The assets are held in a trust capacity for the beneficiaries. The PERB issues publicly available annual reports which include financial statements and required supplemental information for the plan. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, 406.444.3154 or both are available on the MPERA website at https://mpera.mt.gov/about/annualreports1/annualreports.

10. SUBSEQUENT EVENTS

Since June 30th, the Board made additional commitments to fund loans from the INTERCAP loan program of approximately $8 million. Refer to Note 7 – INTERCAP Program Commitments for further detail.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

PENSION LIABILITY AS AN EMPLOYER ENTITY

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

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS
(in thousands except percentages)

	2022	2021	2020	2019	2018	2017	2016	2015
The fund's proportion of NPL	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.02%	0.02%
The fund's proportionate share of NPL	$ 254	$ 404	$ 269	$ 345	$ 419	$ 385	$ 291	$ 245
State of Montana's proportionate share of NPL associate with the fund	$ 72	$ 123	$ 84	$ 111	$ -	$ -	$ -	$ -
Employer's Covered Payroll	$ 155	$ 161	$ 173	$ 167	$ 262	$ 307	$ 241	$ 220
The fund's proportionate share of NPL as a percent of Covered Payroll	163.87%	250.93%	155.49%	206.59%	159.92%	125.41%	120.75%	111.36%
Plan Fiduciary Net Position as a Percent of Total Pension Liability	79.91%	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS
(in thousands except percentages)

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	$ 15	$ 14	$ 15	$ 14	$ 22	$ 51	$ 21	$ 19
Contributions made	$ (15)	$ (14)	$ (15)	$ (14)	$ (22)	$ (51)	$ (21)	$ (19)
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's Covered Payroll	$ 155	$ 161	$ 173	$ 167	$ 262	$ 307	$ 241	$ 220
Contributions as a percent of Covered Payroll	9.03%	8.86%	8.70%	8.56%	8.39%	8.47%	8.77%	8.83%

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following Actuarial Assumptions were adopted from the June 30, 2019 actuarial valuation:

- General Wage Growth 3.50%;
- Investment Rate of Return 7.65%, includes inflation at 2.75%;
- Merit salary increase 0% to 8.47%;
- Asset valuation method: Four-year smoothed market;
- Actuarial cost method: Entry age Normal;
- Amortization method: Level percentage of payroll, open;
- Remaining amortization period: 30 years;
- Mortality (Healthy members): For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year;
- Mortality (Disabled members): For Males and Females: RP 2000 Combined Mortality Table, with no projections; and
- Admin Expense as % of Payroll 0.30%.

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.

2017 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%, and
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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

Refunds:

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

OTHER POST EMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

Retirees are allowed to participate, as a group, at a rate that does not cover all of the related costs. As additional data is available, a total of 10 years will be presented. For further details, see Note 9 – OPEB.

SCHEDULE OF TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS
(in thousands except percentages)

	2022	2021	2020	2019	2018
Proportion of total OPEB liability	0.03%	0.03%	0.03%	0.04%	0.04%
Proprtionate share of total OPEB liability	$ 37	$ 45	$ 14	$ 20	$ 19
Covered employee payroll	$ 217	$ 207	$ 207	$ 276	$ 253
Total OPEB liability as a percentage of covered payroll	17.48%	21.38%	6.86%	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.

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

June 30, 2022: Changes in assumptions for 2021 were due to an increase in the discount rate from 2.23% to 3.31%.

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

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

June 30, 2019: Changes in actuarial assumptions include interest rate based upon March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

June 30, 2018: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

CHANGES IN BENEFIT TERMS

June 30, 2022: None
June 30, 2021: None
June 30, 2020: None
June 30, 2019: None
June 30, 2018: Medical plans moved from Cigna to Allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016 and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Unified Investment Program and the Enterprise Fund Program of the Montana Board of Investments, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our reports thereon dated December 1, 2022.

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 1, 2022

Montana Board of Investments

Board Response

MONTANA
BOARD OF INVESTMENTS

December 21, 2022

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

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LEGISLATIVE AUDIT DIV.

Mr. Maciver:

I am in receipt of the Financial-Compliance Audit dated January 2023 for the fiscal year ending June 30, 2022, issued by the Legislative Audit Division. There are no recommendations.

Thank you to Shandell VanDonsel, Jennifer Erdahl, Justin Thomas, Chris Darragh and Karen Simpson for their knowledge and professionalism during the audit process.

Sincerely,

Dan Villa
Executive Director

Cc: Karl Englund, Chair
Maggie Peterson, Chair of Board's Audit Committee

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