



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *Montana Board of Investments*

*For the Fiscal Year Ended  
June 30, 2024*

JANUARY 2025

LEGISLATIVE AUDIT  
DIVISION

24-04

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**FINANCIAL AUDITS**

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2023, was issued August 19, 2024. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2025, is March 31, 2026.

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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

January 2025

The Legislative Audit Committee  
of the Montana State Legislature:

It is a pleasure to provide our financial audit report of the Montana Board of Investments for the fiscal year ended June 30, 2024. This report includes financial statements of the board's Unified Investment Program (UIP) and Enterprise Fund Program. We issued unmodified opinions on the financial statements for each of these programs.

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

The board's written response to the audit is included on page C-1 of this report. We thank the Executive Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>Representing</u>	<u>City</u>	<u>Term Expires</u>
				<u>January</u>
<b>Montana Board of Investments</b>	Jack Prothero, Chair	Financial Community	Great Falls	2025*
	Mark Barry	Financial Community	Helena	2025*
	Porter Bennett	Agriculture	Pony	2027
	Dwaine Iverson	Financial Community	Shelby	2027
	Tim Kober	Labor	Butte	2027
	Jeff Meredith	Small Business	Kalispell	2025*
	Maggie Peterson	PERS	Anaconda	2025*
	Daniel Trost	TRS	Helena	2025*
	Cindy Younkin	Law	McAllister	2027
	Jeremy Trebas	Senate Liaison	Great Falls	2025*
	Vacant	House Liaison		

\* Members whose term has expired will continue until new appointments are made per MCA, 2-15-124(2). This is expected to occur after the start of the 2025 legislative session.

### **Administrative Officials**

Dan Villa, Executive Director

Peggy MacEwen, Deputy Director and Chief Operating Officer

Jon Putnam, Chief Investment Officer

Julie Feldman, Comptroller

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

Dan Villa, Executive Director

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# MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT  
 Montana Board of Investments  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2024

A report to the Montana Legislature

## BACKGROUND

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

The board also administers the Enterprise Fund Program, consisting of the state's Municipal Finance Consolidation Act and the Economic Development Bond Act 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 hire and manage staff.

The Unified Investment Program's net position grew by approximately \$1.2 billion over the year, driven largely by strong investment performance. In fiscal year 2024, the Short-Term Investment Pool delivered a 5.5 percent rate of return, the Trust Fund Investment Pool had a 0.7 percent rate of return, and the Consolidated Asset Pension Pool had the largest rate of return at 9.1 percent. The Separately Managed Accounts had new accounts added as well as positive returns.

## **AUDITOR'S OPINION (page A-1 and A-47):**

Unified Investment Program: **UNMODIFIED**

Enterprise Fund Program: **UNMODIFIED**

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

For the full context of the board's financial activity, see the financial statements and notes beginning on pages A-5 and A-51 for the UIP and Enterprise Fund Program, respectively.

## **RECOMMENDATIONS:**

In this report, we issued the following recommendations:

To the department: 0

To the legislature: 0

## **SUMMARY OF AUDIT WORK:**

The purpose of our audit is to determine whether the board's Unified Investment Program and Enterprise Fund Program financial statements and related note disclosures are free from material misstatement.

Our audit efforts over the UIP focused primarily on cash and cash equivalents and investment balances, purchases and sales by participants, the net change in fair value of investments, dividend and interest income, and income distributions to participants. Audit work over the Enterprise Fund Program focused primarily on notes and loans receivable and bonds payable balances and their related cash flows.

*(continued on back)*

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

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(800) 222-4446 or  
(Helena)  
(406) 444-4446

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

### Unified Investment Program

To manage the UIP, the board has created the following investment pools, which operate similarly to mutual funds:

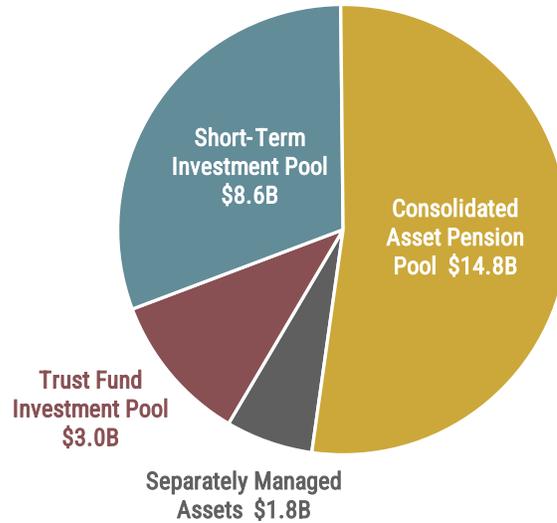
- **Short-Term Investment Pool (STIP):** This pool is designed to preserve capital and maintain high liquidity. State agencies, the state's retirement systems, and local governments are eligible to participate.
- **Trust Fund Investment Pool (TFIP):** This pool is designed to provide participants exposure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

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

Figure 1 (page S-3) presents information on the investments managed in the pools and SMA on June 30, 2024.

Figure 1  
**UIP Investments by Pool**  
 June 30, 2024

The **Consolidated Asset Pension Pool** makes up a little over half the board's investments.



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

### Securities Lending by the Board

All three pools and SMA participate in securities lending. Securities lending benefits both the lenders and borrowers, as well as the market at large. As the lender, the board earns income on securities that otherwise would be sitting idle. For borrowers, it allows them to pursue common trading activities and strategies, such as short-selling, hedging portfolios against potential losses, and meeting regulatory liquidity requirements. Finally, securities lending provides liquidity to the market.

Securities are lent through the board’s custodial bank to other entities, and the board splits any income earned with the custodial bank. The board receives collateral of more than 100 percent of the value of the lent securities during the loan. This collateral can either be cash or other securities. The cash collateral is invested with the board’s custodial bank in a separately managed portfolio. The collateral is then returned to the borrower in return for the lent securities at the end of the loan period unless they defaulted. The board earns its income from interest on the cash collateral and fees paid by the borrowers.

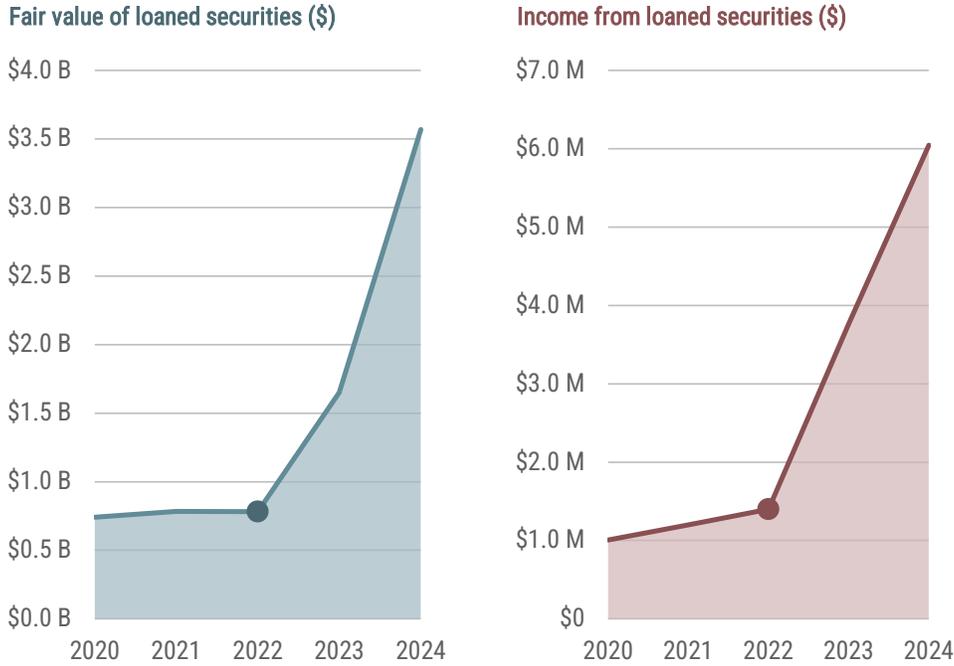
The board’s securities lending activity increased significantly in the last two fiscal years. Reasons for increased securities lending activity include better contract terms with the custodial bank, an expanded range of acceptable collateral securities, higher interest rates, and STIP rejoining the program. The board’s securities lending activity is explained in more detail in Note 4 to the UIP financial statements.

Figure 2 (page S-4) shows the value of UIP investments on loan and the income earned by the board from them for the last five fiscal years.

*(continued on back)*

Figure 2  
Investments on Loan vs. Income Earned

Both the **value of loaned securities** and the **income** earned from them increased significantly since fiscal year 2022.



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

**Enterprise Fund Program**

The board also administers the Enterprise Fund Program, consisting of the state’s Municipal Finance Consolidation Act and Economic Development Bond Act programs. Under this umbrella, the board administers the Intermediate Term Capitalization Program (INTERCAP), which uses bond proceeds to provide loans to local Montana governments to finance capital expenditures for up to 15 years. During fiscal year 2024, the INTERCAP rate remained at 5.75 percent. The board funded \$32.4 million in new loans during the year, resulting in the outstanding receivable for the program increasing to \$80.7 million on June 30, 2024.

**REPORT ON INTERNAL CONTROL AND COMPLIANCE**

(page B-1):

- In this report, we identified the following:
- Material Weaknesses in Internal Control: 0
- Significant Deficiencies in Internal Control: 0
- Material Non-Compliance: 0
- Other Matters: 0

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

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



Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### **Report on the Audit of Financial Statements**

#### ***Opinion***

We have audited the financial statements of the Montana Board of Investments' Unified Investments Program, which are comprised of the Statement of Fiduciary Net Position as of June 30, 2024, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Montana Board of Investments' Unified Investments Program as of June 30, 2024, and the changes in net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Emphasis of Matter***

As discussed in Note 1, the accompanying financial statements are intended to present the financial position and the changes in financial position of only the Montana Board of Investments' Unified Investments Program. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2024, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Unified Investments Program'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 Unified Investments Program's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

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

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Combining Statement of Fiduciary Net Position on pages A-40 and A-41, and the Combining Statement of Changes in Fiduciary Net Position on pages A-42 and A-43 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 January 7, 2025, 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

January 7, 2025



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

### FINANCIAL HIGHLIGHTS

The fiduciary net position of the UIP increased to \$28.3 billion in comparison to a beginning fiduciary net position of \$27.1 billion. With respect to the underlying components of the UIP:

- Consolidated Asset Pension Pool (CAPP) increased in fiduciary net position benefiting from positive returns in most public market asset classes, including domestic equity, international equity, and non-core fixed income. The annual investment return for CAPP was 9.1%.
- The Trust Funds Investment Pool (TFIP) realized a modest increase in fiduciary net position with positive cash contributions and slightly positive annual return of 0.7%.
- The Short-Term Investment Pool (STIP) value increase was driven by increased yields and positive flows from STIP participants. The annual investment return for STIP was 5.5%.
- The Separately Managed Accounts (SMA) increase in fiduciary net position was primarily due to management of new accounts coupled with positive STIP and TFIP returns.

The increase in fiduciary net position was driven by positive investment returns for all investment pools. We expect periods of extreme market volatility and continually manage risks. Current factors leading to uncertainty in the market include:

- Ongoing geopolitical tension,
- Slower global growth,
- Elevated global debt, and
- Aging demographics.

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

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

<b>CONDENSED CHANGES IN FIDUCIARY NET POSITION FOR POOL AND SMA PARTICIPANTS</b>		
	For Fiscal Years Ending	
	<u>June 30, 2024</u>	<u>June 30, 2023</u> (As Restated)
Consolidated Asset Pension Pool (CAPP)	\$ 855,493	\$ 626,309
Trust Funds Investment Pool (TFIP)	63,198	160,142
Short Term Investment Pool (STIP)	232,844	994,772
STIP Included in Investment Pools	(49,917)	(88,130)
Separately Managed Accounts (SMA)	82,881	(27,998)
<b>Total Change in Net Position by Pool and SMA Participants</b>	<b>\$ 1,184,499</b>	<b>\$ 1,665,095</b>

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

<b>1-YEAR TOTAL RETURN</b>		
<u>POOL</u>	<u>2024</u>	<u>2023</u>
CAPP	9.1%	8.5%
TFIP	0.7%	-1.3%
STIP	5.5%	3.8%

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 notes to the financial statements follow this section of the report. The **STATEMENT OF FIDUCIARY NET POSITION** provides information on the types of investments, capital assets, and liabilities of the pools and SMA, as of the fiscal year ended June 30, 2024.

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, 2024. 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 BASIC FINANCIAL STATEMENTS** provide additional information that is essential to a full understanding of the data provided in the financial statements. Additional supplementary information presented is not required by GAAP but is included for transparency.

## FINANCIAL ANALYSIS

### FIDUCIARY NET POSITION

The fiduciary net position is the accumulated excess of assets over liabilities from the inception of the UIP. The following is a Condensed Statement of Fiduciary Net Position of the UIP as of June 30<sup>th</sup>, as compared to the prior year with amounts presented in thousands:

<b>CONDENSED FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS</b>		
	<u>June 30, 2024</u>	<u>June 30, 2023 (As Restated)</u>
<b>Assets</b>		
Total Investments	\$ 28,238,309	\$ 27,075,003
Receivables and Other Assets	1,223,860	393,775
Capital Assets, Net	344	881
<b>Total Assets</b>	<u>29,462,513</u>	<u>27,469,659</u>
<b>Liabilities</b>		
Payables and Other Liabilities	1,159,925	351,031
Subscription Liabilities	324	863
<b>Total Liabilities</b>	<u>1,160,249</u>	<u>351,894</u>
<b>Fiduciary Net Position</b>	<u>\$ 28,302,264</u>	<u>\$ 27,117,765</u>

As of June 30<sup>th</sup>, 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, net capital assets, and collateral held for securities lending transactions. The payables are similar, but also include income due to participants and other liabilities.

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

authorized by statute, of which the carrying value was \$203.1 million as compared to \$184.9 million as of the end of the prior year. More information on the program can be found in Note 10 – SMA Montana Mortgages and Loans.

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<sup>th</sup>, the amount claimed as credits against various forms of state taxation was \$5.9 million, as compared to \$4.9 million in the prior fiscal year. For further detail, see Note 11 – Tax Abatement.

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 Municipal Finance Consolidation Act of 1983 program known as INTERCAP. As of the end of the fiscal year, the Board has not had to perform on the guarantees. The amounts are merely commitments of the Board if debt service payments are required. As of the fiscal year ended June 30<sup>th</sup>, the balance of guaranteed activity was \$179.2 million as compared to \$177.8 million at the end of the prior fiscal year. The Coal Severance Tax Trust Fund is part of the primary government for the State.

The Board manages the State Treasurer's Cash Fund which consists of fund balances of all the funds of the State whose investment earnings are permitted by law to flow to the State's Debt and Liability Free account. See Note 12 – Bond and Loan Guarantees for more information.

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

The change in fiduciary net position represents the aggregated annual additions and deductions of the UIP. As of June 30<sup>th</sup>, the UIP had a change in fiduciary net position of \$1.2 billion in comparison to the prior year's change of \$1.7 billion. The following is a Condensed Statement of Changes in Fiduciary Net Position of the UIP as of June 30<sup>th</sup>, as compared to the prior year (amounts in thousands):

<b>CONDENSED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION HELD IN TRUST FOR POOL AND SMA PARTICIPANTS</b>		
	<b>For Fiscal Years Ending</b>	
	<b>June 30, 2024</b>	<b>June 30, 2023 (As Restated)</b>
<b>Additions</b>		
Purchases by Participants	\$ 13,402,567	\$ 11,213,164
Investment Earnings	1,898,770	1,565,254
Investment Costs	(75,064)	(71,793)
Other Investment Expenses	(25,298)	(17,865)
Net Investment Income (Loss)	1,798,408	1,475,596
Securities Lending Income, Net of Expense	6,045	3,762
<b>Total Additions</b>	<b>15,207,020</b>	<b>12,692,522</b>
<b>Deductions</b>		
Sales by Participants	13,426,443	10,577,969
Income Distributions to Participants	596,078	449,458
<b>Total Deductions</b>	<b>14,022,521</b>	<b>11,027,427</b>
<b>Change in Fiduciary Net Position</b>	<b>1,184,499</b>	<b>1,665,095</b>
<b>Fiduciary Net Position, Beginning of Year</b>	<b>27,117,765</b>	<b>25,452,670</b>
<b>Fiduciary Net Position, End of Year</b>	<b>\$ 28,302,264</b>	<b>\$ 27,117,765</b>

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

*Investment Returns.* Returns across asset classes were mostly positive in the fiscal year. The portfolio benefited from the diversification and strong returns of both domestic and international equities. Conversely, real estate suffered unrealized losses as markets continued to reprice. In CAPP, Domestic Equity (22.5%), International Equity (10.7%), Private Investments (4.0%), Real Assets (6.7%), Core Fixed Income (2.8%), Non-Core Fixed Income (9.1%), and Cash (6.3%) all posted positive returns. Real Estate (-4.2%) was the only class to post 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<sup>th</sup>, these flows represented 0.27% of ending fiduciary net position (or 27 basis points) versus 0.26% of fiduciary net position (or 26 basis points) at the end of the prior year. The primary component relates to external manager fees, which the Board continues to aggressively monitor.

*Capital Assets, Net.* The Board began recording the assets and liabilities for Subscription-Based Information Technology Arrangements (SBITAs) for the fiscal year ended June 30<sup>th</sup>. As a result, beginning net position for CAPP increased \$18 thousand. See Note 1 – Description of Funds and Significant Accounting Policies for more information.

## **OPERATIONAL HIGHLIGHTS**

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

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

Going forward, the market faces multiple obstacles including ongoing geopolitical tension, slower global growth, elevated global debt, and aging demographics. Market uncertainty is elevated, thus making prudent diversification a critical pillar of the portfolio.

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

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

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MONTANA UNIFIED INVESTMENT PROGRAM  
STATEMENT OF FIDUCIARY NET POSITION  
AS OF JUNE 30, 2024  
(amounts in thousands)

Assets

Investments

Cash and Cash Equivalents	\$ 3,560,997
Investments at Cost	278,306
Investments at Fair Value	<u>24,399,006</u>
Total Investments	<u>28,238,309</u>

Securities Lending Cash Collateral	<u>1,017,752</u>
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Receivables

Broker Receivable for Securities Sold but not Settled	8,070
Dividend / Interest Receivable	<u>198,038</u>
Total Receivables	<u>206,108</u>

Capital Assets, Net	<u>344</u>
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Total Assets	<u>29,462,513</u>
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Liabilities

Payables

Broker Payable for Securities Purchased but not Settled	85,317
Income Due Participants	51,874
Other Payables	1,870
Administrative Fee Payable	<u>3,112</u>
Total Payables	<u>142,173</u>

Securities Lending Obligations	1,017,752
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Subscription Liabilities	<u>324</u>
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Total Liabilities	<u>1,160,249</u>
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Net Position Held in Trust for Pool and Separately Managed Accounts (SMA) Participants	<u>\$ 28,302,264</u>
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The accompanying notes are an integral part of these financial statements.

MONTANA UNIFIED INVESTMENT PROGRAM  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR YEAR ENDING JUNE 30, 2024  
(amounts in thousands)

Additions

Purchases by Participants	\$ 13,402,567
Net Investment Earnings	
Investment Earnings	
Net Increase / (Decrease) on Fair Value of Investments	1,071,333
Dividend / Interest Income	826,980
Other Investment Income	457
Investment Earnings	<u>1,898,770</u>
Investment Costs	(75,082)
Other Investment Expenses	<u>(25,280)</u>
Net Investment Income (Loss)	<u>1,798,408</u>
Securities Lending Income	31,080
Securities Lending Expense	<u>(25,035)</u>
Net Securities Lending Income	<u>6,045</u>
Total Additions	<u>15,207,020</u>

Deductions

Sales by Participants	13,426,443
Income Distributions to Participants	<u>596,078</u>
Total Deductions	<u>14,022,521</u>
Change in Net Position	<u>1,184,499</u>
Net Position Held in Trust for Pool and SMA Participants - Beginning of Year - As Restated	<u>27,117,765</u>
Net Position Held in Trust for Pool and SMA Participants - End of Year	<u>\$ 28,302,264</u>

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

## **NOTES TO BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

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 Funds 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/index>; at Room 255 Mitchell Building, 125 North Roberts Street, PO Box 200102, Helena, MT 59620-0102 or at 406-444-3092.

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

#### DESCRIPTION OF FUNDS

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

#### BASIS OF ACCOUNTING

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

#### CASH AND CASH EQUIVALENTS HELD WITHIN POOLS

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

#### VALUATION OF INVESTMENTS

Investments reported at fair value are on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are

reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. Additional information on how the Board reports fair value measurements can be found in Note 6 - Fair Value Measurement.

As further disclosed in Note 6 – Fair Value Measurement and Note 10 – SMA Montana Mortgages and Loans, \$278.3 million of investments are reported at cost. These include bonds authorized in the Municipal Finance Consolidation Act of 1983 (INTERCAP Bonds) and SMA Montana Mortgages and Loans which are nonparticipating contracts.

#### CAPITAL AND RIGHT-TO-USE ASSETS

Capital and right-to-use asset contracts which meet certain conditions and are considered noncancelable with an amortized cost greater than \$100 thousand and greater than one year in term are included on the Statement of Fiduciary Net Position as Capital Assets, Net. Such assets are amortized on a straight-line basis over the shorter of the life of the contract or the useful life of the underlying asset(s). The assets are reported net of accumulated amortization. The related subscription liabilities are included within Subscription Liabilities on the Statement of Fiduciary Net Position and are measured at the present value of expected payments over the contract terms. The amortization expense is a component of investment costs. See Note 8 – Capital and Right-to-Use Assets for more information.

#### REVENUE RECOGNITION

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

#### INVESTMENT COSTS

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

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

<b>TOTAL FISCAL YEAR 2024 INVESTMENT COSTS</b>				
	Board Management <u>Fees</u>	External Manager <u>Fees</u>	<u>Total</u>	Investment <u>Fee Ratio</u>
Consolidated Asset Pension Pool (CAPP)	\$ 5,435	\$ 59,991	\$ 65,426	0.44%
Trust Funds Investment Pool (TFIP)	957	6,253	7,210	0.24%
Short Term Investment Pool (STIP)	928	-	928	0.01%
Separately Managed Accounts (SMA)	<u>506</u>	<u>994</u>	<u>1,500</u>	<u>0.08%</u>
Total	<u>\$ 7,826</u>	<u>\$ 67,238</u>	<u>\$ 75,064</u>	<u>0.27%</u>

### SECURITIES LENDING

The collateral received under securities lending agreements where the pools and SMA can spend, pledge, or sell collateral without borrower default is included in the Statement of Fiduciary Net Position. Liabilities resulting from these transactions are also included in the Statement of Fiduciary Net Position. Costs associated with the securities lending transactions, including broker commissions, and lending fees paid to custodians are reported as components of investment expenses in the Statement of Changes in Fiduciary Net Position. Securities lending income reported for the fiscal year was \$31.1 million, and expenses associated with securities lending were \$25.0 million. For further detail, see Note 4 - Securities Lending.

### PURCHASES AND SALES BY PARTICIPANTS AND INCOME DISTRIBUTIONS

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

### REGULATORY OVERSIGHT

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

### POOL PARTICIPANT UNITS

Pool units are purchased and sold in the same manner as individuals investing in mutual funds. Therefore, the pool unit price is computed based on market prices on securities in the pool plus any additional assets, minus liabilities. The STIP participants purchase and sell units at \$1 per unit,

at the participant's discretion. Additional information on STIP can be found in Note 13 – 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 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.

#### ADJUSTMENTS AND RESTATEMENTS OF BEGINNING BALANCES

For fiscal year 2024, the UIP recognized Subscription-Based Information Technology Arrangements (SBITAs). SBITA assets and liabilities are now recorded in the UIP to match the reporting of investment expenditures.

If SBITA assets were reported as part of the June 30<sup>th</sup>, 2023, financial statements, capital assets, net of depreciation/amortization, would have increased by \$881 thousand. Related liabilities for the SBITA agreements would have increased \$863 thousand. Related information in the Management's Discussion and Analysis as well as the combining schedules presented as supplementary information reflect the adjustments and restatements. The effect of the accounting change as applied to beginning fund net position for the affected pools is presented below, with amounts in thousands:

<b>POOLS AFFECTED BY RESTATEMENTS OF BEGINNING BALANCES</b>		
	Consolidated Asset Pension Pool (CAPP)	Net Position Held in Trust for Pool and Separately Managed Accounts Participants
06/30/23, As Previously Reported	\$ 13,977,897	\$ 27,117,747
Adjustment	18	18
06/30/23, As Restated	<u>\$ 13,977,915</u>	<u>\$ 27,117,765</u>

## **2. INVESTMENT COMMITMENTS**

Investments in alternative financial assets are usually made via limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last several

years. The following table is presented in thousands. The Board's remaining commitments as of June 30<sup>th</sup> to active alternative investment funds include \$2.4 billion related to CAPP, \$86.3 million related to TFIP and \$11.1 million related to SMA. Additional information on such commitments can be found in Note 6 – Fair Value Measurement.

<b>COMMITMENTS TO FUND MANAGERS</b>	
	<u>Commitment Remaining</u>
Private Investments	\$ 1,356,999
Real Assets	410,967
Real Estate	<u>701,156</u>
Total	<u>\$ 2,469,122</u>

### **3. INVESTMENT RISK DISCLOSURES**

#### 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 least at the sixth highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) annually.

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

#### CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The concentration of credit risk is addressed within all IPSs as set by the Board. A maximum of 4% of the net asset value of any internally managed core fixed income portfolio may be held in a single corporate parent issuer, foreign/quasi-governmental issuer, or securitized specific pool at any time. STIP has additional concentration of credit risk provisions by asset class. 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 on June 30<sup>th</sup>, \$101.0 million was held in unrated money market funds.

As a matter of STIP investment policy, the Board's fixed income investment staff can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30<sup>th</sup>, all the STIP money market investments were in US Governmental Money Markets and \$160.5 million was held on deposit in short-term investment vehicles. NRSRO provides the credit ratings presented in the following table as of June 30<sup>th</sup> (amounts in thousands):

<b>STIP CASH EQUIVALENT CREDIT QUALITY RATINGS</b>		
<u>Cash Equivalent Investment Type</u>	<u>Total Cash Equivalents</u>	<u>Credit Quality Rating</u>
Agency or Government Related	\$ 89,794	A-1+
Asset Backed Commercial Paper	2,572,914	A-1+
Corporate:		
Commercial Paper	527,229	A-1+
Cetificates of Deposit	100,000	A-1
Interest Bearing Demand Deposit Accounts	160,524	A-1+
Total Cash Equivalents	<u>\$ 3,450,461</u>	

### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The Board uses effective duration as a measure of interest rate risk for all fixed

income portfolios. Please refer to Note 5 – Summary of Investment Policy – Legal and Contractual Provisions for further detail.

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

CREDIT QUALITY RATING AND EFFECTIVE DURATION FAIR VALUES						
<u>Security Investment Types</u>	<u>CAPP</u>	<u>TFIP</u>	<u>SMA</u>	<u>Total Fixed Income Investments at Fair Value</u>	<u>Credit Quality Ratings Range</u>	<u>Effective Durations (Years)</u>
Treasuries	\$ 797,211	\$ 527,680	\$ 388,579	\$ 1,713,470	AAA	8.71-12.68
Agency or Government Related	345,632	197,566	74,823	618,021	AAA to A+	3.96-6.22
Asset Backed Securities	127,472	106,615	70,085	304,172	AAA	1.72-2.14
Mortgage Backed Securities:						
Noncommercial	422,644	430,044	242,146	1,094,834	AAA	4.92-5.55
Commercial	75,997	59,885	26,463	162,345	AAA	2.93-4.15
Corporate:						
Financial	436,304	246,167	171,094	853,565	A to BBB	3.06-3.43
Industrial	875,759	616,389	286,012	1,778,160	BBB+ to BB+	3.80-4.52
Utility	59,222	17,327	11,369	87,918	A- to BBB-	3.93-4.69
Total Fixed Income Investments at Fair Value	<u>\$3,140,241</u>	<u>\$ 2,201,673</u>	<u>\$ 1,270,571</u>	<u>\$ 6,612,485</u>		

Credit risk reflects the weighted security quality rating by investment type as of the June 30<sup>th</sup> report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP has \$75.2 million in investments reported at cost that are not rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months, or years – weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 54 days for the portfolio. STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30<sup>th</sup> on the following table (amounts in thousands):

<b>STIP CREDIT QUALITY RATINGS AND WEIGHTED AVERAGE MATURITY</b>			
<u>Security Investment Type</u>	<u>Total Fixed Income Investments at Fair Value</u>	<u>Credit Quality Rating</u>	<u>WAM (Days)</u>
Treasuries	\$ 1,200,441	A-1+	75
Agency or Government Related	1,254,907	A-1+	67
Asset Backed Commercial Paper	151,592	A-1+	4
Corporate:			
Commercial Paper	495,575	A-1+	39
Notes	727,551	A-1+	27
Certificates of Deposit	<u>1,485,073</u>	A-1+	112
Total STIP Fixed Income Investments at Fair Value	<u>\$ 5,315,139</u>		

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

#### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Board's foreign currency exposure by denomination and investment type are reported as of June 30<sup>th</sup>, 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. The following table is in thousands.

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

<u>Foreign Currency Denomination</u>	<u>Currency</u>	<u>Fixed Income</u>	<u>International Equities</u>	<u>Private Investments</u>	<u>Real Estate</u>	<u>Real Assets</u>
Australian Dollar	\$ 12	\$ -	\$ 35,575	\$ -	\$ -	\$ -
Brazilian Real	100	10,675	17,790	-	-	-
Canadian Dollar	44	-	52,206	-	-	-
Chilean Peso	1	602	16	-	-	-
Chinese Yuan	262	116	25,551	-	-	-
Columbian Peso	6	3,523	-	-	-	-
Czech Koruna	106	4,816	2,629	-	-	-
Danish Krone	-	-	24,060	-	-	-
Dominican Peso	-	1,745	-	-	-	-
Egyptian Pound	8	2,231	159	-	-	-
EMU-Euro	959	4,510	239,170	16,899	104	72,760
Hong Kong Dollar	196	-	77,411	-	-	-
Hungarian Forint	95	2,591	153	-	-	-
Indian Rupee	-	1,756	-	-	-	-
Indonesian Rupiah	132	4,505	9,251	-	-	-
Japanese Yen	488	-	153,881	-	-	-
Kazakhstan Tenge	-	559	-	-	-	-
Kuwaiti Dinar	17	-	690	-	-	-
Malaysian Ringgit	123	4,991	4,002	-	-	-
Mexican Peso	(346)	6,530	16,150	-	-	-
New Israeli Sheqel	-	-	1,252	-	-	-
New Taiwan Dollar	7	-	85,109	-	-	-
Nigerian Naira	-	1,870	-	-	-	-
Norwegian Krone	1	-	15,149	-	-	-
Peruvian Sol	-	8,652	-	-	-	-
Philippine Peso	3	-	305	-	-	-
Polish Zloty	44	3,269	6,544	-	-	-
Pound Sterling	205	-	124,323	-	-	-
Romanian Leu	-	584	-	-	-	-
Russian Ruble	17	-	-	-	-	-
Singapore Dollar	-	-	20,596	-	-	-
South African Rand	21	4,381	1,546	-	-	-
South Korean Won	22	-	23,540	-	-	-
Swedish Krona	-	-	39,337	-	-	-
Swiss Franc	1	-	64,939	-	-	-
Thailand Baht	185	3,753	6,977	-	-	-
Turkish Lira	2	1,809	1,643	-	-	-
UAE Dirham	-	-	9,722	-	-	-
Ukranian Hryvnia	-	326	-	-	-	-
Uruguayan Peso	-	1,852	-	-	-	-
Uzbekistan Sum	-	553	-	-	-	-
<b>Total</b>	<b>\$ 2,711</b>	<b>\$ 76,199</b>	<b>\$ 1,059,676</b>	<b>\$ 16,899</b>	<b>\$ 104</b>	<b>\$ 72,760</b>

#### 4. SECURITIES LENDING

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

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

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

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

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 cash collateral received for each loan was invested in a highly-liquid, separately managed 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 portfolio had a weighted average duration of 24 days and a weighted average final maturity of 91 days.

The security on loan and pledged collateral is disclosed as of June 30<sup>th</sup> while the security lending income and expense are disclosed for the year ending June 30<sup>th</sup>: The following two tables are in thousands, except for percentages.

SECURITIES ON LOAN AND PLEDGED COLLATERAL					
	Fair Value <u>On Loan</u>	Collateral <u>Cash</u>	Collateral <u>Securities</u>	Collateral <u>Total</u>	% of <u>Fair Value</u>
Consolidated Asset Pension Pool (CAPP)					
Domestic	\$ 1,515,100	\$ 449,734	\$ 1,155,749	\$ 1,605,483	106%
International	130,510	71,749	67,167	138,916	106%
Short Term Investment Pool (STIP)	919,582	306,165	664,759	970,924	106%
Trust Funds Investment Pool (TFIP)	584,927	106,129	523,031	629,160	108%
Separately Managed Accounts (SMA)	419,057	83,975	363,706	447,681	107%
Total	<u>\$ 3,569,176</u>	<u>\$ 1,017,752</u>	<u>\$ 2,774,412</u>	<u>\$ 3,792,164</u>	

<b>SECURITIES LENDING INCOME AND EXPENSE</b>			
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Consolidated Asset Pension Pool (CAPP)	\$ 18,643	\$ (14,971)	\$ 3,672
Short Term Investment Pool (STIP)	4,661	(4,197)	464
Trust Funds Investment Pool (TFIP)	4,899	(3,696)	1,203
Separately Managed Accounts (SMA)	<u>2,877</u>	<u>(2,171)</u>	<u>706</u>
Total	<u>\$ 31,080</u>	<u>\$ (25,035)</u>	<u>\$ 6,045</u>

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

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

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

### ALLOWED INVESTMENTS

Permissible investments are discussed in Note 1 – Description of Funds and Significant Accounting Policies and Note 4 – Securities Lending, the Board approves all Investment Policy Statements (IPSs).

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMA. Currently, only the nine retirement funds that participate in CAPP, the Defined Contribution Disability Plan, and the Montana State Fund (Workers’ Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. The Board approves a separate IPS for each pool and SMA participant, which provides board staff with a broad strategic framework under which the investments are managed. The IPSs also reflect the Board approved asset allocation ranges.

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

CAPP

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

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

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

TFIP

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

STIP

The STIP IPS limits concentration of credit risk exposure by limiting exposure to individual issuers by asset class as follows (as a percentage of STIP Units Value at purchase):

- 3% to in any issuer for any permitted investments excluding U.S. Treasury and U.S. agency securities and repurchase agreements with a financial institution,
- 30% to any single issuer for U.S. agency securities,
- 5% to any single SEC registered 2a-7 fund for money market funds or FDIC-insured deposits,
- 5% to any single primary dealer or financial institution for repurchase agreements,
- 3% to any Montana domiciled bank for collateralized demand deposit accounts,
- 5% to the custodial bank for interest-bearing demand deposit accounts.

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 120 days or less. STIP is managed to preserve principal while providing daily liquidity for state agency and local government participants.

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

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

### SMA

SMA invests primarily in investment grade, U.S. dollar denominated fixed income securities and custodial bank interest bearing demand deposit account. However, one participant portfolio has exposure to public equity, core real estate, real assets, and non-core fixed income. The SMA portfolio also includes Veterans’ Home Loan Mortgages (VHLM) and loans funded by the Coal Severance Tax Trust Fund, as authorized by statute. Please refer to Note 10 – SMA Montana Mortgages and Loans for further detail.

### OTHER POLICY CONSIDERATIONS

For other risk, the Board approves both the IPS, and benchmark used for each portfolio. Per the CAPP IPS, the internally managed Core Fixed average duration will be maintained in a range within 20% of the Bloomberg US Aggregate Bond Index duration. The externally managed Core Fixed Income PAC and Non-Core Fixed Income PAC average duration will be maintained in a range within 25% of the Bloomberg US Aggregate Bond Index duration and Bloomberg Barclays US High Yield 2% Issuer Cap Index duration, respectively. Per the TFIP IPS, the average duration for Investment Grade Fixed Income Asset Class will be maintained in a range within 20% of the Bloomberg US Aggregate Bond Index duration while the average duration of the Non-Core Fixed Income Asset Class will be maintained within 25% of the Bloomberg Barclays US High Yield 2% Issuer Cap Index duration. Interest rate risk for SMA is contemplated in each individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

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

## **6. FAIR VALUE MEASUREMENT**

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

**Level 1** - Quoted prices for identical assets or liabilities in active markets that the Board can access

as of June 30<sup>th</sup>.

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

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

Valuations not classified within these levels are further explained in the Investments at Net Asset Value section of this 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 2024.

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

For each of the pools and SMA, the Board has the following value measurements as of June 30<sup>th</sup>: The following tables are presented in thousands.

INVESTMENTS MEASURED AT FAIR VALUE		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by Fair Value Level</u>				
Fixed Income Investments:				
Treasuries	\$ 2,913,911	\$ 2,913,911	\$ -	\$ -
Agency or Government Related	1,872,928	-	1,872,928	-
Asset Backed Securities	455,764	-	455,764	-
Mortgage Backed Securities:				
Noncommercial	1,094,834	-	1,094,834	-
Commercial	162,345	-	162,345	-
Corporate:				
Commercial Paper	495,575	-	495,575	-
Notes	727,551	-	727,551	-
Certificates of Deposit	1,485,073	-	1,485,073	-
Financial	853,565	-	853,565	-
Industrial	1,778,160	-	1,778,160	-
Utility	87,918	-	87,918	-
Domestic Equity Investments	5,712,857	5,712,857	-	-
International Equity Investments	869,223	869,223	-	-
Direct Real Estate	28,220	-	-	28,220
Residential Mortgages	587	-	-	587
Investment Derivative Instruments	1,984	-	1,984	-
Total Investments by Fair Value Level	18,540,495	\$ 9,495,991	\$ 9,015,697	\$ 28,807
<u>Investments Measured at Net Asset Value (NAV)</u>				
Private Investments	2,594,421			
Core Real Estate	1,400,669			
Non-Core Real Estate	980,897			
Real Assets	718,805			
Real Estate High Income Fund	163,719			
Total Investments Measured at NAV	5,858,511			
Total Investments Measured at Fair Value	24,399,006			
<u>Investments at Cost</u>				
Cash and Cash Equivalents	3,560,997			
INTERCAP Bonds	75,207			
SMA Montana Mortgages and Loans	203,099			
Total Investments not Categorized	3,839,303			
Total Investments	\$ 28,238,309			

### INVESTMENTS AT NET ASSET VALUE (NAV)

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

INVESTMENTS MEASURED AT NAV	Net Asset Value	Unfunded Commitments	Redemption	Redemption
			Frequency (If Currently Eligible)	Notice Period
Private Investments	\$ 2,594,421	\$ 1,356,999		
Core Real Estate	1,400,669	216,243	Monthly, Quarterly	45-90 Days
Non-Core Real Estate	980,897	484,913		
Real Assets	718,805	410,967		
Real Estate High Income Fund	163,719	-	Daily	1 -3 Days
Total Investments Measured at NAV	\$ 5,858,511	\$ 2,469,122		

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, private credit, 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 make 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. Assets held under separate investment agreements can be held in perpetuity. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Board's ownership interest in the fund.

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

REAL ESTATE HIGH INCOME FUND - This type consists of predominantly of real estate related instruments with an emphasis in U.S. corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that

risk. The fair values of the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

## 7. FAIR VALUE OF DERIVATIVE INSTRUMENTS

Within CAPP, the UIP invests in currency forward contracts, credit default swaps, interest rate swaps, index futures (long and short duration), rights, and warrants which are classified as investment derivative instruments. The investment derivative instruments increased in fair value for the fiscal year ended June 30<sup>th</sup> by \$1.2 million. The derivative instruments had a fair value of \$2.0 million as of the end of the fiscal year and a notional amount of \$98.2 million as shown on following table, which is presented in thousands.

<b>INVESTMENT DERIVATIVE INSTRUMENTS</b>				
<u>Security Investment Types</u>	<u>Classification</u>	Changes in Fair Value Included in Investment		Notional Amount
		<u>Income</u>	<u>Fair Value</u>	
Credit Default Swaps Bought	Investment	\$ (49)	\$ -	\$ -
Currency Forward Contracts	Investment	(367)	604	69,229
Index Futures Long	Investment	2,465	-	3
Pay Fixed Interest Rate Swaps	Investment	(3)	55	1,034
Receive Fixed Interest Rate Swaps	Investment	(296)	(19)	26,712
Rights	Investment	2	8	588
Warrants	Investment	(601)	1,336	619
Totals		<u>\$ 1,151</u>	<u>\$ 1,984</u>	<u>\$ 98,185</u>

### CREDIT RISK – DERIVATIVE INSTRUMENTS

Credit risk is the risk that the counterparty will not fulfill its obligations.

The maximum amount of loss to the Board in case of default of all counterparties as of June 30<sup>th</sup> was \$1.1 million.

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

**RISK CONCENTRATIONS - CREDIT DEFAULT SWAPS**

<u>Counterparty Name</u>	<u>Percentage of Net Exposure</u>	<u>S&amp;P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
HSBC BANKUSA	68%	A+	AA-	Aa3
BNP PARIBAS SA	21%	A+	A+	Aa3
UBS SECURITIES LLC	7%	A+	A+	Aa2
BARCLAYS BANK PLC WHOLESALE	4%	A+	A+	A1

INTEREST RATE RISK – DERIVATIVE INSTRUMENTS

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

The following table reflects the Board's interest rate risk in derivative instruments, which is presented in thousands, except for years.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
		Pay Fixed Interest Rate Swaps	\$ 55	\$ -
Receive Fixed Interest Rate Swaps	(19)	-	50	(69)
<b>Total</b>	<b>\$ 36</b>	<b>\$ -</b>	<b>\$ 50</b>	<b>\$ (14)</b>

FOREIGN CURRENCY RISK – DERIVATIVE INSTRUMENTS

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Board is exposed to foreign currency risk on its currency forward contracts because they are denominated in foreign currencies. The fair value of the foreign currency forward contracts in U.S. dollars is \$603.7 thousand.

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

<b>FOREIGN CURRENCY RISK</b>					
Currency Name	Options	<u>Currency Forward Contracts</u>		Swaps	Total Exposure
		Net Receivables	Net Payables		
BRAZILIAN REAL	\$ -	\$ (69)	\$ 265	\$ -	\$ 196
CHILEAN PESO	-	(54)	47	-	(7)
CHINESE YUAN	-	(33)	-	116	83
COLOMBIAN PESO	-	(65)	141	-	76
CZECH KORUNA	-	-	30	-	30
EURO CURRENCY	-	-	(4)	56	52
HUNGARIAN FORINT	-	-	1	-	1
INDONESIAN RUPIAH	7	(30)	-	-	(23)
INDIAN RUPEE	-	3	-	-	3
KAZAKHSTAN TENGE	-	(31)	-	-	(31)
MEXICAN PESO	-	(29)	283	(67)	187
MALAYSIAN RINGGIT	-	(1)	-	-	(1)
PERUVIAN SOL	-	-	156	-	156
PHILIPPINE PESO	-	-	3	-	3
POLISH ZLOTY	-	(43)	-	-	(43)
THAILAND BAHT	-	(5)	44	-	39
TUNISIAN DINAR	-	-	7	-	7
TURKISH LIRA	-	6	-	-	6
SOUTH AFRICAN RAND	-	76	(94)	-	(18)
Sub Total	7	(275)	879	105	716
US DOLLAR	1,337	-	-	(69)	1,268
Total	<u>\$ 1,344</u>	<u>\$ (275)</u>	<u>\$ 879</u>	<u>\$ 36</u>	<u>\$ 1,984</u>

## 8. CAPITAL AND RIGHT-TO-USE ASSETS

Capital and right-to-use assets include subscription-based information technology arrangements (SBITA) assets. SBITAs consist of agreements that grant the Board use of property in exchange for payments over a specified period. The Board's SBITA payables are associated with the subscriptions of underlying IT assets provided by the SBITA vendors. All expenses related to SBITA agreements are allocated to individual pools based on proportionate use. Amortization expense is included as Investment Costs on the Statement of Changes in Fiduciary Net Position.

SBITA contracts are recorded as right-to-use assets and amortized using the effective interest rate method (amortizes at the same rate as the liability reduction). Interest expense is recognized ratably over the contract term. Capitalized implementation costs associated with right-to-use assets are recorded at cost and amortized using the straight-line method over the contract term or estimated useful life of the asset. Capital Asset account balances table are below (amounts in thousands):

<b>CAPITAL AND RIGHT-TO-USE ASSET ACCOUNT BALANCES</b>				
	Beginning Balances (As Restated)	Increases	Decreases	Ending Balance
<b>Cost:</b>				
Capital Assets Being Depreciated and Amortized:				
Right-To-Use Subscriptions	\$ 1,162	\$ -	\$ -	\$ 1,162
Total Capital Assets Being Depreciated	<u>1,162</u>	<u>-</u>	<u>-</u>	<u>1,162</u>
Less Accumulated Depreciation and Amortization For:				
Right-To-Use Subscriptions	(281)	(537)	-	(818)
Total Accumulated Depreciation and Amortization	<u>(281)</u>	<u>(537)</u>	<u>-</u>	<u>(818)</u>
Capital Assets, Net	<u>\$ 881</u>	<u>\$ (537)</u>	<u>\$ -</u>	<u>\$ 344</u>

Principal and interest requirements to maturity for SBITAs on June 30<sup>th</sup> were as follows (amounts in thousands):

<b>SBITA PRINCIPAL AND INTEREST REQUIREMENTS TO MATURITY</b>		
Year Ended	Principal	Interest
2025	\$ 263	\$ 2
2026	30	1
2027	31	1
Total	<u>\$ 324</u>	<u>\$ 4</u>

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

The Board makes firm commitments to fund commercial loans and residential mortgages from the Coal Severance Tax Trust Fund. These commitments have expiration dates and may be extended per Board policies. As of June 30<sup>th</sup>, the Board had committed, but not yet purchased, \$5.8 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$19.2 million for loans as of June 30<sup>th</sup>. Another \$2.2 million represented lender reservations for the Veterans' Home Loan Mortgage (VHLM) residential mortgage purchases with no purchase commitments, and an additional \$22.0 million reserved for lenders in the Multifamily Coal Trust Homes Program.

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

**10. SMA MONTANA MORTGAGES AND LOANS**

The Montana Legislature has directed that the Board provide certain financial incentives, typically at below-market interest rates, to certain borrowers who meet program requirements set in law. The program invests Coal Severance Tax Trust (Coal Trust) funds in Montana to stimulate the state's economy. State law authorizes the Board to invest Coal Trust dollars in Montana to increase employment and business opportunities while maintaining and improving the state's physical environment. The SMA portfolio includes mortgages and loans, funded by the Coal Severance Tax Trust Fund. Mortgages and loans shown in the following table are reported at cost as of June 30<sup>th</sup> which is presented in thousands:

<b>MONTANA MORTGAGES AND LOANS</b>	
Science and Technology Alliance	\$ 326
Montana Facility Finance	11,586
Local Government Infrastructure	7,955
Veterans' Home Loan Mortgages	47,056
Multifamily Coal Trust Homes	24,540
Intermediary Relending Program (IRP) Loans	5,482
Commercial Loans	<u>106,154</u>
 Total Montana Mortgages and Loans at Cost	 <u><u>\$ 203,099</u></u>

**11. TAX ABATEMENTS**

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 an eligible basic sector business. The business will pay a user fee to the local government that is pledged to the Board for the loan repayment. The Board reviews each loan and only upon verification that the entities meet the loan requirements is the loan approved by the Board.

To be eligible for the program, the business must create at least fifteen full-time jobs within identified sectors of the Montana economy. 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 business upon Board review and approval. The business must create the required jobs within four years of the agreement. If the business does not create the required jobs within the four-year period, then the business must pay down the loan balance to 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 business receiving the abatement 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, eligible business entities made total user fee payments of \$2.3 million, representing \$1.9 million of principal and \$0.4 million in interest. During the fiscal year, \$5.9 million was claimed as a credit against the State individual and corporation tax liability. The following table details the credit claimed by tax type and the tax year (TY) it was applied against (amounts in thousands). When the number of credits is claimed by fewer than ten eligible businesses, the numbers are not reported due to confidentiality concerns, as identified by an asterisk in the following table.

<b>INFRASTRUCTURE CREDITS CLAIMED FOR THE FISCAL YEAR 2024</b>				
	<u>For TY 2023</u>		<u>For TY 2022</u>	
	<u>Corporate</u> <u>Income Tax</u>	<u>Individual</u> <u>Income Tax</u>	<u>Corporate</u> <u>Income Tax</u>	<u>Individual</u> <u>Income Tax</u>
Amount Claimed	\$ -	\$ 5	\$ 263	\$ 5,600
Number of Credits	-	*	*	12

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.

**12. BOND AND LOAN GUARANTEES**

As of June 30<sup>th</sup>, the Board had provided loan guarantees from TFIP, the Coal Severance Tax Trust Fund, and the Treasurer’s Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to \$75.2 million and from STIP, TFIP, the Coal Severance Tax Trust Fund to the Montana Facility Finance Authority (MFFA) amounting to \$104.0 million. The amounts represent the potential liability of the Fund and guarantees are in effect for one year.

MFFA is a discretely presented component unit of the State. MFFA guarantee requests are submitted to the Board for review and approval. The Board’s participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into MFFA’s statutorily allowed capital reserve account is explicitly limited by statute which requires the Board to act prudently. The bond and loan guarantee requests from MFFA pertain to bonds issued by MFFA with a term of up to 40 years. The Board receives a credit enhancement fee at MFFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the

type of reserve fund. The Board and MFFA have entered into an agreement detailing repayment to the Board.

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

<b>BOND AND LOAN GUARANTEE ACTIVITY</b>						
	<u>Beginning</u>		<u>Additions</u>		<u>Reductions</u>	<u>Ending Balance</u>
	<u>Balance</u>					
INTERCAP	\$ 68,707	\$	75,207	\$	(68,707)	\$ 75,207
MFFA	109,133		-		(5,170)	103,963

**13. STIP RESERVE**

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

<b>STIP RESERVE ACTIVITY</b>	
Beginning STIP Reserve	\$ 68,634
Additions	
Investment Earnings:	
Net Increase (Decrease) on Fair Value of Investments	4,016
Interest Income	63
Transfer of STIP Income	13,739
Total Investment Earnings	<u>17,818</u>
Investment costs:	
Transfers to STIP	<u>(27)</u>
Total costs	<u>(27)</u>
Total STIP Reserve Activity	<u>17,791</u>
Ending STIP Reserve	<u>\$ 86,425</u>

#### **14. SUBSEQUENT EVENTS**

Since June 30<sup>th</sup>, the Board has committed an additional \$212 million within Real Estate, \$145 million within Real Assets, and \$440 million within Private Investments, of which \$640 million is related to CAPP, \$115 million to TFIP, and \$42 million to SMA. Refer to Note 2 – Investments Commitments for further detail.

Since June 30<sup>th</sup>, the Board has funded an additional \$18.1 million to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program. Reservations in the amount of \$3.9 million were made for the VHLM residential mortgage purchases. Refer to Note 9 – 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, 2024  
 (amounts in thousands)

Assets	TFIP				
	Total	CAPP	State Agencies	Local Governments	SMA
<b>Investments</b>					
Cash and Cash Equivalents					
Cash Equivalent/STIP - Held Within Pools	\$ -	\$ 194,080	\$ 14,238	\$ 54	\$ -
Cash and Cash Equivalents	<u>3,560,997</u>	<u>105,468</u>	<u>4,357</u>	<u>16</u>	<u>695</u>
Total Cash and Cash Equivalents	<u>3,560,997</u>	<u>299,548</u>	<u>18,595</u>	<u>70</u>	<u>695</u>
Investments at Cost	278,306	-	-	-	203,099
Investments at Fair Value	<u>24,399,006</u>	<u>14,495,517</u>	<u>3,011,974</u>	<u>11,369</u>	<u>1,565,007</u>
Total Investments	<u>28,238,309</u>	<u>14,795,065</u>	<u>3,030,569</u>	<u>11,439</u>	<u>1,768,801</u>
Securities Lending Cash Collateral	<u>1,017,752</u>	<u>521,483</u>	<u>105,730</u>	<u>399</u>	<u>83,975</u>
<b>Receivables</b>					
Broker Receivable for Securities Sold but not Settled	8,070	6,444	1,387	5	234
Dividend and Interest Receivable	<u>198,038</u>	<u>113,287</u>	<u>20,844</u>	<u>79</u>	<u>9,318</u>
Total Receivables	<u>206,108</u>	<u>119,731</u>	<u>22,231</u>	<u>84</u>	<u>9,552</u>
Capital Assets, Net	<u>344</u>	<u>199</u>	<u>26</u>	<u>-</u>	<u>22</u>
<b>Total Assets</b>	<u>29,462,513</u>	<u>15,436,478</u>	<u>3,158,556</u>	<u>11,922</u>	<u>1,862,350</u>
<b>Liabilities</b>					
<b>Payables</b>					
Broker Payable for Securities Purchased but not Settled	85,317	76,442	1,619	6	7,250
Income Due Participants	51,874	-	10,656	40	1,743
Other Payable	1,870	2,033	10	-	(173)
Administrative Fee Payable	<u>3,112</u>	<u>2,922</u>	<u>166</u>	<u>1</u>	<u>23</u>
Total Payables	<u>142,173</u>	<u>81,397</u>	<u>12,451</u>	<u>47</u>	<u>8,843</u>
Securities Lending Obligations	1,017,752	521,483	105,730	399	83,975
Subscription Liabilities	<u>324</u>	<u>190</u>	<u>25</u>	<u>-</u>	<u>20</u>
<b>Total Liabilities</b>	<u>1,160,249</u>	<u>603,070</u>	<u>118,206</u>	<u>446</u>	<u>92,838</u>
<b>Net Position Held in Trust for Pool and SMA Participants</b>	<u>\$ 28,302,264</u>	<u>\$ 14,833,408</u>	<u>\$ 3,040,350</u>	<u>\$ 11,476</u>	<u>\$ 1,769,512</u>

Statements continue onto the next page.

MONTANA UNIFIED INVESTMENT PROGRAM  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 AS OF JUNE 30, 2024  
 (amounts in thousands)

Assets	STIP			STIP Included in Investment Pools
	State Agencies	Local Governments	Reserve	
Investments				
Cash and Cash Equivalents				
Cash Equivalent/STIP - Held Within Pools	\$ -	\$ -	\$ -	\$ (208,372)
Cash and Cash Equivalents	2,709,691	724,460	16,310	-
Total Cash and Cash Equivalents	2,709,691	724,460	16,310	(208,372)
Investments at Cost	59,341	15,866	-	-
Investments at Fair Value	4,138,553	1,106,479	70,107	-
Total Investments	6,907,585	1,846,805	86,417	(208,372)
Securities Lending Cash Collateral	241,577	64,588	-	-
Receivables				
Broker Receivable for Securities Sold but not Settled	-	-	-	-
Dividend and Interest Receivable	43,004	11,498	8	-
Total Receivables	43,004	11,498	8	-
Capital Assets	76	21	-	-
Total Assets	7,192,242	1,922,912	86,425	(208,372)
Liabilities				
Payables				
Broker Payable for Securities Purchased but not Settled	-	-	-	-
Income Due Participants	31,116	8,319	-	-
Other Payable	-	-	-	-
Administrative Fee Payable	-	-	-	-
Total Payables	31,116	8,319	-	-
Securities Lending Obligations	241,577	64,588	-	-
Subscription Liabilities	70	19	-	-
Total Liabilities	272,763	72,926	-	-
Net Position Held in Trust for Pool and SMA Participants	\$ 6,919,479	\$ 1,849,986	\$ 86,425	\$ (208,372)

In the above table, 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.

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, 2024  
 (amounts in thousands)

	TFIP				
	Total	CAPP	State Agencies	Local Governments	SMA
<b>Additions</b>					
Purchases by Participants	\$ 13,402,567	\$ 181,772	\$ 202,508	\$ -	\$ 401,765
<b>Net Investment Earnings</b>					
<b>Investment Earnings</b>					
Net Increase (Decrease) on Fair Value of Investments	1,071,333	903,130	(90,723)	(358)	22,055
Dividend/Interest Income	826,980	440,491	121,057	460	53,926
Other Investment Income	457	20	-	-	-
Investment Earnings	<u>1,898,770</u>	<u>1,343,641</u>	<u>30,334</u>	<u>102</u>	<u>75,981</u>
Investment Costs	(75,064)	(65,426)	(7,183)	(27)	(1,500)
Other Investment Expenses	(25,298)	(24,539)	(303)	(1)	(146)
Short Term Investment Pool Reserve Expense	-	-	-	-	-
Net Investment Income (Loss)	<u>1,798,408</u>	<u>1,253,676</u>	<u>22,848</u>	<u>74</u>	<u>74,335</u>
Securities Lending Income	31,080	18,643	4,880	19	2,877
Securities Lending Expense	<u>(25,035)</u>	<u>(14,971)</u>	<u>(3,682)</u>	<u>(14)</u>	<u>(2,171)</u>
Net Securities Lending Income	<u>6,045</u>	<u>3,672</u>	<u>1,198</u>	<u>5</u>	<u>706</u>
Total Additions	<u>15,207,020</u>	<u>1,439,120</u>	<u>226,554</u>	<u>79</u>	<u>476,806</u>
<b>Deductions</b>					
Sales by Participants	13,426,443	583,627	45,111	-	344,389
Income Distributions to Participants	<u>596,078</u>	<u>-</u>	<u>117,876</u>	<u>448</u>	<u>49,536</u>
Total Deductions	<u>14,022,521</u>	<u>583,627</u>	<u>162,987</u>	<u>448</u>	<u>393,925</u>
Change in Net Position	<u>1,184,499</u>	<u>855,493</u>	<u>63,567</u>	<u>(369)</u>	<u>82,881</u>
Net Position Held in Trust for Pool and SMA Participants - Beginning of Year - As Restated	<u>27,117,765</u>	<u>13,977,915</u>	<u>2,976,783</u>	<u>11,845</u>	<u>1,686,631</u>
Net Position Held in Trust for Pool and SMA Participants - End of Year	<u>\$ 28,302,264</u>	<u>\$ 14,833,408</u>	<u>\$ 3,040,350</u>	<u>\$ 11,476</u>	<u>\$ 1,769,512</u>

MONTANA UNIFIED INVESTMENT PROGRAM  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2024  
 (amounts in thousands)

	STIP				STIP Included in Investment Pools
	State Agencies	Local Governments	Reserve	Reserve Included in STIP	
<b>Additions</b>					
Purchases by Participants	\$ 12,629,918	\$ 1,704,096	\$ -	\$ -	\$ (1,717,492)
<b>Net Investment Earnings</b>					
<b>Investment Earnings</b>					
Net Increase (Decrease) on Fair Value of Investments	187,314	49,915	4,016	(4,016)	-
Dividend/Interest Income	181,666	48,393	63	(63)	(19,013)
Other Investment Income	345	92	13,739	(13,739)	-
Investment Earnings	<u>369,325</u>	<u>98,400</u>	<u>17,818</u>	<u>(17,818)</u>	<u>(19,013)</u>
<b>Investment Costs</b>					
Investment Costs	(732)	(196)	-	-	-
Other Investment Expenses	(244)	(65)	-	-	-
Short Term Investment Pool Reserve Expense	<u>(14,049)</u>	<u>(3,742)</u>	<u>(27)</u>	<u>17,818</u>	<u>-</u>
Net Investment Income (Loss)	<u>354,300</u>	<u>94,397</u>	<u>17,791</u>	<u>-</u>	<u>(19,013)</u>
Securities Lending Income	3,678	983	-	-	-
Securities Lending Expense	<u>(3,312)</u>	<u>(885)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Securities Lending Income	<u>366</u>	<u>98</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Additions	<u>12,984,584</u>	<u>1,798,591</u>	<u>17,791</u>	<u>-</u>	<u>(1,736,505)</u>
<b>Deductions</b>					
Sales by Participants	12,434,746	1,686,145	-	-	(1,667,575)
Income Distributions to Participants	<u>353,155</u>	<u>94,076</u>	<u>-</u>	<u>-</u>	<u>(19,013)</u>
Total Deductions	<u>12,787,901</u>	<u>1,780,221</u>	<u>-</u>	<u>-</u>	<u>(1,686,588)</u>
Change in Net Position	<u>196,683</u>	<u>18,370</u>	<u>17,791</u>	<u>-</u>	<u>(49,917)</u>
Net Position Held in Trust for Pool and SMA Participants - Beginning of Year - As Restated	<u>6,722,796</u>	<u>1,831,616</u>	<u>68,634</u>	<u>-</u>	<u>(158,455)</u>
Net Position Held in Trust for Pool and SMA Participants - End of Year	<u>\$ 6,919,479</u>	<u>\$ 1,849,986</u>	<u>\$ 86,425</u>	<u>\$ -</u>	<u>\$ (208,372)</u>

In the above table, STIP holdings, purchases, sales, and investment earnings within investment pools are offset to calculate a combining total. STIP Reserve investment earnings and reserve expense within STIP are offset to calculate a combining total.



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



Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### **Report on the Audit of Financial Statements**

#### ***Opinion***

We have audited the financial statements of the Montana Board of Investments' Enterprise Fund Program, which are comprised of the Statement of Fund Net Position as of June 30, 2024, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Montana Board of Investments' Enterprise Fund Program as of June 30, 2024, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Emphasis of Matter***

As discussed in Note 1, the accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows of only the Montana Board of Investments' Enterprise Fund Program. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2024, or the changes in its financial position and 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.

As discussed in Note 1, Accounting Changes, to the financial statements, the board changed its classification of INTERCAP bond maturity and reissuance on the Statement of Cash Flows for the year ended June 30, 2024, to correct a misstatement. Our opinion is not modified with respect to this matter.

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Enterprise Fund Program'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 Enterprise Fund Program'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-51, the Schedule of Proportionate Share of Net Pension Liability on page A-84, the Schedule of Contributions on page A-84, and the Schedule of Total OPEB Liability and Related Ratios on page A-86 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Report on Other Legal and Regulatory Requirements*****Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2025, 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

January 7, 2025



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

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

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

### **FINANCIAL HIGHLIGHTS**

The Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects. The INTERCAP Revolving Loan Program is an intermediate term capital program administered by the Board. INTERCAP has loaned \$707.9 million statewide since its inception. As of June 30, 2024, there is \$75.2 million outstanding on the bonds used to fund the loans. Loan interest rates are reset every February. The loan rate from February 16, 2023, to February 15, 2024, was 6.00% (5.75% autopay). The loan rate for February 16, 2024, to February 15, 2025, is 6.25% (5.75% autopay).

The Board makes firm one-year commitments to fund the loans. The program committed to \$23.9 million and funded \$25.4 million on average over the past five fiscal years. The program estimated that the fiscal year 2024 commitments and fundings would be under \$20 million. The program committed to \$40.7 million and funded \$32.3 million in fiscal year 2024 because of a higher demand for interim financing and a larger than usual municipal project.

INTERCAP loans have been of very high credit quality and the Board has never suffered a loss. This is attributed to underwriting standards and the credit soundness of state of Montana agencies, boards, authorities, and local governments.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

The **STATEMENT OF FUND NET POSITION** provides information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the elements of Fund Net Position of the Fund as of the fiscal year ended June 30, 2024.

The **STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION** provides information on the various flows of operating revenues, operating expenses, non-operating revenues, and non-operating expenses for the Fund for the fiscal year ended June 30, 2024.

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

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

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

## FINANCIAL ANALYSIS

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

### CONDENSED STATEMENT OF FUND NET POSITION

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
<b>Assets</b>		
Non-Capital Assets	\$ 82,582	\$ 75,817
<b>Total Assets</b>	<u>82,582</u>	<u>75,817</u>
<b>Deferred Outflows of Resources</b>	75	97
<b>Liabilities</b>		
Current Liabilities	76,639	70,025
Noncurrent Liabilities	<u>414</u>	<u>382</u>
<b>Total Liabilities</b>	77,053	70,407
<b>Deferred Inflows of Resources</b>	55	72
<b>Fund Net Position</b>		
Restricted	5,549	5,422
Unrestricted	<u>-</u>	<u>13</u>
<b>Total Fund Net Position</b>	<u><u>\$ 5,549</u></u>	<u><u>\$ 5,435</u></u>

The fund net position increased \$114 thousand for the year ending June 30, 2024, as compared to a \$210 thousand increase in the fiscal year ending June 30, 2023. Fund net position increased primarily due to the operating income from the INTERCAP program and the higher balance of outstanding loan receivables.

As of June 30<sup>th</sup>, most of the assets remained composed of note and loan interest and principal receivable in accordance with the INTERCAP program presented in the Fund.

At the end of the fiscal year, the total note and loan principal and interest portfolio receivable was \$80.7 million, as compared to \$70.0 million at the beginning of the year. Loans funded during the fiscal year ended June 30<sup>th</sup> totaled \$32.4 million, as compared to \$19.6 million in the prior year. The Fund received repayments of \$25.8 million, including principal and interest.

The remaining assets are comprised of cash and cash equivalents, interest receivable on cash and cash equivalents, and security lending cash collateral. Cash and cash equivalents decreased by \$4.0 million for the fiscal year as compared to a net increase in cash of \$855 thousand in the prior fiscal year. Cash decreased primarily due to a net increase in cash payment for loans of \$6.6 million and a net decrease in cash from financing activities of \$3.0 million.

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

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

The total Fund Net Position comprises two elements as required by GAAP. Unrestricted Fund Net Position represents the accumulated unrestricted changes in fund net position since the Fund's inception. Restricted Fund Net Position is comprised of amounts related to the INTERCAP bonds and can only be reused in accordance with those provisions. There was an increase in Restricted Fund Net Position of \$127 thousand and a decrease in Unrestricted Fund Net Position of \$13 thousand, solely related to the Fund's operations.

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

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

	For Fiscal Years Ending	
	<u>June 30, 2024</u>	<u>June 30, 2023</u>
<b>Operating Revenues</b>		
Financing Income	\$ 4,105	\$ 2,163
Investment	<u>240</u>	<u>205</u>
<b>Total Operating Revenues</b>	4,345	2,368
<b>Operating Expenses</b>		
Debt Service	3,571	1,534
Personal Services	444	423
Other	<u>216</u>	<u>201</u>
<b>Total Operating Expenses</b>	4,231	2,158
<b>Operating Income (Loss)</b>	114	210
<b>Change in Fund Net Postion</b>	114	210
<b>Total Fund Net Postion as of the Beginning of the Year</b>	<u>5,435</u>	<u>5,225</u>
<b>Total Fund Net Postiton as of the End of the Year</b>	<u>\$ 5,549</u>	<u>\$ 5,435</u>

Operating revenues were primarily related to financing income related to the INTERCAP notes and loan portfolio. Financing income increased \$1.9 million, correlated with the increased loans receivable balances and higher interest rates. Investment revenue increased \$35 thousand due to higher yields on STIP investments held by the Fund.

Operating expenses primarily occur in two areas: debt service and personal services. Debt service on the bonds includes interest expense, bond issuance costs, and other debt service costs, which increased by \$2.0 million this year because of higher interest rates and a \$6.5 million higher bonds balance, partially offset by savings of bond issuance cost. Personal services include employee compensation, compensated absence expense, sick leave and other compensatory time recognized during the fiscal year. These amounts increased by \$21 thousand.

Other amounts include contracted services, supplies and materials, communications, travel, rent, pensions, post-employment benefits, and other overhead expenses. These expenses increased by \$15 thousand during the year as a normal part of increased operational activity.

The net of all the flows resulted in a \$114 thousand increase to Total Fund Net Position for the fiscal year ended June 30<sup>th</sup>, most of which relates to the increased operating income from the INTERCAP program.

## **OPERATIONAL HIGHLIGHTS**

The Board's attractive rates in a challenging interest rate environment proved to be beneficial for Montana's state agencies, universities, and local governments as evidenced by the growing loan base. Highlights of the program include equipment upgrades, energy projects, remodeling of municipal buildings, and construction of new facilities. The Program continues to provide low-cost financing to serve Montana's communities and way of life.

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

Program demand is affected by interest rates and the willingness for state and local governments to finance projects. The INTERCAP program will continue to offer competitive rates and low overhead costs to meet fluctuating demand.

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF FUND NET POSITION AS OF JUNE 30, 2024  
 (amounts in thousands)

Assets	
Current Assets	
Cash And Cash Equivalents	\$ 1,776
Interest Receivable	10
Notes/Loans Interest Receivable (Local Governments)	1,117
Notes/Loans Receivable (Local Governments)	7,217
Interfund Loans Receivable (Other Funds of the State)	2,622
Interfund Interest Receivable (Other Funds of the State)	150
Component Unit of the State of Montana Notes/Loans Receivable	1,097
Component Unit of the State of Montana Interest Receivable	137
Security Lending Cash Collateral	<u>60</u>
Total Current Assets	<u>14,186</u>
Long-Term Assets	
Notes/Loans Receivable (Local Governments)	51,935
Interfund Loans Receivable (Other Funds of the State)	11,191
Component Unit of the State of Montana Notes/Loans Receivable	<u>5,270</u>
Total Long-Term Assets	<u>68,396</u>
Total Assets	<u>82,582</u>
Deferred Outflows of Resources	<u>75</u>
Liabilities	
Current Liabilities	
Accounts Payable	5
Accrued Expenses	15
Accrued Interest Payable	1,313
Security Lending Obligations	60
Compensated Absences	39
Current Bonds/Notes Payable	<u>75,207</u>
Total Current Liabilities	<u>76,639</u>
Long-Term Liabilities	
Compensated Absences	21
Total OPEB Liability	9
Net Pension Liability	<u>384</u>
Total Long-Term Liabilities	<u>414</u>
Total Liabilities	<u>77,053</u>
Deferred Inflows of Resources	<u>55</u>
Fund Net Position	
Restricted	5,549
Unrestricted	<u>0</u>
Total Fund Net Position	<u>\$ 5,549</u>

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, 2024  
 (amounts in thousands)

Operating revenue	
Investment Revenue	\$ 240
Financing Revenue	<u>4,105</u>
Total Operating Revenue	<u>4,345</u>
Operating Expenses	
Personal Services	444
Contracted Services	22
Supplies and Materials	3
Communications	3
Travel	1
Rent	48
Indirect and Other Costs	69
OPEB Expense	(1)
Pension Expense	71
Debt Service	
Interest Expense	3,569
Bond Issuance Cost	<u>2</u>
Total Operating Expenses	<u>4,231</u>
Operating Income (Loss)	<u>114</u>
Change In Fund Net Position	<u>114</u>
Total Fund Net Position, July 1	<u>5,435</u>
Total Fund Net Position, June 30	<u><u>\$ 5,549</u></u>

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2024  
 (amounts in thousands)

Cash Flows from Operating Activities	
Payments to Suppliers for Goods and Services	\$ (149)
Payments to Employees	<u>(475)</u>
Net Cash (Used for) Provided by Operating Activities	<u>(624)</u>
Cash Flows from Non-Capital Financing Activities:	
Payment of Interest on Bonds and Notes	(3,513)
Payment of Principal on Bonds	(70,707)
Proceeds from Issuance of Bonds and Notes	77,207
Payment of Bond Issue Costs	<u>(2)</u>
Net Cash (Used for) Provided by Non-Capital Financing Activities	<u>2,985</u>
Cash Flows from Investing Activities:	
Collections for Principal and Interest on Loans	25,769
Cash Payments for Loans	(32,380)
Interest on Deposits/Investments	<u>240</u>
Net Cash (Used for) Provided by Investing Activities	<u>(6,371)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(4,010)
Cash and Cash Equivalents, July 1	5,786
Cash and Cash Equivalents, June 30	<u>\$ 1,776</u>

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

ENTERPRISE FUND (An Enterprise Fund of the State of Montana)  
 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2024  
 (amounts in thousands)

Reconciliation of Net Income to Net Cash (Used for) Operating Activities	
Net Operating Income (Loss)	\$ 114
Adjustments to Reconcile Net Income to Net Cash (Used for) Operating Activities	
Interest on Investments	(240)
Financing Income	(4,105)
Interest Expense	3,569
Change in Assets, Liabilities, Deferred Inflows, and Deferred Outflows:	
Decrease (Increase) in OPEB Deferred Outflows	4
Decrease (Increase) in Pension Deferred Outflows	18
Increase (Decrease) In Accounts Payable	5
Increase (Decrease) in Other Payables	(2)
Increase (Decrease) in Compensated Absences Payable	(6)
Increase (Decrease) in Net Pension Liability	36
Increase (Decrease) in OPEB Deferred Inflows of Resources	(5)
Increase (Decrease) in Pension Deferred Inflows of Resources	<u>(12)</u>
Total Adjustments	<u>(738)</u>
Net Cash (Used for) Provided by Operating Activities	\$ <u>(624)</u>

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

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## **NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

These financial statements present only the activity of the Enterprise Fund (the Fund) as managed by the Board of Investments (the Board). The Fund is reported as a proprietary fund within the State of Montana's (the State) Annual Comprehensive Financial Report (ACFR). Component unit activity of the Fund solely represents transactions with component units of the State and not of component units of the Fund. For a complete presentation of the State's balances and results of operations, the State's ACFR is available from the Montana Department of Administration's State Financial Services Division website <http://sfsd.mt.gov/SAB/acfr/index>; 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 final outstanding principal and interest within the program of \$4 thousand was paid off during the fiscal year.

## 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). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

## CASH AND CASH EQUIVALENTS

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

## SECURITIES LENDING

The collateral received under securities lending agreements related to the Short Term Investment Pool (STIP) is included in the Statement of Fund Net Position. Liabilities resulting from these transactions are also included in the Statement of Fiduciary Net Position. For additional details, see Note 2 – Cash and Cash Equivalents.

## RECEIVABLES

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

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

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

## COMPENSATED ABSENCES

The liability for compensated absences reported in the fund statements consists of applicable unpaid, accumulated annual and sick leave balances. Net compensated absence liabilities decreased \$6 thousand in the current year. For additional details, see Note 8 – Compensated Absences.

### 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 details, see Notes 9 – Pensions and 10 – Other Post Employment Benefits.

### FUND NET POSITION

Fund Net Position represents the accumulated net income or loss of the Fund's programs, which are restricted under bond provisions governing the use of these funds.

### OPERATING AND NONOPERATING REVENUES AND EXPENSES

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

### ACCOUNTING CHANGES

The Fund has classified cash flows occurring for the INTERCAP bond maturity and reissuance to the Non-Capital Financing Activities of the Statement of Cash Flows. For the year ended June 30, 2023, these cash flows were included in the Schedule of Noncash Transactions. There is no impact to beginning net position as a result of this change.

The Fund implemented GASB Statement No. 101 – Compensated Absences. Beginning fund net position was not impacted by this standard.

### USE OF ESTIMATES

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

## 2. CASH AND CASH EQUIVALENTS

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as identified in the Statement of Fund Net Position, as of June 30<sup>th</sup>, are as follows with amounts in thousands:

<b>CASH AND CASH EQUIVALENTS</b>		
Cash in Treasury	\$	64
Short Term Investment Pool (STIP)		1,712
Total Cash and Cash Equivalents	\$	1,776

The Fund invests its operational cash in the Board's Short-Term Investment Pool (STIP), an external investment pool that is part of the Montana Unified Investment Program. The UIP is also managed by the Board. The Board is not registered with the U.S. Securities and Exchange Commission as an investment company. STIP is managed to preserve principal while providing daily liquidity for state agencies, component units, and local government participants. Funds may be invested for one or more days. STIP participants own STIP shares not underlying investments. STIP is managed by the Board as a fiduciary for participants. Income is distributed monthly on a pro-rata basis. Cash and cash equivalents are reported at amortized cost. STIP pool participation units are purchased and sold in the same manner as individuals investing in mutual funds. The STIP participants purchase and sell units at \$1 per unit, at the participant's discretion.

### CUSTODIAL CREDIT RISK

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

### CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The concentration of credit risk is addressed within all Investment Policy Statements (IPSs) as set by the Board.

### CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Credit risk is contemplated for each individual portfolio in the IPS. Although the STIP

investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. STIP interest rate risk is determined using the Weighted Average Maturity (WAM) method. As of June 30<sup>th</sup>, the WAM for STIP was 54 days.

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

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

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

### SECURITIES LENDING

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

The custodial bank is required to maintain minimum collateral requirements based on contractual requirements. The custodial bank loaned the Board's public securities and received as collateral high-quality, short-term securities, and other investments permitted by guidelines. The Board has an established schedule with the custodial bank that identifies the minimum credit rating and margin requirements.

The cash collateral received for each loan was invested in a highly-liquid, separately managed 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 portfolio had a weighted average duration of 24 days and a weighted average final maturity of 91 days.

The collateral received under securities lending agreements where the pool can spend, pledge, or sell collateral without borrower default is included in the Statement of Fund Net Position. Liabilities resulting from these transactions are also included in the Statement of Fund Net Position. There were no income or expense distributions for securities lending made to STIP participants during the fiscal year.

### 3. RECEIVABLES

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

<b>NOTES/LOANS RECEIVABLES</b>				
	Local Government	Interfund - Other Funds of State	Component Unit of the State	Total
Notes/Loans Receivable				
Short-Term	\$ 7,217	\$ 2,622	\$ 1,097	\$ 10,936
Long Term	51,935	11,191	5,270	68,396
Interest Receivable	1,117	150	137	1,404
	<u>\$ 60,269</u>	<u>\$ 13,963</u>	<u>\$ 6,504</u>	<u>\$ 80,736</u>

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

<b>INTERFUND / COMPONENT UNIT RECEIVABLE BY FUND TYPE / COMPONENT UNIT</b>				
	Interfund - Other Funds of the State		Component Unit of the State	
	<u>Internal</u>		<u>Montana State</u>	
	<u>Debt Service</u>	<u>Service Fund</u>	<u>University</u>	<u>Total</u>
Interfund	\$ 102	\$ 13,711	\$ -	\$ 13,813
Component Unit	-	-	6,367	6,367
Interest Receivable	1	149	137	287
	<u>\$ 103</u>	<u>\$ 13,860</u>	<u>\$ 6,504</u>	<u>\$ 20,467</u>

#### 4. BONDS PAYABLE

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

##### GENERAL INFORMATION

The Board adopted Resolution 249, which allows for the issuance of new INTERCAP program bonds annually beginning in February 2023 to the Board of Investments Unified Investment Program. The new bonds are considered short-term debt, with a one-year maturity from date of issuance. New debt is renewed annually upon agreement between the INTERCAP program and the holder of the bonds.

Included in current bonds payable is \$75.2 million of special, limited obligation bonds of the Board payable solely from and secured by the revenues derived by the INTERCAP Loan Program under the Municipal Finance Consolidation Act. The Board has adopted Resolution 249 which allows for the issuance of new bonds annually beginning in February 2023. The new bonds are considered short-term debt, with a one-year maturity from date of issuance. New debt is renewed annually as of February 21<sup>st</sup>, upon agreement between the Fund and the holder of the bonds.

The principal of the bonds can be advanced as needed up to a maximum of \$120 million. The bonds are callable at any time. The interest rate on principal and any advances is 5.049% until February 20, 2025. The interest rate on principal and any advances was 5.069% from February 21, 2023, to February 20, 2024. There is no set expiration on the agreement. If the issuer and holder do not agree to renew the bonds, there is one final renewal. The bond interest rate for the renewal period will be determined on February 15<sup>th</sup> and will be equal to the midpoint yield of the US Treasury Bill with the maturity closest to 365 days plus ten basis points. Interest is paid semi-annually on February 20<sup>th</sup> and August 20<sup>th</sup>. Interest is calculated based on a three hundred sixty-day year composed of twelve thirty-day months.

SHORT-TERM DEBT

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

<b>SHORT-TERM BONDS PAYABLE</b>				
<u>Series</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance</u>
2022	\$ 75,207	5.049%	2/20/2025	\$ 75,207
Bonds Payable	<u>\$ 75,207</u>			<u>\$ 75,207</u>

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

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

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 68,707	\$ 77,207	\$ (70,707)	\$ 75,207

**5. BOND AND LOAN GUARANTEES**

As of June 30<sup>th</sup>, the Fund had received a nonexchange financial guarantee from the Coal Severance Tax Trust Fund and the Treasurer’s Cash Fund for exposure to INTERCAP bond issues of \$75.2 million. Both the Coal Severance Tax Trust Fund and the Treasurer’s Fund are part of the primary government for the State. The Board manages the Treasurer’s Cash Fund which consists of fund balances of all the funds for the State whose investments earnings are permitted by law to flow to the debt and liability free account. The nonexchange financial guarantee was extended through the Board’s management of the UIP. The amounts represent the potential liability of the Fund and are guaranteed for the duration of the bond, which is one year. The Board has not had to perform on any loan guarantee in the past.

**6. CONDUIT DEBT OBLIGATIONS**

QZAB DEBT

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit debt. The revenues, and in some cases the taxing power, of the obligors (borrowers) are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected in the Board’s financial statements. The obligors have set money aside to be used for the repayment of these bonds in accounts that are held in trust by the Board in the amount of \$2.3 million. This amount is reported within a

fiduciary fund for the State. Bonds issued and outstanding as of June 30<sup>th</sup> by the Board as QZAB conduit debt obligations are listed as follows with amounts in thousands:

<b>CONDUIT DEBT OBLIGATIONS</b>					
<b>QZAB</b>					
<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount</u>		<u>Balance</u>
			<u>Issued</u>		
Kalispell Elementary	October 2013	06/15/28	\$	620	\$ 620
Kalispell High School	October 2013	06/15/28		1,587	1,587
Anaconda Elementary	August 2017	06/15/32		658	658
Anaconda High School	August 2017	06/15/32		707	707
Total Conduit Debt Obligations - QZAB			\$	3,572	\$ 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 debt. The revenues of the obligor are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected in the Board's financial statements. Bonds issued and outstanding as of June 30<sup>th</sup> by the Board as QSCB conduit debt obligations are as follows with amounts in thousands:

<b>CONDUIT DEBT OBLIGATIONS</b>					
<b>QSCB</b>					
<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount</u>		<u>Balance</u>
			<u>Issued</u>		
Great Falls High Schools	April 2011	12/15/25	\$	1,855	\$ 257
Great Falls Elementary	April 2011	12/15/25		6,510	903
Total Conduit Debt Obligations - QSCB			\$	8,365	\$ 1,160

**7. INTERCAP PROGRAM COMMITMENTS**

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments as of June 30<sup>th</sup> totaled \$34.6 million.

**8. COMPENSATED ABSENCES**

The Board offers sick leave and vacation time as part of its employee compensation package. Compensated absences include 100% of applicable unused and earned vacation leave, non-exempt comp time, and banked holidays, along with 25% of the employees' sick leave multiplied

by the employee current pay rates as of the measurement date. Net compensated absence liabilities decreased \$6 thousand in the current year. Total compensated absence balance was \$60 thousand as of June 30<sup>th</sup>.

## 9. PENSIONS

### DESCRIPTION OF PLANS

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

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

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

The stand-alone financial statements of the Montana Public Employees Retirement Administration (MPERA) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the MPERA at PO Box 200131, Helena MT 59620-0131, 406.444.3154 or both are available on the MPERA website at <https://mpera.mt.gov/about/annualreports1/annualreports>. The information contained within MPERA's ACFR will only display information regarding PERS in total and will not display information specific to the Fund as an entity. The Fund's activity is reported within the Department of Commerce GASB 68 employer report as prepared by MPERA and represents 2.19% of the agency's net pension liability and .02% 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 \$384 thousand for its .02% proportionate share of the DBRP NPL and \$71 thousand for its proportionate share of the pension expense. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period.

SUMMARY OF BENEFITS - DBRP

Member's highest average compensation (HAC)

Hired prior to July 1, 2011, HAC during any consecutive 36 months.

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

Compensation Cap

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

Vesting

5 years of membership service

Eligibility for benefit

*Service retirement:*

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

Hired on or after July 1, 2011, Age 65, 5 years of membership service,  
Age 70, regardless of membership service.

*Early retirement:*

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

Hired on or after July 1, 2011, Age 55, 5 years of membership service.

*Second Retirement (requires returning to PERS-covered employment or PERS service)*

Retired before January 1, 2016, and accumulate less than 2 years additional service credit, or Retired on or after January 1, 2016, and accumulate less than 5 years additional service credit:

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

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

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

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

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

#### Monthly Benefit Formula

Members hired prior to July 1, 2011

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

Members hired on or after July 1, 2011

- Less than 10 years of membership service: 1.5% of HAC per year of service credit,
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit, or
- 30 years or more of membership service: 2% of HAC per year of service credit.

#### Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007,
- 1.5% for members hired between July 1, 2007, and June 30, 2013.
  
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%,
  - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%. and
  - 0.0% whenever the amortization period for PERS is 40 years or more.

### OVERVIEW OF CONTRIBUTIONS

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

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

As the employer, the State was required to contribute 9.17% 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 \$27 thousand for the fiscal year.

### ACTUARIAL ASSUMPTIONS – DBRP

The total pension liability as of June 30, 2023, was determined on the results of an actuarial valuation date of June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement. Among those assumptions were the following:

- |                                                            |                |
|------------------------------------------------------------|----------------|
| • Investment Return (net of investment expense)            | 7.30%          |
| • General Wage Growth, (which includes inflation at 2.75%) | 3.50%          |
| • Merit Increases                                          | 0.00% to 4.80% |
| • Guaranteed Annual Benefit Adjustment (GABA):             |                |

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007,
  - 1.5% for members hired between July 1, 2007, and June 30, 2013,
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%,
    - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%, and
    - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions for active participants are based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021. Projected generationally using MP-2021.
- Mortality assumptions for disabled retirees are based on PUB-2010 General Amount Weighted Disabled Retiree Mortality table, projected to 2021, set forward one year.
- Mortality assumptions for contingent survivors are based on PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year. Projected generationally using MP-2021.
- Mortality assumptions for healthy retirees are based on PUB-2010 General Amount Weighted Healthy Retiree Mortality table projected to 2021, with ages set forward one year and adjusted 104% for males and 103% for females. Projected generationally using MP-2021.

#### CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

- There were no changes to the assumptions or other inputs that affected the measurement of the TPL since the previous measurement date.

#### DISCOUNT RATE - DBRP

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

Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2127. 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 investments is reviewed as part of the regular experience studies prepared for the Plan about every five years. The long-term rate of return as of the plan's measurement date of June 30, 2023, is based on analysis in the experience study report dated May 2, 2022, without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense, and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

### SENSITIVITY ANALYSIS – DBRP

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

<b>Net Pension Liability Sensitivity</b>	<b>1.0% Decrease (6.30%)</b>	<b>Current Discount (7.30%)</b>	<b>1.0% Increase (8.30%)</b>
Enterprise Fund	\$ 555	\$ 384	\$ 241

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - DBRP

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

The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers. The State contributed a Statutory Appropriation from the General Fund of \$35.0 million to the Plan. The change in the Fund's proportionate share of the Plan was determined as follows:

<b>As of Measurement Date June 30, 2023</b>	<b>NPL (amounts in thousands)</b>	<b>Percent of Collective NPL</b>	<b>Change in Percent of Collective NPL</b>
Fund Proportionate Share	\$ 384	0.016%	0.001%
State of Montana Proportionate Share associated with Employer	102	0.004%	-0.003%
<b>Total</b>	<b>\$ 486</b>	<b>0.020%</b>	<b>-0.002%</b>

#### DEFERRED PENSION INFLOW / OUTFLOW OF RESOURCES - DBRP

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected vs. Actual Experience	\$ 15	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1	-
Change of Assumptions		14
Differences Between Employer Contributions and Proportionate Share of Contributions	7	-
Contributions Subsequent to the Measurement Date	27	-
<b>Total</b>	<b>\$ 50</b>	<b>\$ 14</b>

Amounts reported as deferred outflows of resources related to pensions resulting from the Fund's contributions after the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows with amounts in thousands:

For the Measurement Year Ended June 30:	Recognition of Deferred Outflows / Inflows in Future Years
2024	\$ (5)
2025	(6)
2026	23
2027	(2)
Thereafter	-

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

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

At the plan level for the measurement period ended June 30, 2023, the DCRP employer did not recognize any NPL or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 348 employers that have participants in the DCRP totaled \$1.4 million.

## 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

### GENERAL INFORMATION ABOUT THE NON-TRUST PLAN

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

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems and elect to start medical coverage within 60 days of leaving employment. Further details on state retirement plans are provided in Note 9 - Pensions.

### PLAN DESCRIPTION

The OPEB plan is a single - employer defined benefit OPEB plan administered by statute by the Montana Department of Administration (DOA) Health Care and Benefits Division (HCBD). The Fund is reported within the primary government for reporting purposes.

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

As of December 31, 2023, the State OPEB Plan's administratively established retiree medical contributions vary between \$484.00 and \$2,362.00 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between \$42.34 and \$71.27 per month, and vision hardware premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for Medicare.

BASIS OF ACCOUNTING

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

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

The Fund's total OPEB liability of \$9 thousand is approximately .03% of the total primary government OPEB liability of \$31 million as reported on June 30, 2024. The following table presents the other items related to and changes in total OPEB liability with amounts in thousands:

	<b>Fund Share Total OPEB Liability</b>
Balance at 6/30/2023	\$ 9
Changes for the Year:	
Service Cost, Interest, and Benefit Payments	1
Changes of Assumptions or Other Inputs	(1)
Net Changes	0
Balance at 6/30/2024	\$ 9

The total OPEB liability was determined by an actuarial valuation as of December 31, 2022, rolled forward to measurement period ending March 31, 2024.

ACTUARIAL METHODS AND ASSUMPTIONS

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

<b>Contributions</b> (weighted average)	<b>Retiree / Surviving Spouse</b>	<b>Spouse</b>
Before Medicare Eligibility	\$15,372	\$7,370
After Medicare Eligibility	5,592	5,213
Actuarial Valuation Date	December 31, 2022	
Experience Study Period	January 1, 2022 through December 31, 2022	
Actuarial Measurement Date	March 31, 2024	
Actuarial Cost Method	Entry age normal funding method	
Amortization Method	Level percent of pay amortization	
Asset Valuation	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial Assumptions:		
Interest/Discount Rate	4.12%	
Projected Payroll Increases	3.50%	
Participation		
Future Retirees	40.00%	
Future Eligible Spouses	70.00%	
Marital Status At Retirement	70.00%	

***Mortality - Healthy***

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

***Mortality – Disabled***

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

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

The interest/discount rate increased from 3.98% to 4.12% based on the average of multiple March 31, 2024, municipal bond rate sources.

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

None.

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

The following presents the total OPEB liability of the Fund, as well as what the Fund’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate with amounts in thousands:

<b>Net OPEB Liability</b>	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
<b>Sensitivity</b>	<b>(3.12%)</b>	<b>(4.12%)</b>	<b>(5.12%)</b>
Enterprise Fund	\$12	\$9	\$7

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

The following table presents the total OPEB liability of the Fund, as well as what the Fund’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates. Rates shown on the Plan are trend rates for medical/pharmacy, respectively, and all amounts are in thousands:

Net OPEB Liability Sensitivity	Current Healthcare Cost		
	1% Decrease (5.1%/6.7%)	Trend Rate (6.1%/7.7%)	1% Increase (7.1%/8.7%)
Enterprise Fund	\$7	\$9	\$12

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

For the year ended June 30<sup>th</sup>, the Fund recognized OPEB expense of (\$1) thousand. On June 30<sup>th</sup>, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources with amounts in thousands:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 18
Changes of Assumptions and Other Inputs	24	23
Transactions Subsequent to the Measurement Date to the Total OPEB Liability	1	-
<b>Total</b>	<b>\$ 25</b>	<b>\$ 41</b>

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

Year Ended June 30	Amount Recognized In OPEB Expense As An Increase Or (Decrease) To OPEB Expense
2025	\$ (1)
2026	(1)
2027	(1)
2028	(1)
2029	(1)
Thereafter	(10)

## GENERAL INFORMATION ABOUT THE PERS-DCRP DISABILITY PLAN

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

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

A separate trust was established to provide disability benefits to plan members, and it is accounted for as a fiduciary fund of the State. The assets are held in a trust capacity for the beneficiaries. The PERS-DCRP is administered by MPERA. The MPERA issues publicly available annual reports which include financial statements and required supplemental information for the plan. See Note 9 – Pensions for more information.

### **11. SUBSEQUENT EVENTS**

Since June 30<sup>th</sup>, the Board made additional commitments to fund loans from the INTERCAP loan program of \$17.6 million. Refer to Note 7 – INTERCAP Program Commitments for further detail. In addition, the Board requested an additional advance of bonds of \$3.8 million in July 2024 and paid down \$5 million of principal in August 2024 and an additional \$6 million in November 2024. Refer to Note 4 – Bonds Payable for further detail.

**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

## PENSION LIABILITY AS AN EMPLOYER ENTITY

RSI regarding the pension information is as follows, with amounts in thousands except percentages.

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY FOR THE LAST TEN FISCAL YEARS										
As of Measurement Date	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund's Proportion of NPL	0.02%	0.01%	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.02%	0.02%
Fund's Proportionate Share of NPL	\$ 384	\$ 350	\$ 254	\$ 404	\$ 269	\$ 345	\$ 419	\$ 385	\$ 291	\$ 245
State of Montana's Proportionate Share of NPL Associated with the Fund	\$ 102	\$ 100	\$ 72	\$ 123	\$ 84	\$ 111	\$ -	\$ -	\$ -	\$ -
Employer's Covered Payroll	\$ 272	\$ 250	\$ 289	\$ 210	\$ 269	\$ 264	\$ 307	\$ 241	\$ 220	\$ 205
Fund's Proportionate Share of NPL as a Percent of Covered Payroll	141.18%	140.00%	87.89%	192.38%	100.08%	130.68%	136.48%	159.75%	132.27%	119.51%
Plan Fiduciary Net Position as a Percent Total Pension Liability	73.93%	73.66%	79.91%	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS FOR FISCAL YEAR ENDED JUNE 30										
As of Most Recent FYE (Reporting Date)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contributions	\$ 27	\$ 23	\$ 22	\$ 23	\$ 18	\$ 23	\$ 22	\$ 51	\$ 21	\$ 19
Contributions Made	\$ (27)	\$ (23)	\$ (22)	\$ (23)	\$ (18)	\$ (23)	\$ (22)	\$ (51)	\$ (21)	\$ (19)
Contribution Deficiency/(Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's Covered Payroll	\$ 295	\$ 272	\$ 250	\$ 289	\$ 210	\$ 269	\$ 264	\$ 307	\$ 241	\$ 220
Contributions As A Percent Of Employer's Covered Payroll	9.17%	8.46%	8.80%	7.96%	8.57%	8.55%	8.33%	16.61%	8.71%	8.64%

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

#### RESTATEMENT OF REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of Proportionate Share of Net Pension Liability is now presented as of measurement date for the pension plan. Due to this change, the Employer's Covered Payroll is restated for all years presented, which also changes the Fund's Proportionate Share of NPL as a Percent of Covered Payroll calculation. This change only affects the RSI table above; there is no impact to the Schedule of Contributions presented above or the Fund's previously issued financial statements.

#### CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following actuarial assumptions and methods were used to determine contribution rates reported for fiscal year ending June 30, 2023, which were based on the results of the June 30, 2022, actuarial valuation:

- General Wage Growth 3.50%,
- Investment Rate of Return 7.30%, which includes inflation at 2.75%,
- Merit salary increase 0% to 4.80%,
- 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 (Active Participants): PUB-2010 General Amount Weighted Employee Mortality projected to 2021 for males and females. Projected generationally using MP-2021,
- Mortality (Disabled Retirees): PUB-2010 General Amount Weighted Disabled Retiree mortality table, projected to 2021, set forward one year for both males and females,
- Mortality (Contingent Survivors): PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year for males and females. Projected generationally using MP-2021,
- Mortality (Healthy Retirees): PUB-2010 General Amount Weighted Healthy Retiree Mortality Table projected to 2021, with ages set forward one year and adjusted 104% for males and 103% for females. Projected generationally using MP-2021.

The actuarial assumptions and methods utilized in the June 30, 2022, valuation, were developed in the five-year experience study for the period ending 2021.

#### CHANGES OF BENEFIT TERMS

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

2017:

##### *Working Retiree Limitations:*

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

##### *Refunds:*

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

*Lump sum payouts:*

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

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

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

The following information is presented to reflect the funding progress of the OPEB plan as it relates to the Fund as of June 30<sup>th</sup>, with amounts in thousands except percentages.

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>							
<b>SCHEDULE OF TOTAL OPEB LIABILITY AND RELATED RATIOS</b>							
<b>LAST 7 FISCAL YEARS</b>							
	2024	2023	2022	2021	2020	2019	2018
Proportion of Total OPEB Liability	0.03%	0.03%	0.03%	0.03%	0.03%	0.04%	0.04%
Proportionate Share of Total OPEB Liability	\$ 9	\$ 9	\$ 37	\$ 45	\$ 14	\$ 20	\$ 19
Covered Employee Payroll	\$ 229	\$ 230	\$ 217	\$ 207	\$ 207	\$ 276	\$ 253
Total OPEB Liability as a Percentage Of Employee Covered Payroll	3.93%	3.91%	17.05%	21.74%	6.76%	7.25%	7.51%

## Notes to Schedule:

No assets are set aside to fund the OPEB benefits. The State funds the benefits on a pay-as-you-go basis from general assets. As additional data is available, 10 years will be presented.

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

*June 30, 2024:* Changes in assumptions for 2024 were due to an increase in the discount rate from 3.98% to 4.12%.

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

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

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

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

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

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

#### CHANGES IN BENEFIT TERMS

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



# Report on Internal Control and Compliance



# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



B-1

Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

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

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Unified Investment Program and Enterprise Fund Program of the Montana Board of Investments, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the board's financial statements, and have issued our reports thereon dated January 7, 2025.

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

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

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

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

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the board's Unified Investments Program and Enterprise Fund Program 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 audits 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

January 7, 2025

MONTANA BOARD  
OF INVESTMENTS

BOARD RESPONSE



# MONTANA

## BOARD OF INVESTMENTS

January 24, 2025

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

RECEIVED  
January 24, 2025  
LEGISLATIVE AUDIT DIV.

Mr. Maciver:

I am in receipt of the Financial-Compliance Audits for the Unified Investment Program and Enterprise Fund dated January 2025 for the fiscal year ending June 30, 2024, issued by the Legislative Audit Division. There are no recommendations in either audit.

Thank you to Kelly Zwang, Jennifer Erdahl, Katie Majerus, and Sophia McAdam for their knowledge and professionalism during the audit process.

Sincerely,



DAN VILLA  
Executive Director

Cc: Jeff Meredith, Chair  
Mark Barry, Chair of Board's Audit Committee

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