Board Of Investments

Fiscal Year 2004 Annual Report

MONTANA BOARD OF INVESTMENTS
Department of Commerce

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Helena, MT 59620-0126
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The Honorable Judy Martz, Governor

BOARD MEMBERS

- ***Richard Anderson, Chairman***
  Building Contractor/Developer
  Dick Anderson Construction
  Helena
  Term Ending 01/01/2005

- ***Dennis Beams***
  Senior Vice President
  Glacier Bank
  Kalispell
  Term Ending 01/01/2005

- ***Karen Fagg***
  Business Executive
  HKM Engineering, Inc.
  Billings
  Term Ending 01/01/2007

- ***Maureen Fleming***
  Professor of Management
  School of Business Administration
  University of Montana, Missoula
  Term Ending 01/01/2007

- ***Jay Klawon***
  Investment Representative
  Edward Jones Investments
  Hamilton
  Term Ending 01/01/2005

- ***Joel T. Long***
  Business Executive
  JTL Group, Inc.
  Billings
  Term Ending 01/01/2005

- ***Terry Moore***
  Senior Vice President
  First Interstate Bank
  Billings
  Term Ending 01/01/2007

- ***Tim Ryan***
  State Director
  USDA Rural Development
  Bozeman
  Term Ending 01/01/2005

- ***Calvin Wilson***
  County Attorney
  Big Horn County
  Busby
  Term Ending 01/01/2007

MONTANA BOARD OF INVESTMENTS
Staff as of June 30, 2004

- ***Carroll V. South***
  Executive Director
- ***Geri Burton***
  Deputy Director
- ***Louise Welsh***
  Bond Program Officer
- ***Mary Edwards***
  Bond Program Assistant
- ***Bobbie Pomroy***
  Science & Tech Portfolio Manager
- ***Julie D. Endner***
  Network Administrator
- ***Kimberly R. Dallas***
  Program Assistant/Board Secretary
- ***Sara LaFountine***
  Imaging/Scanning Assistant
- ***Gayle Moon, CPA***
  Accounting Fiscal Manager
- ***Mari Rohrig***
  Accountant
- ***Roberta Diaz***
  Accountant
- ***Marilyn Umstead***
  Accountant
- ***Coralie Sciuchetti***
  Accountant
- ***Delrene Rasmussen, CPA***
  Asst. Investment Officer - Montana Investments
- ***Herbert Kulow, CMB***
  Sr. Portfolio Manager - Montana Investments
- ***Sandi Conrady, CMB, ARU, AMP***
  Portfolio Manager – Montana Investments
- ***Richard Bridegroom, CMB, ARU***
  Mortgage Analyst
- ***James R. Penner, CFA***
  Chief Investment Officer
- ***Richard Cooley, CFA***
  Assistant Investment Officer-Fixed Income/STIP
- ***Robert Bugni, CFA***
  Senior Investment Officer-Fixed Income
- ***Rande Muffick, CFA***
  Assistant Investment Officer-Domestic Equities
- ***Edward Kelly***
  Assistant Investment Officer-External Managers
- ***David Ewer***
  International Equities & Research Manager
- ***Roberta Ecklund***
  Investment Analyst
- ***Adam L. Nelson, CFA***
  Investment Analyst
- ***John Romasko, CFA***
  Investment Analyst – Fixed Income
- ***Daniel Stevens, CFA***
  Investment Analyst
- ***Steve Strong***
  Investment Analyst
- ***Scott Moore, CFA***
  Investment Analyst

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INTRODUCTION

The Montana Board of Investments (Board) is honored to submit its Annual Report for the fiscal year ended June 30, 2004. This report, required by law, discloses investment performance for the past fiscal year, summarizes the in-state investment activities of the Board, and provides public access to audited financial statements. Unless otherwise noted, all references to years in this report are state fiscal years beginning July 1 and ending June 30.

General Board Responsibilities

Unified Investment Program **-** Article VIII, Section 13 of the Montana Constitution requires that the legislature provide for a unified investment program for public funds and that the program be audited annually. Section 17-6-201, MCA established the unified investment program, created the Board, and gave the Board sole authority to invest state funds in accordance with state law and the state Constitution. State law requires that the Board operate under the "prudent expert principle," defined as: 1) discharging its duties with the care, skill, prudence, and diligence 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; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

Prior to the Board's assumption of the state's investment program, state funds were invested by individual state agency staff, usually on a part-time basis. The creation of the Board in 1972 permitted a full-time professional investment staff to invest all state and (at the discretion of local governments) local government funds. At its first meeting in August 1971 the Board established four major goals:

- to centralize the state's investments;
- to invest the state's idle cash;
- to increase earnings on the state's investments; and
- to establish a sound system of control over the investment process, including provisions for systematic financial reporting, measurement of investment results, and a regular independent audit.

The unified investment program has grown from a book value of $321 million at year-end 1972 to a book value of $8.98 billion at year-end 2004 - an annual average increase of 11.0 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 473 accounts.

In-State Investments **-** In addition to the Board's primary role of managing the state's unified investment program, the legislature has encouraged the Board to assist in Montana's economic development. Montana law (17-6-304, MCA) states that the "objectives for investment of the Permanent Coal Tax Trust Fund are to diversify, strengthen, and stabilize the Montana economy, and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment. " Section 17-6-305, MCA, states that "the Board shall endeavor to invest up to 25 percent of the Permanent Coal Tax Trust Fund . . . in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises." In recent years the Legislature has created two new loan programs - the “Infrastructure and Value-Added Loan Programs – and set aside $50.0 million of the Trust for each program.

Commercial\Infrastructure/Value-Added Loans - The Board manages these programs in conformance with the "prudent expert principle" and does not invest solely to improve Montana's economy. Operating the in-state investment program under the "prudent expert principle" has not prevented the Board from investing millions of the Trust to spur Montana's economy. Since the program's inception in 1984 through 2004, the Board has funded 1,154 loans totaling $451.2 million in 43 of Montana's 56 counties. Loans funded by county are shown on Page 50.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2004 the Board held 2,069 mortgages with total book values of $123.6 million in 54 of Montana's 56 counties - a decrease from the 3,053 mortgages valued at $205.9 million held at year-end 2003. The Board serves as a secondary market to qualified financial institutions in the in-state investment programs and does not lend directly to borrowers. Outstanding mortgages by county are shown on Page 48.

Bond Program - As a part of the Board's in-state investment activities, it also sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or interim financing are also available. Both the bond program and the in-state investment program, funded from the Permanent Coal Tax Trust, were created in fiscal year 1984 as part of the "Build Montana" program. Since the program's inception, $190.4 million has been loaned to eligible governments. Additional information on the Bond Program is shown on Page 52.

Securities Lending - Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. Investment firms borrow securities to cover short positions, failed deliveries, arbitrage trades, and other brokerage activities. In recent years the Board has lent securities to qualified borrowers who pass rigorous tests and meet high standards for credit quality. Although state law requires that securities on loan be collateralized at least 100 percent, the Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously.

State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program and retains 25 percent of the income generated as compensation for managing the program. The state earned $907,508 of securities lending income in 2004, compared to $934,933 in 2003. Because this program is demand driven by the markets, earnings are volatile.

Board Operations

Board Staff - The Board, comprised of nine members appointed by the Governor to staggered four-year terms, employs a Chief Investment Officer and an Executive Director who hire staff as authorized by the legislature. The current authorized staffing level of 34 full-time equivalents consists of two positions hired by the Board, plus 17 investment staff, six accounting staff, three bond program staff, and six support staff. Board staff also provides administrative support to the Montana Facility Finance Authority. Except for private equity, international stock, small-cap domestic stocks, and equity index type investments, the unified investment program is managed by Board staff.

Board Administrative Costs - The investment portion of Board operations is funded by administrative charges against the funds it invests, while the bond program is primarily funded by the "spread" between the interest paid on bonds issued and interest received on loans made. Effective in 1998, the Legislature sets the maximum fees the Board may charge in the investment program. Board management fees in 2004 were 3.7 basis points of the average fair market value of internally managed portfolios. Custodial bank fees were less than 1 basis point of the Total Fund's average fair market value.

Board Policies and Procedures

***Investment Policies* -** The Board adopts an investment policy for each individual fund it invests, except for funds investing in STIP only. The policies are tailored to the specific needs of the fund and are implemented only after consultation with the administrators of the funds. Asset allocations and investment time horizons are established by policy, as are the benchmarks against which investment performance is measured.

***Benchmarks* -** The Board establishes appropriate benchmarks for each asset class and the Custodial Bank develops a composite benchmark for each fund that parallels the fund's asset allocation at market value.

***Board Meetings* -** Board meetings are held at approximate six-week intervals. Meeting dates, agenda, and minutes are posted on the Board's web page at www.investmentmt.com. All Board decisions are discussed and voted on in meetings open to the public.

Report Content

This report contains historical data from 1972 (the first fiscal year the Board managed the unified investment program) through 2004. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2004 and changes in investments from 2003. Appendix A includes income generated by account and securities portfolios for all accounts managed by the Board. Appendix B contains the Board's audited financial statements with accompanying portfolios. The financial statements provide detailed information on the investment pools, the "all other funds" account, and the Bond Program.

Report Terminology

Book Values of fixed-income investments represent the securities' par values, plus or minus amortized premiums or discounts. Book value of equity securities is the average cost of the securities at the time of purchase.

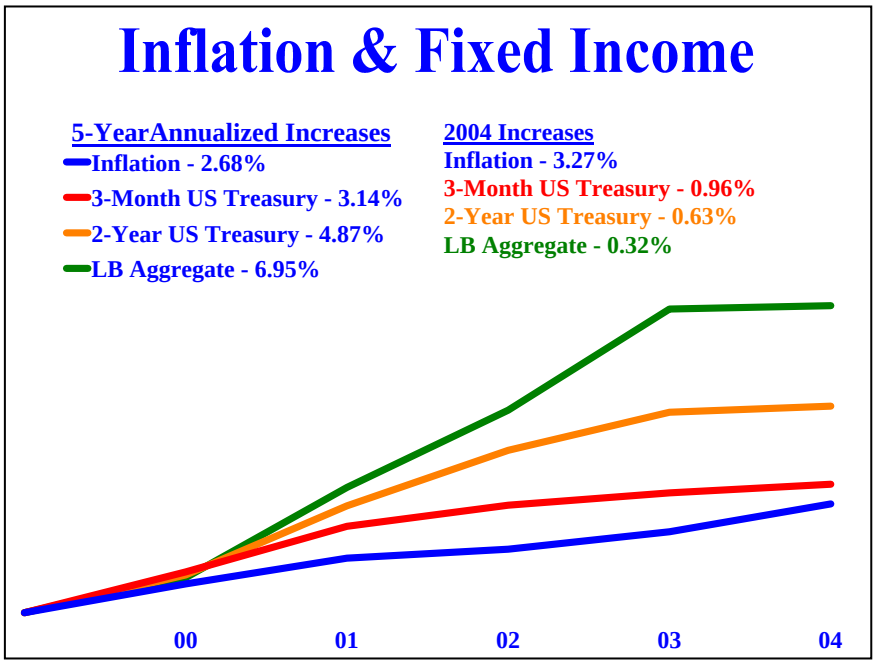
Fair Market Values reflect the value of securities on June 30 as priced by the Custodial Bank, or other sources.

***Net Asset Value* (NAV)** as it relates to Investment Pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

Income Return utilizes actual invested balances and investment income as recorded in the state accounting system. The calculation divides the annual net income by one-half the sum of the beginning and ending invested balances. The income includes interest, dividends, amortization of premiums/discounts, securities lending income, and distributed realized gain/loss. The calculation is performed by Board staff. Income return does not consider any change in the fair market value of the portfolio during the period**.**

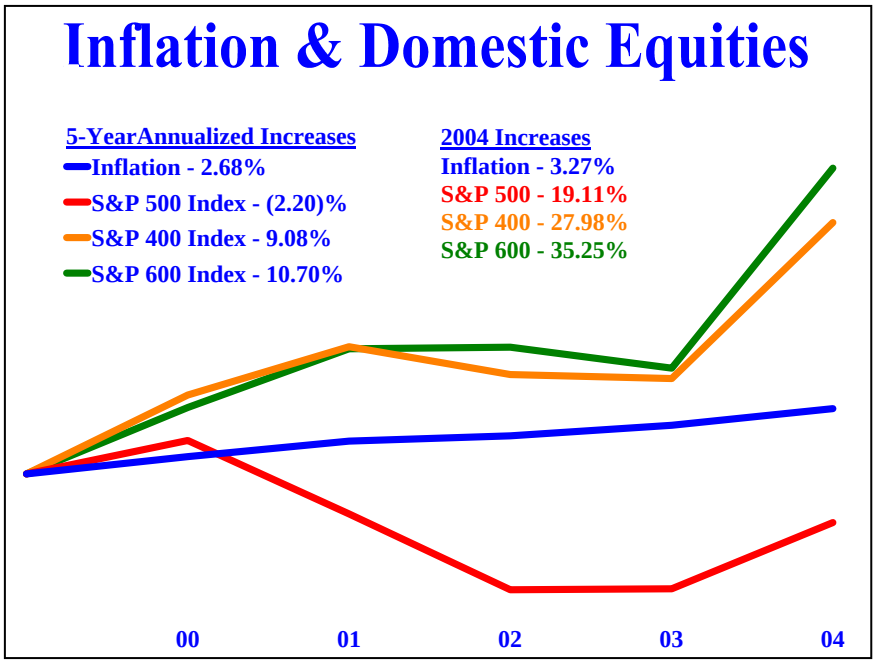
Total Rates of Return, calculated by the Custodial Bank, include all investment income and the unrealized gains/losses resulting from annual changes in the market value of investments, after cash flows are netted. For periods longer than one year the returns are compounded and annualized. The total rate of return is used by the Board to compare investment staff performance to various stock/bond indices selected by the Board.

ECONOMIC AND INVESTMENT OVERVIEW



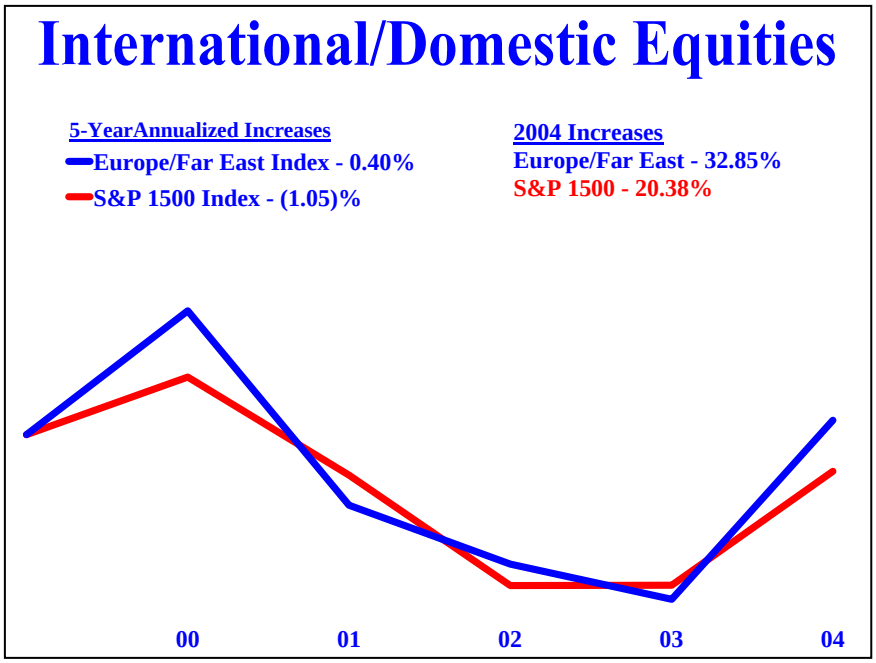
Bonds - The bond market seesawed die to a rapidly changing economic picture. Bond prices rose steadily until April and then underwent a sudden reversal, boosting yields (which move in opposite direction from prices) in response to reports of higher-than-expected inflation and job growth. Declining bond prices nearly cancelled out the interest earned on long-term bonds during the year. The broad domestic bond market, as measured by the Lehman Aggregate Bond Index returned only 0.32 percent for the 12 months.

Although returns on fixed-income investments did not keep pace with inflation in 2004, during the past five years, returns on fixed-income investments have exceeded inflation as shown in the above graph. The 3-month US Treasury Bill yielded slightly more than inflation during the period, while the 2-Year US Treasury and the Lehman Aggregate Bond Index provided returns well in excess of inflation.



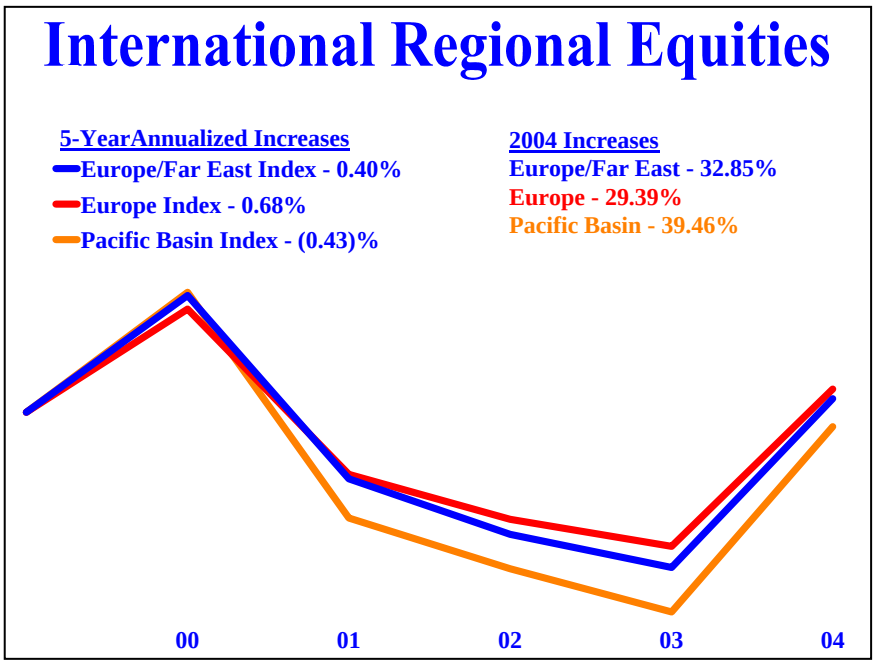
Domestic Stock - A strong rally in domestic stock prices during the first half of the fiscal year produced solid gains for the year despite a volatile second-half. Through February, stocks benefited from strong corporate earnings growth and a string of positive economic surprises. The market environment then deteriorated when job growth slowed, the reported growth in second-quarter gross domestic product was revised downward, and rising crude oil prices became a drag on the economy.

Although returns on all domestic stocks exceeded inflation for the year, during the past five years returns on large cap stocks (500 Index) have not kept pace with inflation as depicted in the adjacent graph. Mid cap stocks (400 Index) and small cap stocks (600 Index) provided returns will in excess of inflation during the period. Because large cap stock comprise such a significant portion of the domestic stock market (nearly 89 percent) as measured by the S&P 1500 Index, investments in the broad index yielded an annualized negative return of 1.05 percent during the period.



International Stock - International stocks also rallied strongly during the first half of the fiscal year. Returns on international stock significantly exceeded domestic stock returns during fiscal 2004 largely due to the weakness in the US Dollar (which increases the returns on international investments purchased with the US dollar), particularly during the first seven months of the fiscal year. Since international stock returns are not perfectly correlated with domestic stock, adding international stocks to a portfolio reduces portfolio volatility or risk.

While there were significant differences in returns on international and domestic stock in fiscal 2004, longer term comparisons show a closer correlation. During the five-year period depicted in the above graph the broad international index, as measured by the EAFE (Europe & the Far East) Index out performed the broad domestic index, as measured by the S&P 500 Index by only 1.45 percent.



Europe & Far East - The two components of the EAFE performed quite differently in fiscal 2004, with Europe underperforming the Pacific Basin component by more than 10.0 percent as shown in the adjacent graph. However, during the past five years, the Europe component has outperformed the Pacific Basin component by more than one percent annually.

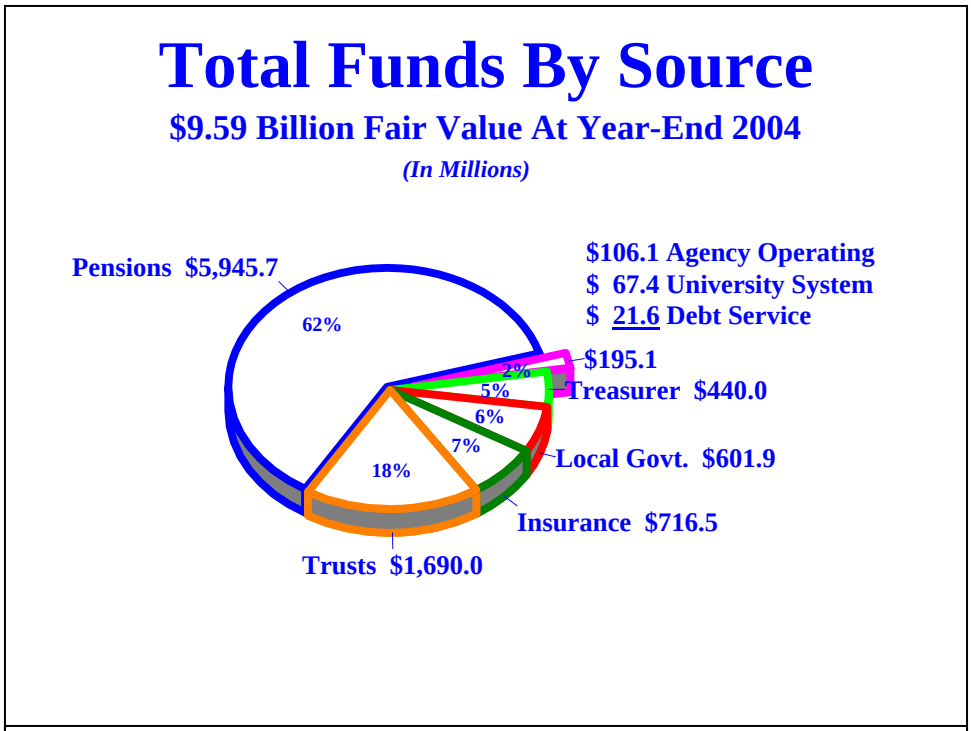
Private Equity - Private equity investors were rewarded handsomely during fiscal 2004, as the Board's Private Equity Pool returned 29.11 for the year. Equity valuations have jumped as investors returned to this asset class. Demand for private equity continues to overwhelm the supply of top-tier private equity funds. The Board has been investing in this asset class since 1987. The long-term goal is to earn a 15 percent annual total rate of return. At year-end, 4.28 percent of the pension funds were invested in private equity. The Board's target for this asset class is 7.0 percent

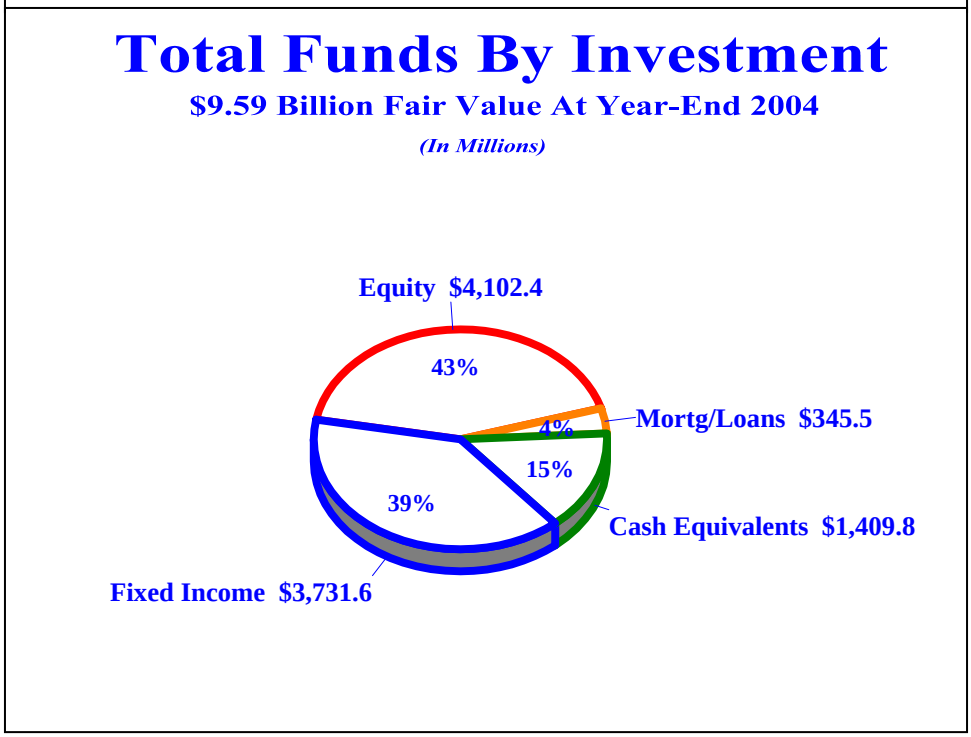
Short-Term Investments - The Federal Reserve started raising short-term rate in June after lowering them 13 times over the preceding 41 months. The short-term rate began the year at 1.0 percent and ended at 1.25 percent. The systematic lowering of rates by the Federal Reserve has significantly reduced investment earnings on bank deposits and money market accounts. Investors in the Board's Short Term Investment Pool have experienced a significant reduction in income, from a net yield of 6.64 percent in fiscal 2001 to

1.11 percent in fiscal 2004. The yield in this pool will closely track any further Federal Reserve increases in short-term rates.

The Ibbotson firm has been tracking returns of various asset classes during the past 76 years, from 1926 through 2003. The Ibbotson calculated returns are shown below:

Asset Type	**Annualized Return**
Long-term domestic corporate bonds	5.9%
Long-term government bonds	5.4%
US treasury bills	3.7%
Large-cap domestic stocks	10.4%
Small-cap domestic stocks	12.7%
Inflation	3.0%.





TOTAL FUND

The Total Fund is comprised of all funds invested by the Board.

Fund types invested include pensions, trusts, insurance, debt service, state agency and higher education operating accounts, and local government funds.

Unless otherwise provided by law, the Board must invest all state funds. Local governments may invest funds with the Board at their discretion.

At June 30, 2004 the fair value of the Total Fund was $9.59 billion compared to $8.97 billion a year earlier. The increase was primarily attributable to increases in the fair value of investments held in the various portfolios. Fair values reflect the value of securities on June 30 as priced by the custodial bank, or other sources.

During the year the Board invested 473 individual accounts, consisting of 296 state agency accounts and 177 local government accounts.

The Total Fund portfolio by major fund type and asset type are shown in the tables on the next page.

The Total Fund invested balances and income history are shown on Page A – 17 in Appendix A.

Total Fund By Source And Asset Allocation At Fair Value On June 30, 2004

Fund Type	Cash Equivalents $	Domestic Stock $	Fixed Income $	Mortgage/ Loans	Other Equity (1)	Total
Pensions	194,163,866	2,899,665,698	1,599,757,615	123,620,864	1,128,534,698	5,945,742,742
Trusts	114,899,937	1,057,108	1,352,149,213	221,861,642		1,689,967,900
Insurance	59,339,673		585,051,852		72,138,374	716,529,899
Treasurer's	258,978,157		181,052,079			440,030,236
Local Gov.	601,911,349					601,911,349
Agency Cash	96,434,953		9,633,653			106,068,606
Universities	62,454,638	1,003,254	3,932,771			67,390,664
Debt Service	21,623,586					21,623,586
Total	1,409,806,159	2,901,726,061	3,731,577,183	345,482,506	1,200,673,072	9,589,264,982

(1) Includes International Stock, Equity Index Fund, Private Equity, and Real Estate

Total Fund Book/Fair Values of Securities Held At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Bonds	3,122,524,295	3,198,628,133	76,103,837	34.8	33.3
Domestic Stocks/Indexes	2,547,467,378	2,974,423,243	426,955,864	28.4	30.9
US Government-Backed Bonds	1,294,286,450	1,337,556,775	43,270,326	14.4	13.9
US Mortgage-Backed Bonds	401,440,519	395,408,842	(6,031,677)	4.5	4.1
Montana Mortgages\Loans	345,481,014	345,482,506	1,492	3.8	3.6
International Stocks/Indexes	786,482,403	853,937,359	67,454,956	8.8	8.9
International Bonds (US $)	146,366,512	157,995,785	11,629,272	1.6	1.6
Private Equity	236,711,058	258,478,513	21,767,455	2.6	2.7
Repurchase Agreements	71,847,576	71,847,576	0	0.8	0.7
State/Local Government Bonds	9,892,524	9,894,283	1,758	0.1	0.1
Equity Real Estate	16,092,941	16,242,050	149,109	0.2	0.2
Total	8,978,592,670	9,619,895,062	641,302,392	100.0	100.0

Total Fund Annual Change At June 30 By Asset Type

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Corporate Bonds	3,122,524,295	34.8	3,116,143,348	36.6	6,380,947	0.2
Domestic Stocks/Indexes	2,547,467,378	28.4	2,553,846,553	30.0	(6,379,175)	(0.2)
US Government-Backed Bonds	1,294,286,450	14.4	983,297,269	11.5	310,989,181	31.6
International Stocks/Indexes	786,482,403	8.8	489,383,398	5.7	297,099,005	60.7
US Mortgage-Backed Bonds	401,440,519	4.5	240,086,987	2.8	161,353,532	67.2
Mortgages\Loans	345,481,014	3.8	442,681,780	5.2	(97,200,766)	(22.0)
Private Equity	236,711,058	2.6	278,790,338	3.3	(42,079,280)	(15.1)
International Bonds (US $)	146,366,512	1.6	193,705,190	2.3	(47,338,677)	(24.4)
Repurchase Agreements	71,847,576	0.8	196,005,238	2.3	(124,157,662)	(63.3)
Equity Real Estate	16,092,941	0.2	13,512,086	0.2	2,580,855	19.1
State/Local Government Bonds	9,892,524	0.1	13,884,836	0.2	(3,992,312)	(28.8)
Total Investments	8,978,592,670	100.0	8,521,337,023	100.0	457,255,647	5.4

The tables on the next page show:

- The fair value of individual funds in descending order,
- Income generated by major funds, and
- The total rates of returns of major funds.

Total Fund By Fund At Fair Value On June 30, 2004

Fund	Fair Value $	Fund	Fair Value $
Public Employees' Retirement	3,017,022,856	Debt Service STIP	21,623,586
Teachers' Retirement	2,327,167,274	Insurance STIP	20,279,028
Local Government STIP	601,911,349	Vol. Firefighters' Retirement	18,612,738
State Fund Insurance	600,275,272	Treasure State Water	18,455,270
Permanent Coal Tax Trust	567,122,228	Parks Coal Trust	16,561,481
Treasurer's Fund	440,030,236	Group Benefits Insurance	15,195,246
Trust & Legacy Fund	427,382,979	UM Designated Fund	14,892,183
UCFRB Restoration Fund	154,008,833	UCRFB Reserve Fund	14,551,824
Police Officers' Retirement	140,725,594	FWP Mitigation	11,047,031
Sheriffs' Retirement	139,910,633	UM Other Funds	9,039,253
Firefighters' Retirement	134,140,179	Zortman/Landusky	7,049,605
Treasure State Endowment	119,103,685	Wildlife Habitat Trust	6,460,521
Resource Indemnity Trust	104,764,328	Hail Insurance	6,102,175
Streamside Tailings	95,450,582	Guaranteed Student Loan	5,300,935
Highway Patrol Retirement	78,310,865	Abandoned Mines	5,273,366
St Agency Operations STIP	77,014,618	Weed Control Trust	4,971,556
Old Fund Insurance	72,898,445	Cultural Coal Tax Trust	4,780,911
Other Trusts STIP	47,431,218	FWP Real Property	4,561,095
Tobacco Trust	46,728,936	U of M Endowment	2,487,674
Game Wardens' Retirement	45,057,186	MT Tech UM Agency	1,820,109
Judges' Retirement	44,795,416	Subsequent Injury	1,779,732
Higher Education STIP	39,016,569	Other Trusts MTCP	1,057,108
FWP License Account	29,053,988	Higher Education MTCP	134,876
Montana Pole	27,904,409		
		Total	9,589,264,982

Total Fund Income

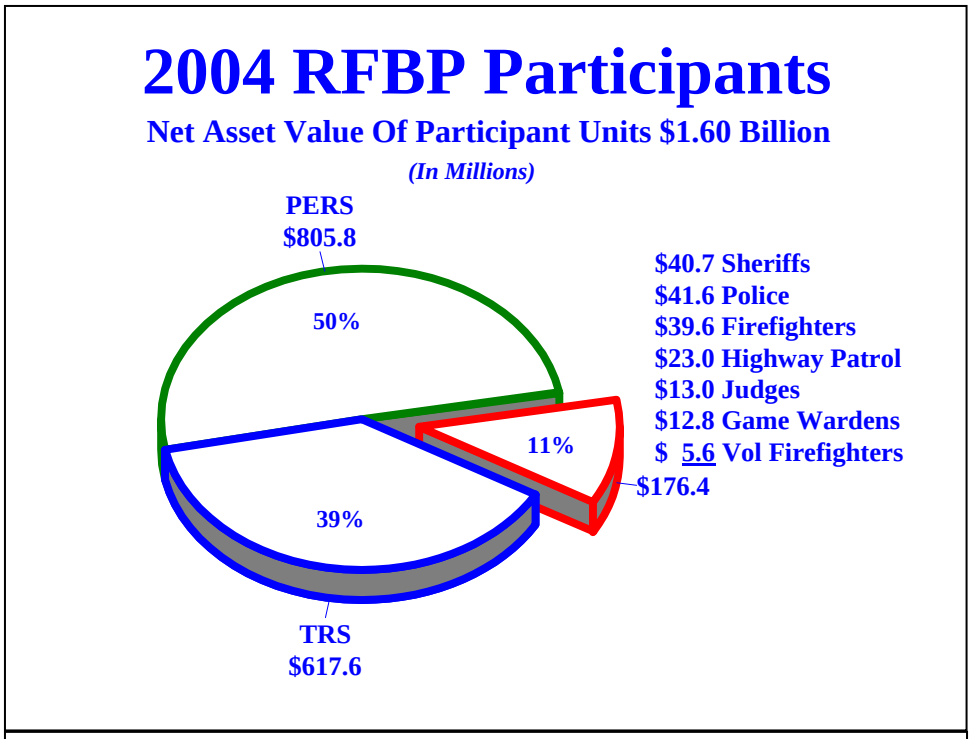
Fund Type	2004 $ Income	% of Total	2003 $ Income	% of Total	$ Change	% of Change
Public Employees' Retirement	157,174,263	33.3	114,127,866	28.9	43,046,397	37.7
Teachers' Retirement	129,319,390	27.4	95,580,408	24.2	33,738,981	35.3
Permanent Coal Tax Trust (1)	44,170,843	9.3	44,313,873	11.2	(143,030)	(0.3)
Trust & Legacy Fund	30,140,513	6.4	29,215,115	7.4	925,398	3.2
Other Retirement Systems	29,437,359	6.2	22,528,812	5.7	6,908,548	30.7
State Fund Insurance	27,825,991	5.9	29,057,347	7.4	(1,231,356)	(4.2)
Other Managed Portfolios	15,238,569	3.2	14,767,308	3.7	471,261	3.2
UCFRB Restoration Fund	11,034,724	2.3	10,412,111	2.6	622,613	6.0
Resource Indemnity Trust	7,380,241	1.6	7,174,343	1.8	205,898	2.9
Local Governments STIP	6,570,598	1.4	9,793,753	2.5	(3,223,155)	(32.9)
Treasurer's Fund	6,392,992	1.4	6,366,439	1.6	26,553	0.4
Old Fund Insurance	4,062,134	0.9	6,044,875	1.5	(1,982,741)	(32.8)
State Agency/Higher Ed. STIP	3,791,337	0.8	5,517,528	1.4	(1,726,191)	(31.3)
Total	472,538,954	100.0	394,899,778	100.0	77,639,176	19.7

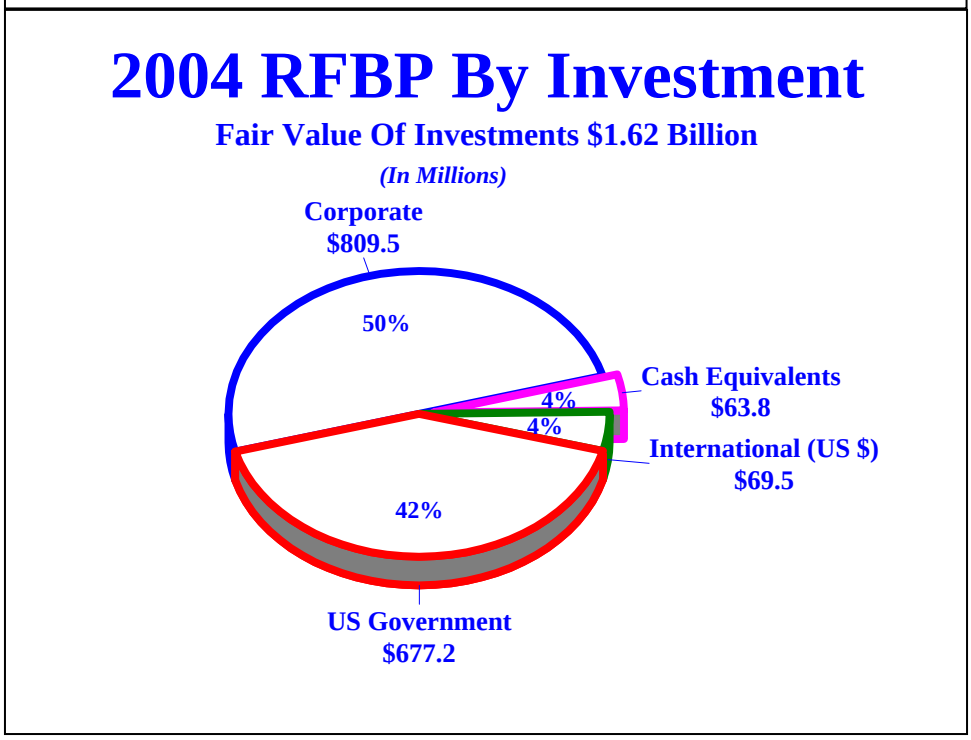
(1) Includes Treasure State Endowment and Treasure State Regional Water

Major Funds 2004 Total Rates Of Return Compared to Index

Fund Name	% Return	Index	Index % Return	Return +/- Index
Public Employees' Retirement	13.43	Composite	13.39	0.04
Teachers' Retirement	13.51	Composite	13.47	0.04
Coal Tax Permanent Fund	3.29	Composite	2.56	0.73
State Fund Insurance	2.89	Composite	2.00	0.89
Trust & Legacy Fund	1.48	Composite	0.32	1.16
Treasurer's Fund	1.19	Composite	0.94	0.25
Resource Indemnity Trust	1.52	Composite	0.33	1.19

(1) An Index Composite paralleling the Fund's asset allocation at fair value





RETIREMENT FUNDS BOND POOL (RFBP)

On April 1, 1995, all fixed-income investments held by the nine pension funds were transferred to the newly-created Retirement Funds Bond Pool (RFBP). Each pension fund received shares in the pool equal in value to the fair value of its fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is the interest receivables included in the net asset value of the pool.

The RFBP distributed $113.7 million in income to participants in 2004, compared to $132.1 million in 2003. Income distributed includes, interest accruals, discount/premium, and realized gains/losses.

The RFBP financial statement, which lists the individual securities in the portfolio, is shown on Page B-1 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

RFBP Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Corporate Asset-Backed Bonds	57,411,212	3.7	10,000,000	0.7	47,411,212	474.1
Other Corporate Bonds	712,035,569	45.9	848,475,728	59.6	(136,440,158)	(16.1)
US Mortgage-Backed Bonds	193,433,816	12.5	74,506,361	5.2	118,927,455	159.6
US Government-Backed Bonds	462,219,182	29.8	379,620,878	26.7	82,598,304	21.8
International Bonds (US $)	63,515,174	4.1	82,275,560	5.8	(18,760,386)	(22.8)
Total Fixed Income	1,488,614,953	95.9	1,394,878,526	97.9	93,736,427	6.7
Cash Equivalents (STIP)	63,754,291	4.1	29,436,910	2.1	34,317,381	116.6
Total	1,552,369,244	100.0	1,424,315,436	100.0	128,053,808	9.0

RFBP Book/Fair Values At June 30, 2004

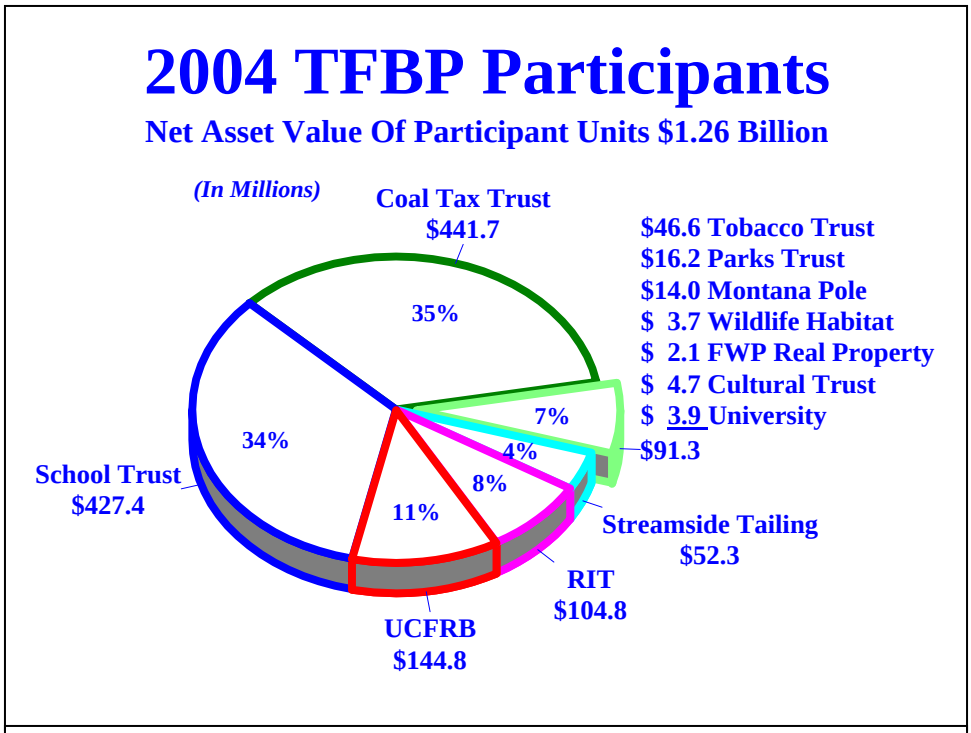
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Asset-Backed Bonds	57,411,212	57,044,332	(366,881)	3.9	3.7
Other Corporate Bonds	712,035,569	752,471,975	40,436,405	47.8	48.4
US Mortgage-Backed Bonds	193,433,816	189,124,322	(4,309,493)	13.0	12.2
US Government-Backed Bonds	462,219,182	488,066,522	25,847,340	31.1	31.4
International Bonds (US $)	63,515,174	69,524,327	6,009,153	4.3	4.5
Total Fixed Income	1,488,614,953	1,556,231,478	67,616,525	100.0	96.1
Cash Equivalents (STIP)	63,754,291	63,754,291	0		3.9
Total	1,552,369,244	1,619,985,769	67,616,525		100.0

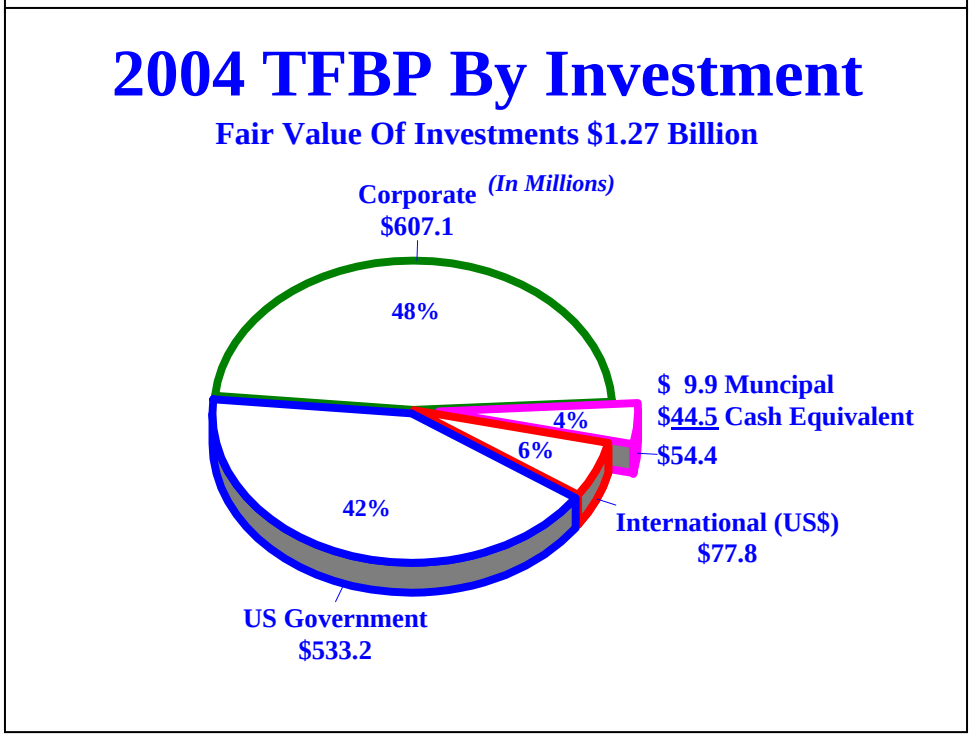
RFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2004	1.07	LB Aggregate Bond	0.32	0.75
3 Year Annualized Average	8.49	LB Aggregate Bond	6.36	2.13
5 Year Annualized Average	8.20	LB Aggregate Bond	6.95	1.25

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- No additional purchases permitted if credit risk exceeds two percent.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.





TRUST FUNDS BOND POOL (TFBP)

On October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to the newly-created Trust Funds Bond Pool (TFBP). Each trust fund received shares in the pool equal in value to the fair value of their fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is due to interest receivables and cash included in the net asset value.

The TFBP distributed $86.8 million in income to participants in 2004, compared to $81.3 million in 2003. Income distributed includes interest accruals, discount/premium, and realized gains/losses.

The TFBP financial statement, which lists the individual securities in the portfolio, is shown Page B-11 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

TFBP Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Corporate Asset-Backed Bonds	61,012,957	5.0	12,255,000	1.1	48,757,957	397.9
Other Corporate Bonds	517,408,976	42.1	611,390,223	53.7	(93,981,247)	(15.4)
US Mortgage-Backed Bonds	150,317,964	12.2	76,290,821	6.7	74,027,143	97.0
US Government-Backed Bonds	372,279,409	30.3	296,636,211	26.0	75,643,199	25.5
International Bonds (US $)	72,911,206	5.9	92,470,191	8.1	(19,558,986)	(21.2)
State/Local Government Bonds	9,892,524	0.8	13,884,836	1.2	(3,992,312)	(28.8)
Total Fixed Income	1,183,823,037	96.4	1,102,927,282	96.8	80,895,754	7.3
Cash Equivalents (STIP)	44,503,715	3.6	36,113,982	3.2	8,389,733	23.2
Total	1,228,326,752	100.0	1,139,041,264	100.0	89,285,488	7.8

TFBP Book/Fair Values At June 30, 2004

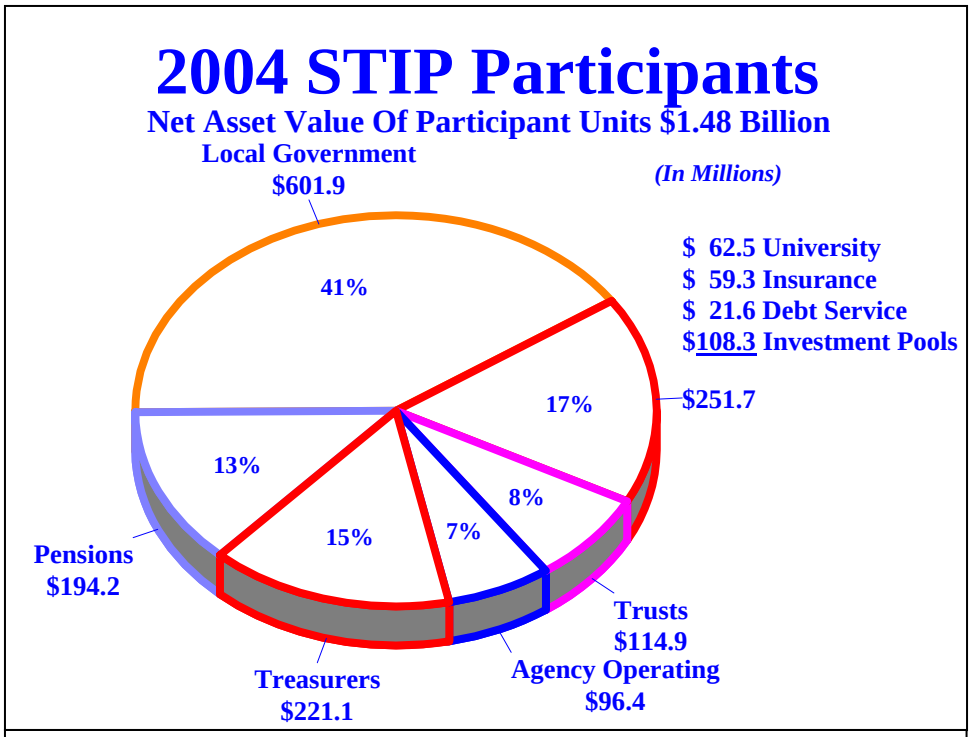
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Asset-Backed Bonds	61,012,957	60,172,310	(840,647)	5.2	4.7
Other Corporate Bonds	517,408,976	546,932,474	29,523,499	43.7	43.0
US Mortgage-Backed Bonds	150,317,964	147,756,275	(2,561,689)	12.7	11.6
US Government-Backed Bonds	372,279,409	385,437,965	13,158,556	31.4	30.3
International Bonds (US $)	72,911,206	77,757,388	4,846,183	6.2	6.1
State/Local Government Bonds	9,892,524	9,894,283	1,758	0.8	0.8
Total Fixed Income	1,183,823,037	1,227,950,696	44,127,659	100.0	96.5
Cash Equivalents (STIP)	44,503,715	44,503,715	0		3.5
Total Investments	1,228,326,752	1,272,454,411	44,127,659		100.0

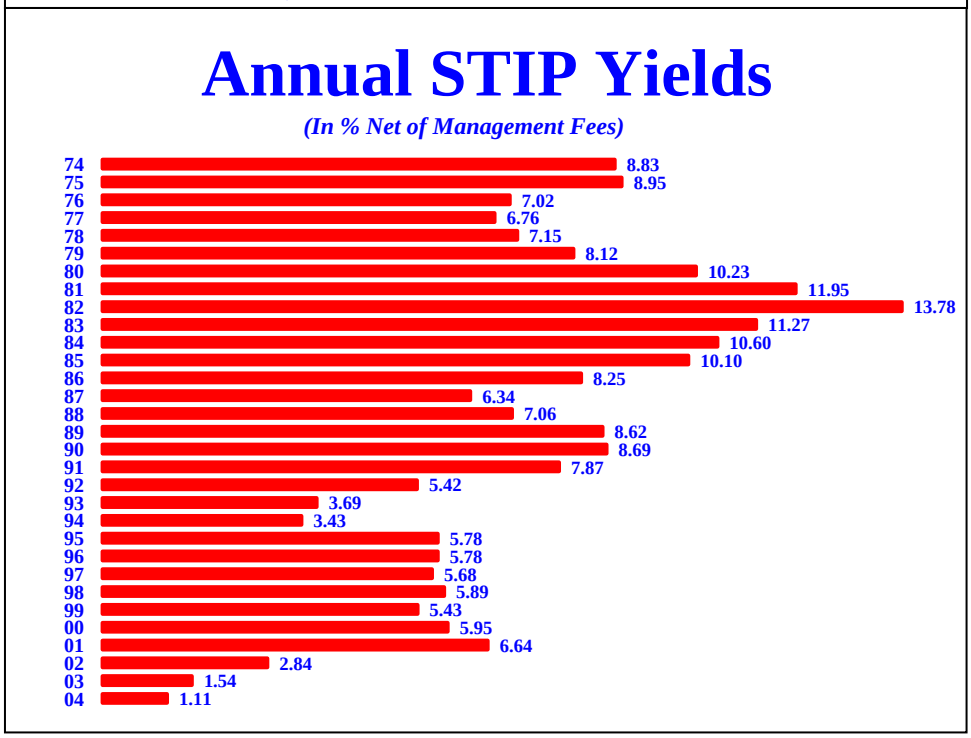
TFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2004	1.54	LB Aggregate Bond	0.32	1.22
3 Year Annualized Average	8.16	LB Aggregate Bond	6.36	1.80
5 Year Annualized Average	8.02	LB Aggregate Bond	6.95	1.07

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- No additional purchases permitted if credit risk exceeds two percent.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.
- Current income is important since it is distributed to participants.





SHORT TERM INVESTMENT POOL (STIP)

The Short Term Investment Pool (STIP), created in 1974, provides participants access to a short-term money market fund. Shares are fixed at $1.00, fractional shares may be purchased, and participants may buy or sell shares with one business day's notice. Income is distributed on the first day of the month.

The upper graph depicts the net asset value of the pool at June. The lower graph shows the historical yield to participants based on distributed income after management and custody fees are deducted.

There were 473 accounts invested in STIP during the year, consisting of 296 state accounts and 177 local government accounts. The STIP distributed $15.8 million to participants in 2004, compared to $21.3 million in 2003.

The STIP financial statement, which lists the individual securities in the portfolio, is shown on Page portfolio is listed on Page B-21 in Appendix B.

The tables on the next page show:

- The changes in Net Asset Value by major participant type,
- The book and fair value of the securities portfolio by major asset type, and
- The securities portfolio's total rate of return.

STIP NAV Annual Change By Participant At June 30

Fund Type	2004 $ NAV (1)	% of Total	2003 $ NAV (1)	% of Total	$ Change	% Change
Local Governments	601,911,349	40.7	664,570,962	46.8	(62,659,612)	(9.4)
Treasurer's Fund	221,130,581	14.9	147,708,039	10.4	73,422,542	49.7
Pension Funds	194,163,866	13.1	149,026,093	10.5	45,137,773	30.3
Trust Funds	114,899,937	7.8	112,820,432	7.9	2,079,505	1.8
Agency Operating	96,434,953	6.5	128,296,684	9.0	(31,861,731)	(24.8)
University System	62,454,638	4.2	67,441,069	4.7	(4,986,431)	(7.4)
Insurance Funds	59,339,673	4.0	58,650,654	4.1	689,019	1.2
Investment Pools	108,258,006	7.3	65,565,411	4.6	42,692,595	65.1
Debt Service Funds	21,623,586	1.5	26,943,452	1.9	(5,319,866)	(19.7)
Total	1,480,216,590	100.0	1,421,022,795	100.0	59,193,794	4.2

(1) Net Asset Value

STIP Book/Fair Values At June 30, 2004

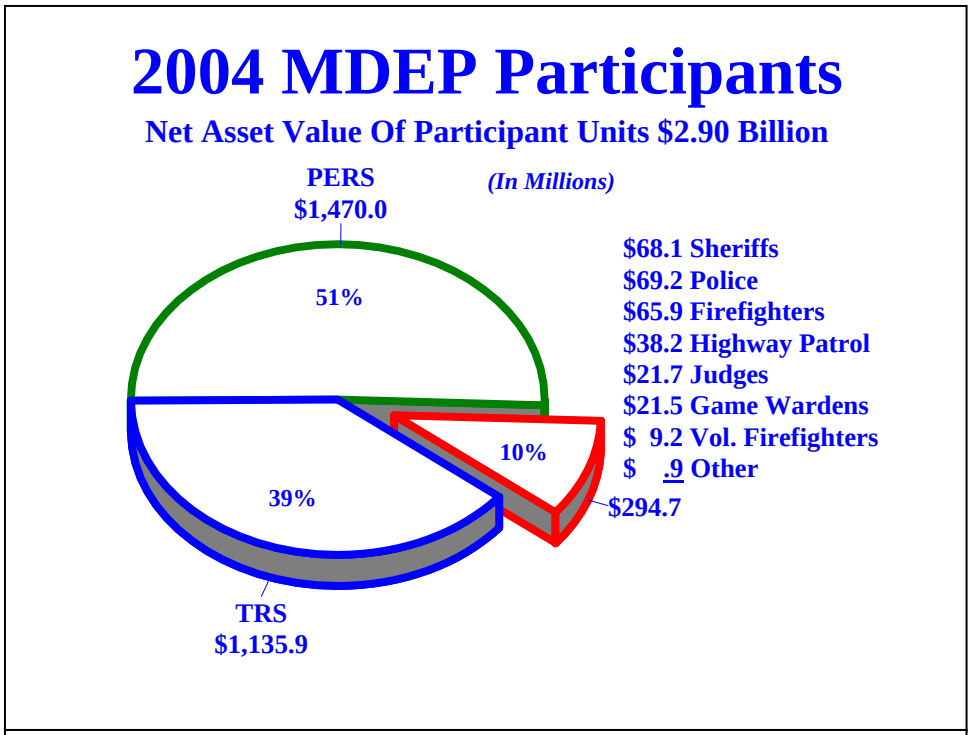
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Variable Rate Notes	504,981,731	504,930,826	(50,905)	34.1	34.1
Asset Backed Securities	940,831,210	940,844,477	13,267	63.6	63.6
Repurchase Agreements	34,000,000	34,000,000	0	2.3	2.3
Total	1,479,812,941	1,479,775,303	(37,638)	100.0	100.0

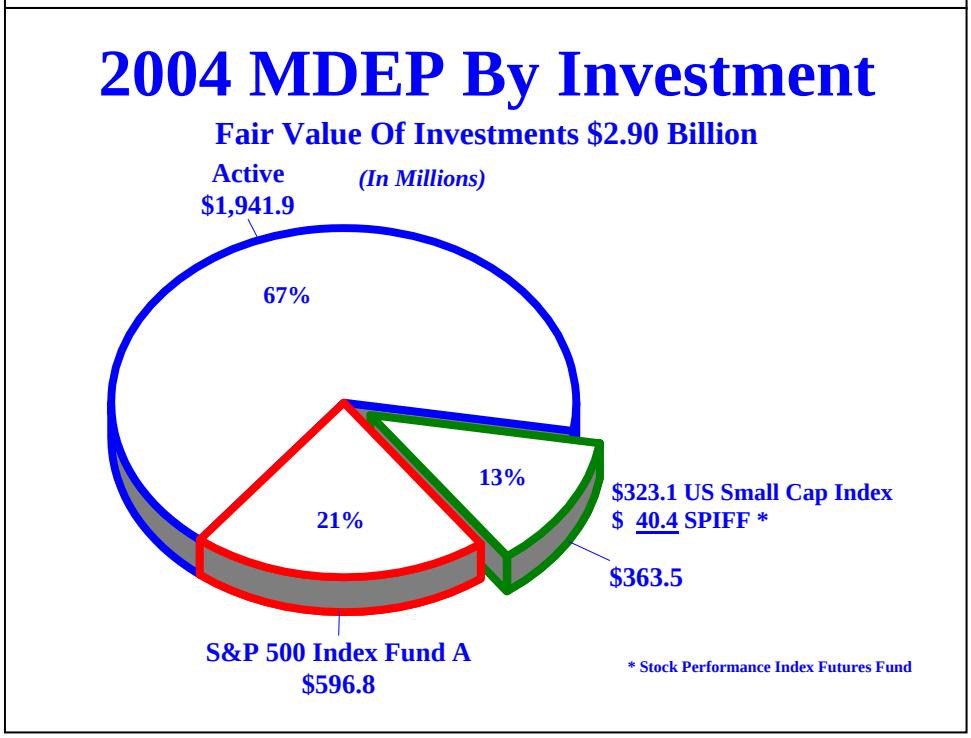
STIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2004	1.13	91-Day T Bill x 105%	1.01	0.12
3 Year Annualized Average	1.85	91-Day T Bill x 105%	1.69	0.16
5 Year Annualized Average	3.61	91-Day T Bill x 105%	3.30	0.31
10 Year Annualized Average	4.68	91-Day T Bill x 105%	4.37	0.31

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified money market fund, producing a total rate of return 105 percent of the 91-Day US Treasury Bill.
- Highly liquid portfolio.
- Maximum security maturity of 397 days.
- Participants include state agencies, local governments and school districts.
- Risk tolerance is low.





MONTANA DOMESTIC EQUITY POOL (MDEP)

The Montana Domestic Equity Pool (MDEP) was created in May 1, 2003, when all investments held in the Montana Common Stock Pool, the Standard and Poor's 500 Index Fund A and the Dimensional Fund Advisors US Small Cap Index were combined to create the pool.

The upper graph shows the net asset of the pool at June 30. The lower graph shows the fair value of investments held by active and passive management.

The MDEP distributed $32.4 million of income to participants in 2004, compared to $28.9 million in 2003. Income distributed includes dividends, security lending, and miscellaneous income. All realized capital gains and losses are retained in the pool.

The MDEP financial statement, which lists the individual securities in the portfolio, is shown on Page B – 27 in Appendix B.

The tables on the following pages show:

- The 10-largest holdings in the actively-managed portfolio,
- Changes in the fair value of the securities portfolio by sector,
- The book value and fair value of the securities portfolio, and
- The active-managed securities portfolio's total rate of return.

Montana Common Stock Pool 10 Largest Holdings as of June 30, 2004

Company	Shares	Fair $ Value	% of MTCP
General Electric Corporation	2,576,200	83,468,880	2.9
Microsoft Corp	2,721,000	77,711,760	2.7
Pfizer Inc	2,078,260	71,242,753	2.5
Citigroup Inc	1,461,866	67,976,769	2.3
Exxon Mobil Corp	1,439,912	63,946,492	2.2
Johnson + Johnson	804,000	44,782,800	1.5
American International Group Inc	599,750	42,750,180	1.5
Intel Corp	1,544,000	42,614,400	1.5
Wal Mart Stores Inc	750,000	39,570,000	1.4
Cisco Systems Inc.	1,605,000	38,038,500	1.3
Total Ten Largest Holdings	15,579,988	572,102,534	19.7
Total MTCP		2,902,284,868	

MDEP Sector and Active/Passive Management Change At June 30

Sector	2004 $ Fair Value	% of Total	2003 $ Fair Value	% of Total	$ Change	% Change
S & P 500 Index (Passive)	596,835,084	20.6	661,781,844	25.7	(64,946,760)	(9.8)
Financials	406,559,448	14.0	413,321,807	16.0	(6,762,359)	(1.6)
Information Technology	381,749,523	13.2	291,260,059	11.3	90,489,465	31.1
US Small Cap Enhanced Index	323,104,286	11.1	62,981,234	2.4	260,123,053	NA
Health Care	299,536,679	10.3	295,473,178	11.5	4,063,501	1.4
Industrials	249,403,194	8.6	213,718,282	8.3	35,684,912	16.7
Consumer Discretionary	226,895,068	7.8	247,395,875	9.6	(20,500,807)	(8.3)
Energy	141,700,994	4.9	118,491,880	4.6	23,209,114	19.6
Consumer Staples	138,459,456	4.8	115,635,988	4.5	22,823,468	19.7
Materials	50,706,128	1.7	54,726,900	2.1	(4,020,772)	(7.3)
Telecommunication Services	43,372,269	1.5	67,047,393	2.6	(23,675,124)	(35.3)
SPIFF (1)	40,405,340	1.4	35,621,710	1.4	4,783,629	13.4
Utilities	3,557,400	0.1	0	0.0	3,557,400	NA
Total	2,902,284,868	100.0	2,577,456,149	100.0	324,828,718	12.6

(1) Stock Performance Index Futures Fund - Includes Money Market & Cash

MDEP Book/Fair Values At June 30, 2004

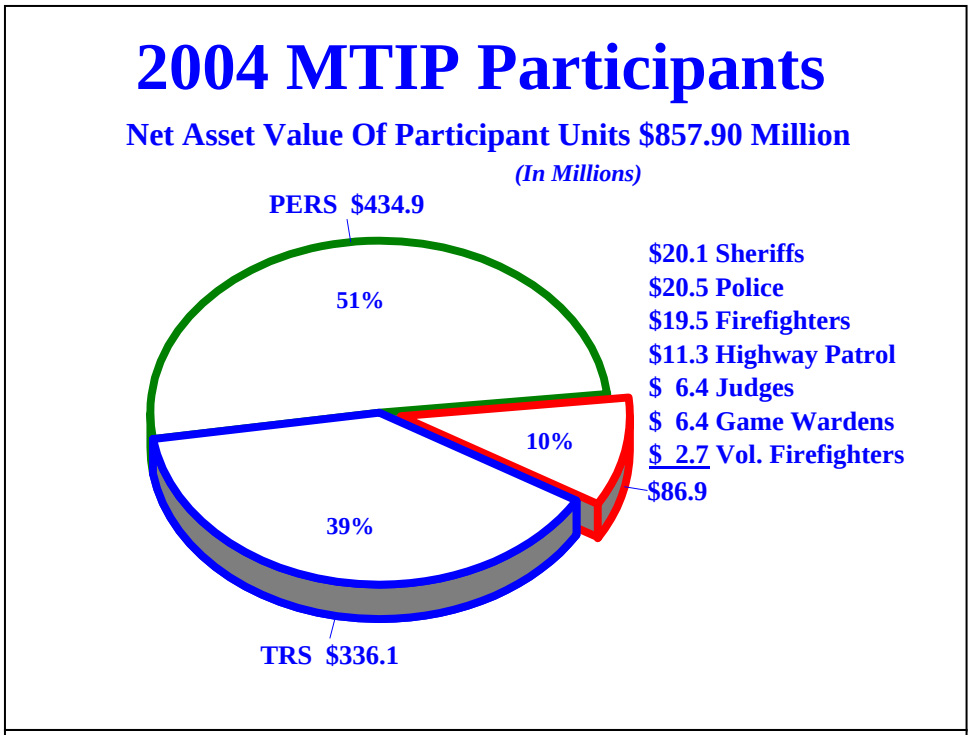
Sector	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
S & P 500 Index (Passive)	544,162,010	596,835,084	52,673,074	22.0	20.6
Financials	317,020,393	406,559,448	89,539,055	12.8	14.0
Information Technology	361,781,538	381,749,523	19,967,985	14.6	13.2
US Small Cap Enhanced Index	260,000,000	323,104,286	63,104,286	10.5	11.1
Health Care	252,414,623	299,536,679	47,122,056	10.2	10.3
Industrials	161,368,748	249,403,194	88,034,446	6.5	8.6
Consumer Discretionary	232,053,336	226,895,068	(5,158,268)	9.4	7.8
Energy	98,958,599	141,700,994	42,742,395	4.0	4.9
Consumer Staples	122,958,479	138,459,456	15,500,977	5.0	4.8
Materials	44,951,851	50,706,128	5,754,277	1.8	1.7
Telecommunication Services	40,211,634	43,372,269	3,160,635	1.6	1.5
SPIFF (1)	39,637,913	40,405,340	767,427	1.6	1.4
Utilities	3,541,578	3,557,400	15,822	0.1	0.1
Total	2,479,060,702	2,902,284,868	423,224,166	100.0	100.0

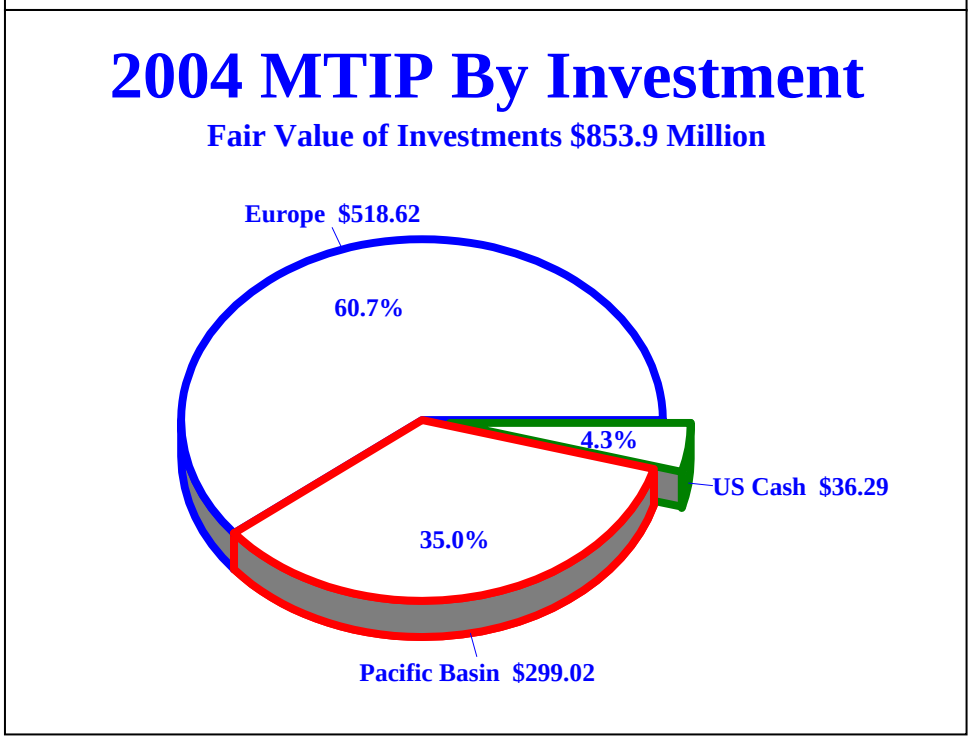
(1) Stock Performance Index Futures Fund - Includes Money Market & Cash

Montana Common Stock Pool Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2004	15.46	S & P 500	19.11	(3.65)
3 Year Annualized Average	(2.23)	S & P 500	(0.69)	(1.54)
5 Year Annualized Average	(3.22)	S & P 500	(2.21)	(1.01)
10 Year Annualized Average	10.03	S & P 500	11.83	(1.80)

The returns shown above are returns on the large cap active stock portfolio managed internally by Board staff.





MONTANA INTERNATIONAL STOCK POOL (MTIP)

The Montana International Equity Pool (MTIP) was created during 1997 when the nine pension funds purchased pool shares to fund investments in international stock. Cash dividends, interest and related income currency gains/losses are distributed monthly.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the fair value of the securities held by the pool by region.

The difference between the net asset value of the pool and the fair value of investments held is due to investments purchased but not yet paid for. Net asset value is reduced by the payable due for the purchase.

The MTIP distributed $7.1 million of income to participants in 2004, compared to $8.5 million in 2003. The MTIP financial statement, which lists the individual securities in the portfolio, is shown on Page B–36 in Appendix B.

The tables on the following pages show:

- The investment managers and the fair value of their securities portfolios,
- The changes in securities fair value by country,
- The book and fair values of securities portfolios by country, and
- The total rates of return by actively-managed securities portfolio.

Manager	Fair Value $
Barclay MSCI Europe Passively-Managed Equity Index	389,187,569
Pyrford Actively-Managed Europe	129,437,162
Schroder Actively-Managed Pacific Basin	149,819,962
Nomura Actively Managed Pacific Basin	103,030,911
Barclay MSCI Passively-Managed Equity Index Pacific Basin	46,167,852
Stock Performance Index Futures Fund\StateStreet Cash	36,293,903
Total International Portfolios	853,937,359

MTIP Annual Change At June 30

Country	2004 $ Fair Value	% of Total	2003 $ Fair Value	% of Total	$ Change	% Change
MSCI Europe Equity Index	389,188,268	45.6	41,094,723	8.7	348,093,545	847.1
Japan	162,411,275	19.0	85,584,102	18.2	76,827,172	89.8
MSCI Pacific Basin Equity Index	46,167,935	5.4	0	0.0	46,167,935	NA
United Kingdom	47,288,544	5.5	83,482,934	17.7	(36,194,390)	(43.4)
Switzerland	29,343,415	3.4	44,757,513	9.5	(15,414,098)	(34.4)
Australia	29,240,763	3.4	38,909,064	8.3	(9,668,301)	(24.8)
Spain	18,199,196	2.1	22,021,357	4.7	(3,822,161)	(17.4)
Korea	14,957,725	1.8	18,088,365	3.8	(3,130,640)	(17.3)
France	13,667,342	1.6	14,658,656	3.1	(991,314)	(6.8)
China/Hong Kong	16,301,745	1.9	19,047,814	4.0	(2,746,069)	(14.4)
Netherlands	12,545,059	1.5	33,911,765	7.2	(21,366,705)	(63.0)
Taiwan	11,535,123	1.4	5,560,771	1.2	5,974,352	107.4
Singapore	5,929,777	0.7	7,151,026	1.5	(1,221,249)	(17.1)
Malaysia	5,680,686	0.7	4,847,600	1.0	833,086	17.2
Ireland	3,652,301	0.4	5,738,469	1.2	(2,086,168)	(36.4)
Belgium	3,366,124	0.4	6,022,399	1.3	(2,656,275)	(44.1)
Thailand	3,156,126	0.4	2,277,101	0.5	879,025	38.6
Germany	2,863,556	0.3	19,818,211	4.2	(16,954,655)	(85.6)
New Zealand	1,162,663	0.1	751,294	0.2	411,369	54.8
Indonesia	802,656	0.1	2,152,521	0.5	(1,349,865)	(62.7)
Philippines	183,957	0.0	0	0.0	183,957	NA
Finland	0	0.0	5,083,185	1.1	(5,083,185)	(100.0)
Sweden	0	0.0	2,147,109	0.5	(2,147,109)	(100.0)
Italy	0	0.0	1,734,582	0.4	(1,734,582)	(100.0)
US $ Cash	4,607,906	0.5	5,887,216	1.3	(1,279,310)	(21.7)
SPIFF (1)	31,685,217	3.7	0	0.0	31,685,217	NA
Total	$853,937,359	100.0	$470,727,777	100.0	$383,209,582	81.4

(1) Stock Performance Index Futures Fund

MTIP Book/Fair Values At June 30, 2004

Country	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
MSCI Europe Equity Index	375,434,362	389,188,268	13,753,906	47.7	45.6
Japan	138,821,945	162,411,275	23,589,330	17.7	19.0
MSCI Pacific Basin Equity Index	40,005,398	46,167,935	6,162,537	5.1	5.4
United Kingdom	43,382,569	47,288,544	3,905,975	5.5	5.5
Switzerland	28,852,328	29,343,415	491,087	3.7	3.4
Australia	24,677,440	29,240,763	4,563,323	3.1	3.4
Spain	13,813,214	18,199,196	4,385,982	1.8	2.1
Korea	11,491,394	14,957,725	3,466,331	1.5	1.8
France	10,651,415	13,667,342	3,015,927	1.4	1.6
China/Hong Kong	14,816,989	16,301,745	1,484,756	1.9	1.9
Netherlands	12,704,693	12,545,059	(159,634)	1.6	1.5
Taiwan	11,788,270	11,535,123	(253,147)	1.5	1.4
Singapore	5,524,022	5,929,777	405,754	0.7	0.7
Malaysia	5,571,410	5,680,686	109,275	0.7	0.7
Ireland	3,305,418	3,652,301	346,883	0.4	0.4
Belgium	2,495,673	3,366,124	870,451	0.3	0.4
Thailand	3,175,853	3,156,126	(19,727)	0.4	0.4
Germany	2,195,108	2,863,556	668,448	0.3	0.3
New Zealand	927,390	1,162,663	235,273	0.1	0.1
Indonesia	689,366	802,656	113,291	0.1	0.1
Philippines	176,212	183,957	7,745	0.0	0.0
US $ Cash	4,607,906	4,607,906	0	0.6	0.5
SPIFF (1)	31,374,029	31,685,217	311,188	4.0	3.7
Total	786,482,403	853,937,359	67,454,955	100.0	100.0

(1) Stock Performance Index Futures Fund

MTIP 2004 Total Rates of Returns By Active Manager Versus Benchmarks

Manager	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Schroder Capital Management	35.48	Montana Custom Pacific	39.20	(3.72)
Nomura Asset Management	NA	Montana Custom Pacific	39.46	NA
Pyrford International	27.52	MSCI Europe	29.39	(1.87)
All International (1)	33.05	MSCI EAFE	32.85	0.20

(1) Includes Passive Management

MTIP Annual Average Total Rates of Returns From Inception

Year	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
2004	33.05	MSCI EAFE	32.85	0.20
3 Year Annualized Average	5.34	MSCI EAFE	4.25	1.09
5 Year Annualized Average	2.31	MSCI EAFE	0.40	1.91

MONTANA PRIVATE EQUITY POOL (MPEP) The Montana Private Equity Pool was created on May 1, 2002 when all private equity investments held by the nine pension funds were transferred to the pool. Each pension fund received shares in the pool equal to the fair value of their private equity investments and also transferred cash to the pool to provide for investment purposes. The MPEP financial statement, which lists the portfolio, is shown on Page B-49 in Appendix B.

MPEP Participant Change At June 30

Fund	2004 $ NAV	% of Total	2003 $ NAV	% of Total	$ Change	% Change
Public Employees	128,797,003	50.6	150,960,074	50.6	(22,163,071)	(14.7)
Teachers	99,740,950	39.2	117,596,980	39.4	(17,856,030)	(15.2)
Police	6,104,784	2.4	6,975,233	2.3	(870,449)	(12.5)
Sheriffs	5,935,957	2.3	6,906,435	2.3	(970,478)	(14.1)
Firefighters	5,813,455	2.3	6,545,922	2.2	(732,467)	(11.2)
Highway Patrol	3,375,008	1.3	3,932,967	1.3	(557,959)	(14.2)
Judges	1,906,253	0.7	2,242,927	0.8	(336,674)	(15.0)
Game Wardens	1,856,063	0.7	2,058,250	0.7	(202,187)	(9.8)
Vol. Firefighters	848,352	0.3	968,788	0.3	(120,436)	(12.4)

MPEP Change At June 30 by Manager

Manager/Investment Type	2004 $ Fair Value	% of Total	2003 $ Fair Value	% of Total	$ Change	% Change
Adams Street Partners	80,488,832	31.1	55,633,107	18.2	24,855,725	44.7
Kolberg Kravis & Roberts (KKR)	80,094,236	31.0	103,077,952	33.8	(22,983,716)	(22.3)
Oaktree Capital	32,498,809	12.6	97,022,629	31.8	(64,523,820)	(66.5)
SPIFF (1)	24,229,851	9.4	25,039,507	8.2	(809,656)	(3.2)
Lexington Capital	17,820,972	6.9	9,241,177	3.0	8,579,795	92.8
Welsh Carson Anderson&Stowe	12,717,565	4.9	11,443,301	3.7	1,274,265	11.1
Madison Dearborn Capital	8,551,924	3.3	3,892,190	1.3	4,659,734	119.7
Arclight Capital	2,076,300	0.8	0	0.0	2,076,300	NA
Total Investments	258,478,490	100.0	305,349,864	100.0	(46,871,374)	(15.4)

(1) Stock Performance Index Futures Fund

MPEP Book/Fair Values At June 30, 2004 by Manager

Manager/Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Adams Street Partners	94,465,458	80,488,832	(13,976,626)	39.9	31.1
Kolberg Kravis & Roberts	84,774,332	80,094,236	(4,680,096)	35.8	31.0
Oaktree Capital	1	32,498,809	32,498,808	0.0	12.6
SPIFF (1)	23,947,684	24,229,851	282,167	10.1	9.4
Lexington Capital	12,855,368	17,820,972	4,965,604	5.4	6.9
Welsh Carson Anderson&Stowe	10,107,970	12,717,565	2,609,595	4.3	4.9
Madison Dearborn Capital	8,483,930	8,551,924	67,995	3.6	3.3
Arclight Capital	2,076,300	2,076,300	0	0.9	0.8
Total Investments	236,711,043	258,478,490	21,767,447	100.0	100.0

(1) Stock Performance Index Futures Fund

MPEP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2004	29.11	Custom Benchmark	15.00	14.11
2 Year Annualized Average	16.26	Custom Benchmark	15.00	1.26

Private equity investments are participations in non-publicly traded equity ownership of a fund or operating company either directly or more commonly through a partnership. As of June 30, 2004, seven private equity managers invested the pool's assets.

Adams Street Partners – A fund-of-fund investment manager, formerly, Brinson Partners offers a wide range of private equity capital investment alternatives.

Kolberg, Kravis & Roberts - A global leveraged-buyout firm organized in 1975 that seeks investment opportunities in a wide-range of industries.

Madison-Dearborn Partners - A private equity investment firm, founded in 1992, that seeks growth equity transactions and management buyout opportunities in a wide range of industries.

Welsh Carson Anderson Stowe - A leveraged-buyout firm founded in 1979 focused on information services, communications and healthcare industries.

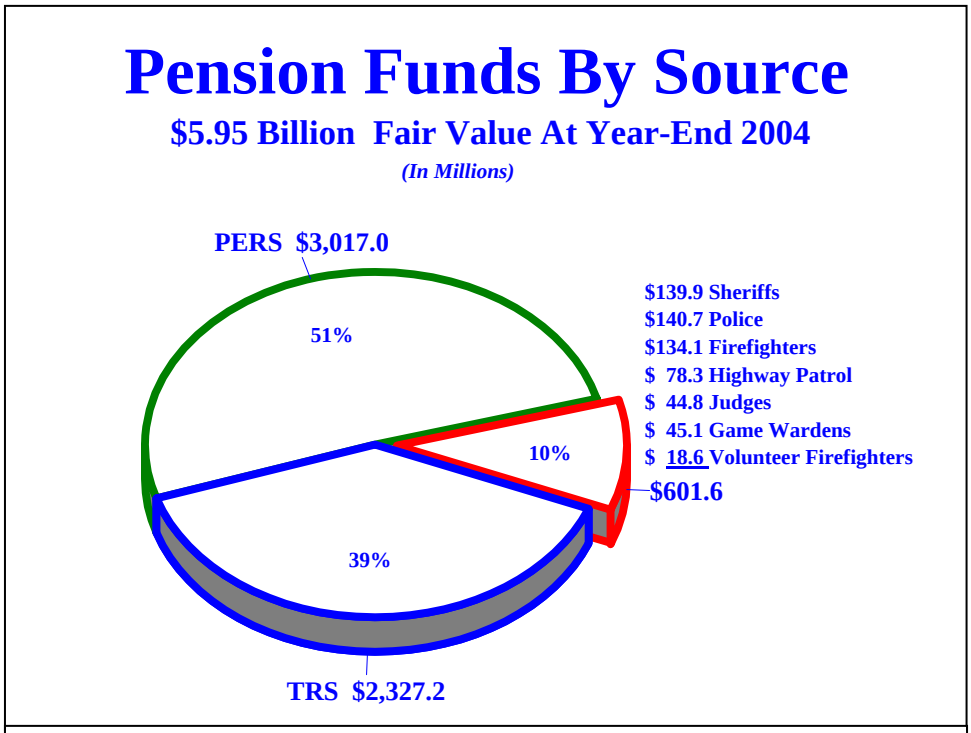
Lexington Partners – A private equity firm, founded in 1994, specializing in secondary investments that provide liquidity to owners of domestic and international private equity limited partnerships. The firm also co-investments with other private equity sponsors and invests in newly-formed private equity partnerships.

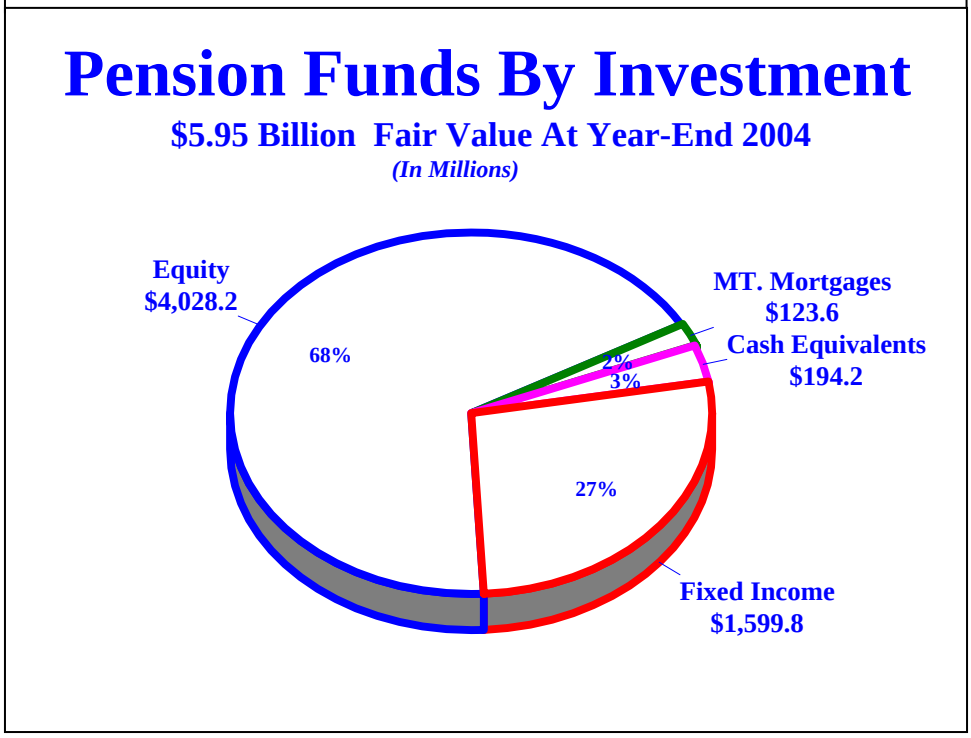
Oaktree Capital Management – A firm investing in distressed debt, high yield, and convertible securities markets. The Board invested $75.0 million with the firm in September 2002.

Arclight Capital Partners – Established in 2001, the firm is one of the leading private investment firms focused exclusively on the electric power industry.

The types of investments made by private equity managers generally fall into the following categories:

> **Private Equity** – Private equity investments in funds or operating companies in an asset class other than cash, stocks, or fixed income securities and real estate.
> **Venture Capital** – Equity or equity-like investments in companies that have undeveloped or developing products or revenue.
> **Leveraged Buy-Outs** – Equity investments in public or private companies that purchase a significant portion or majority control of the company.
> **Mezzanine** – Investments in the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.
> **Special Situations** – Includes: 1) investments in the exploration for oil and/or gas reserves or in the development of proven reserves; 2) investments in land to harvest timber; and 3) investments that have a special component usually related to geographical, economic, or social issues sometimes referred to as Economically Targeted Investments.
> **Secondary Investments** – Investments in a previously-owned limited partnership or investment in previously owned limited partnership via a secondary fund.
> **Distressed Debt** – Public and private debt of companies that appear unlikely to meet their financial obligations but are attractive to investors, not for repayment of interest and principal which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors.





PENSION FUNDS

The upper Graph depicts the state's nine pension fund investment portfolios at fair value as of June 30.

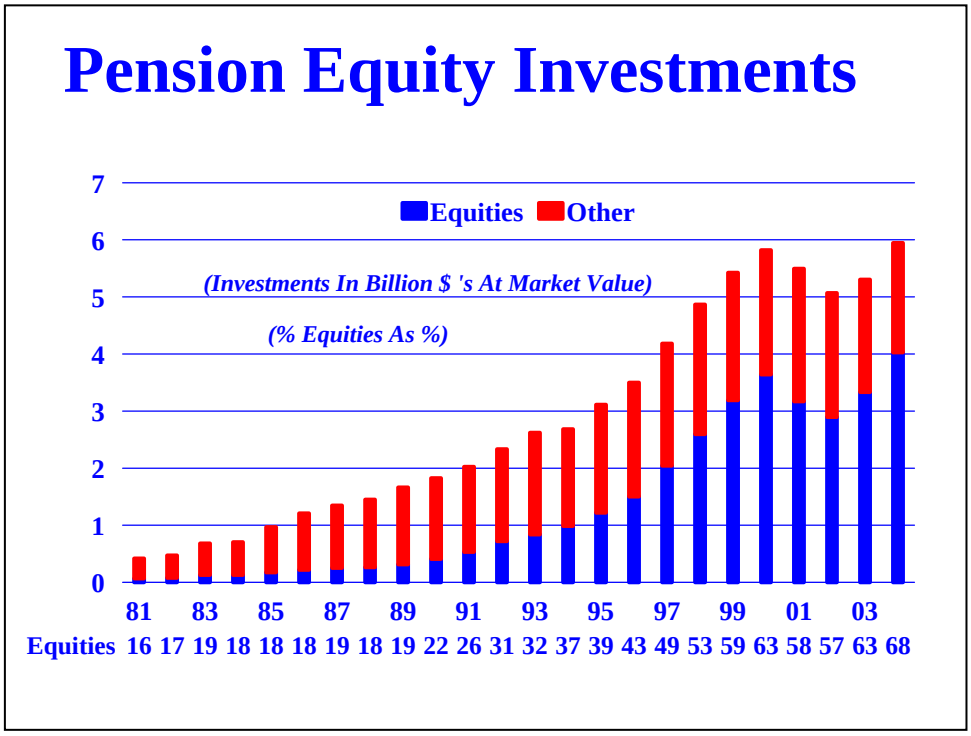
The lower graph depicts total pension fund investments by major investment type.

By law, all public pension funds in the state, including local governments and school districts, are managed by the state. The Board of Investments manages all pension fund investments. Pension fund operations are administered by two boards appointed by the Governor.

The Teachers' Retirement Board manages the Teachers' Retirement System, while the Public Employees' Retirement Board manages the other eight systems.

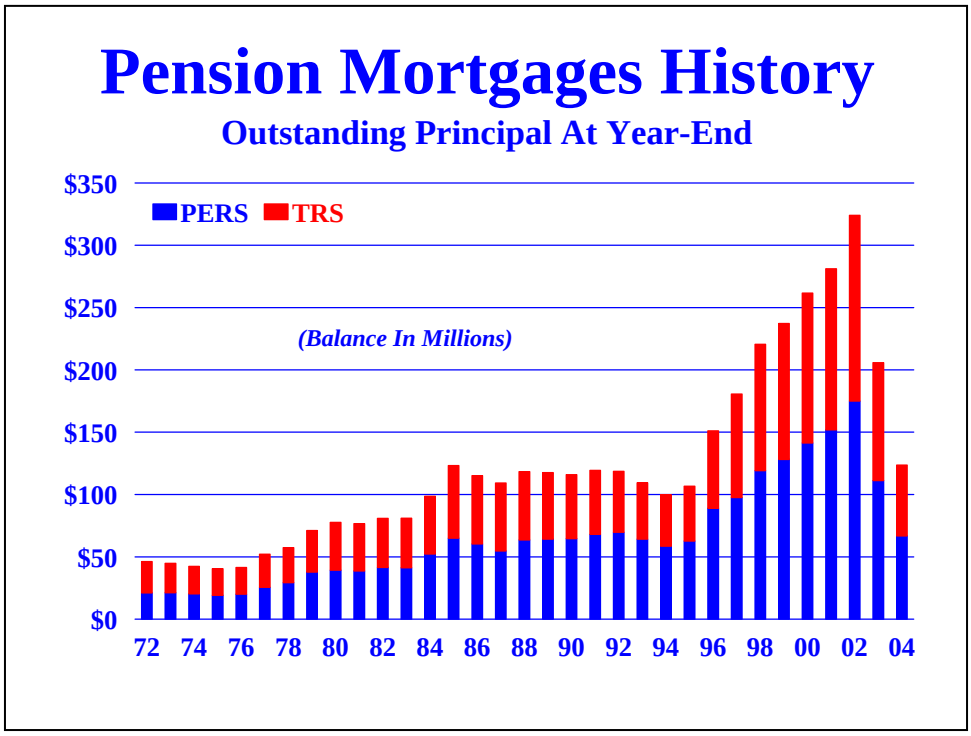
As of June 30 approximately 98 percent of pension fund investments at fair value were managed in various investment pools created by the Board. These pools, which operate similar to mutual funds, simplify investing and accounting, and provide broader diversification for the smaller funds. Income is distributed monthly to pool participants.

The pension funds earned $315.9 million on their investments in 2004, compared to $232.2 million in 2003. The total rate of return of each fund is shown in the individual pensions that follow.



The Board has increased pension investments in equities in recent years to increase the total rate of return. The current target is 67 percent of the fair value of pension investments.

Declining equity prices reduced fair value of total pension fund investments from 2001 through 2003. Pension fund assets of $5.95 billion in 2004 finally surpassed the 2000 value at the peak of the stock market bubble.



During 2001 through 2003 the Board actively sold fixed-income investments and invested the sale proceeds in the equity markets.

This rebalancing and a resurgent of domestic and international stock markets brought pension fund equity allocation to 68 percent of total pension fund investments in 2004.

From 1994 to 2002, the Board significantly increased pension investments in Montana mortgages. Mortgages investments peaked at $324.0 million in 2002. During 2003 and 2004, mortgage rates on the secondary market declined to less than 6 percent and the Board declined to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage refinancings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio to $123.6 million at year-end 2004.

Pension Funds Annual Book Value Change At June 30

Fund	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Public Employees	2,275,920,567	50.6	2,146,087,982	50.5	129,832,585	6.0
Teachers	1,742,566,496	38.8	1,658,788,831	39.0	83,777,665	5.1
Police	112,592,929	2.5	104,095,801	2.4	8,497,128	8.2
Sheriffs	111,178,424	2.5	103,873,483	2.4	7,304,941	7.0
Firefighters	108,238,534	2.4	100,204,442	2.4	8,034,092	8.0
Highway Patrol	60,068,673	1.3	57,427,404	1.4	2,641,270	4.6
Game Wardens	35,824,914	0.8	31,138,043	0.7	4,686,871	15.1
Judges	34,442,726	0.8	32,164,120	0.8	2,278,607	7.1
Volunteer Firefighters	15,836,424	0.4	16,374,385	0.4	(537,962)	(3.3)
Total	4,496,669,688	100.0	4,250,154,490	100.0	246,515,198	5.8
Investment Type						
Fixed Income (RFBP)	1,552,243,348	34.5	1,467,080,898	34.5	85,162,450	5.8
Equities	2,626,643,102	58.4	2,428,186,289	57.1	198,456,813	8.2
Cash Equivalents (STIP)	194,163,866	4.3	149,026,093	3.5	45,137,773	30.3
Montana Mortgages	123,619,372	2.7	205,861,209	4.8	(82,241,837)	(40.0)
Total	4,496,669,688	100.0	4,250,154,490	100.0	246,515,198	5.8

Pension Funds Annual Fair Value Change At June 30

Fund	2004 $ Fair Value	% of Total	2003 $ Fair Value	% of Total	$ Change	% of Change
Public Employees	3,017,022,856	50.7	2,684,105,984	50.6	332,916,871	12.4
Teachers	2,327,167,274	39.1	2,090,916,007	39.4	236,251,267	11.3
Police	140,725,594	2.4	122,556,699	2.3	18,168,895	14.8
Sheriffs	139,910,633	2.4	123,040,202	2.3	16,870,431	13.7
Firefighters	134,140,179	2.3	116,816,914	2.2	17,323,265	14.8
Highway Patrol	78,310,865	1.3	70,686,225	1.3	7,624,640	10.8
Game Wardens	45,057,186	0.8	37,141,780	0.7	7,915,406	21.3
Judges	44,795,416	0.8	39,581,744	0.7	5,213,672	13.2
Volunteer Firefighters	18,612,738	0.3	17,859,889	0.3	752,849	4.2
Total	5,945,742,742	100.0	5,302,705,445	100.0	643,037,296	12.1
Investment Type						
Fixed Income (RFBP)	1,599,757,615	26.9	1,611,806,279	30.4	(12,048,664)	(0.7)
Equities	4,028,200,396	67.7	3,334,325,338	62.9	693,875,058	20.8
Cash Equivalents (STIP)	194,163,866	3.3	149,026,093	2.8	45,137,773	30.3
Montana Mortgages	123,620,864	2.1	207,547,735	3.9	(83,926,871)	(40.4)
Total	5,945,742,742	100.0	5,302,705,445	100.0	643,037,296	12.1

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

PERS Annual Book Value Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	781,895,210	34.4	731,895,210	34.1	50,000,000	6.8
Domestic Stock Pool	800,450,411	35.2	817,714,921	38.1	(17,264,510)	(2.1)
International Stock Pool	393,914,000	17.3	264,115,000	12.3	129,799,000	49.1
Montana Private Equity Pool	122,267,864	5.4	139,074,357	6.5	(16,806,493)	(12.1)
Equity Real Estate	8,295,827	0.4	7,000,637	0.3	1,295,190	18.5
Total Equity	1,324,928,102	58.2	1,227,904,915	57.2	97,023,187	7.9
Cash Equivalents (STIP)	102,342,795	4.5	75,120,056	3.5	27,222,739	36.2
Montana Mortgages	66,754,461	2.9	111,167,801	5.2	(44,413,340)	(40.0)
Total	2,275,920,567	100.0	2,146,087,982	100.0	129,832,585	6.0

PERS Annual Fair Value Change At June 30

Investment Type	2004 $ Fair Value	% of Total	2003 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	805,839,505	26.7	804,470,236	30.0	1,369,270	0.2
Domestic Stock Pool	1,469,962,551	48.7	1,308,883,763	48.8	161,078,788	12.3
International Stock Pool	434,916,502	14.4	225,346,965	8.4	209,569,537	93.0
Montana Private Equity Pool	128,797,026	4.3	150,960,091	5.6	(22,163,065)	(14.7)
Equity Real Estate	8,409,210	0.3	7,246,333	0.3	1,162,876	16.0
Total Equity	2,042,085,289	67.7	1,692,437,152	63.1	349,648,137	20.7
Cash Equivalents (STIP)	102,342,795	3.4	75,120,056	2.8	27,222,739	36.2
Montana Mortgages	66,755,267	2.2	112,078,541	4.2	(45,323,274)	(40.4)
Total	3,017,022,856	100.0	2,684,105,984	100.0	332,916,871	12.4

PERS Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	781,895,210	805,839,505	23,944,295	34.4	26.7
Domestic Stock Pool	800,450,411	1,469,962,551	669,512,139	35.2	48.7
International Stock Pool	393,914,000	434,916,502	41,002,502	17.3	14.4
Montana Private Equity Pool	122,267,864	128,797,026	6,529,163	5.4	4.3
Equity Real Estate	8,295,827	8,409,210	113,383	0.4	0.3
Total Equity	1,324,928,102	2,042,085,289	717,157,188	58.2	67.7
Montana Mortgages	66,754,461	66,755,267	806	2.9	2.2
Cash Equivalents (STIP)	102,342,795	102,342,795	0	4.5	3.4
Total	2,275,920,567	3,017,022,856	741,102,289	100.0	100.0

PERS Net Income By Source

Income Type	2004 $ Income	% Of Total	2003 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	57,048,864	35.4	66,006,557	56.2	(8,957,693)	(13.6)
Montana Private Equity Pool	40,833,740	25.4	8,799,916	7.5	32,033,824	NA
Gain on Sale of Pool Units	34,485,681	21.4	11,065,819	9.4	23,419,862	211.6
Domestic Stock Pool	17,213,144	10.7	15,088,147	12.8	2,124,997	14.1
Montana Mortgages	5,327,515	3.3	9,939,299	8.5	(4,611,784)	(46.4)
International Stock Pool	4,741,267	2.9	5,186,706	4.4	(445,439)	(8.6)
Short Term Investment Pool	797,817	0.5	845,684	0.7	(47,867)	(5.7)
Equity Real Estate	487,235	0.3	597,943	0.5	(110,708)	(18.5)
Total Gross Income	160,935,264	100.0	117,530,071	100.0	43,405,193	36.9
Board Management Fees (1)	(1,006,576)		(974,392)		(32,185)	3.3
Custodial Bank Fees	(260,801)		(259,536)		(1,264)	0.5
External Manager Fees	(2,493,624)		(2,168,277)		(325,348)	15.0
Total Net Income	157,174,263		114,127,866		43,046,397	37.7

(1) FY 2004 Board Management Fees for PERS were 3.5 Basis Points of the Managed Portfolios Fair Value

PERS 2004 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Domestic Stock Pool	17.30	S & P 500 Index	19.11	(1.81)
Internal International Pool	30.54	MSCI EAFE	32.85	(2.31)
Private Equity Pool	27.25	Montana Custom Index	15.00	12.25
Fixed Income (RFBP)	1.05	LB Aggregate Bond	0.32	0.73
Montana Mortgages	5.41	NA	NA	NA
Equity Real Estate	4.52	NA	NA	NA
All Assets	13.43	Composite (1)	13.39	0.04

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

PERS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return +/- Benchmark
2004	13.43	PERS Composite	13.39	0.04
3 Year Annualized Average	3.91	PERS Composite	3.99	(0.08)
5 Year Annualized Average	2.84	PERS Composite	2.77	0.07
10 Year Annualized Average	8.95	PERS Composite	9.10	(0.15)

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

PERS invested balances and income history are shown on Page A-18 in Appendix A

TEACHERS' RETIREMENT SYSTEM FUND (TRS)

TRS Annual Book Value Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	597,952,977	34.3	562,952,977	33.9	35,000,000	6.2
Domestic Stock Pool	608,749,512	34.9	617,785,381	37.2	(9,035,869)	(1.5)
International Stock Pool	303,644,000	17.4	206,615,000	12.5	97,029,000	47.0
Montana Private Equity Pool	94,424,972	5.4	108,040,836	6.5	(13,615,864)	(12.6)
Equity Real Estate	7,797,114	0.4	6,511,449	0.4	1,285,665	19.7
Total Equity	1,014,615,599	58.2	938,952,666	56.6	75,662,933	8.1
Montana Mortgages	56,864,911	3.3	94,693,408	5.7	(37,828,497)	(39.9)
Cash Equivalents (STIP)	73,133,009	4.2	62,189,780	3.7	10,943,230	17.6
Total	1,742,566,496	100.0	1,658,788,831	100.0	83,777,665	5.1

TRS Annual Fair Value Change At June 30

Investment Type	2004 $ Fair Value	% of Total	2003 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	617,565,665	26.5	619,958,842	29.7	(2,393,177)	(0.4)
Domestic Stock Pool	1,135,892,072	48.8	1,012,570,271	48.4	123,321,801	12.2
International Stock Pool	336,137,139	14.4	176,450,020	8.4	159,687,119	90.5
Montana Private Equity Pool	99,740,950	4.3	117,596,980	5.6	(17,856,030)	(15.2)
Equity Real Estate	7,832,840	0.3	6,680,920	0.3	1,151,920	17.2
Total Equity	1,579,603,002	67.9	1,313,298,191	62.8	266,304,811	20.3
Montana Mortgages	56,865,598	2.4	95,469,194	4.6	(38,603,597)	(40.4)
Cash Equivalents (STIP)	73,133,009	3.1	62,189,780	3.0	10,943,230	17.6
Total	2,327,167,274	100.0	2,090,916,007	100.0	236,251,267	11.3

TRS Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	597,952,977	617,565,665	19,612,688	34.3	26.5
Domestic Stock Pool	608,749,512	1,135,892,072	527,142,560	34.9	48.8
International Stock Pool	303,644,000	336,137,139	32,493,139	17.4	14.4
Montana Private Equity Pool	94,424,972	99,740,950	5,315,978	5.4	4.3
Equity Real Estate	7,797,114	7,832,840	35,726	0.4	0.3
Total Equity	1,014,615,599	1,579,603,002	564,987,403	58.2	67.9
Montana Mortgages	56,864,911	56,865,598	687	3.3	2.4
Cash Equivalents (STIP)	73,133,009	73,133,009	0	4.2	3.1
Total	1,742,566,496	2,327,167,274	584,600,778	100.0	100.0

TRS Net Income By Source

Income Type	2004 $ Income	% Of Total	2003 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	43,932,669	33.2	51,056,593	52.0	(7,123,924)	(14.0)
Gain on Sale of Pool Units	34,026,864	25.7	14,875,820	15.1	19,151,044	128.7
Montana Private Equity Pool	31,657,320	23.9	6,872,271	7.0	24,785,049	360.7
Domestic Stock Pool	13,394,947	10.1	11,827,628	12.0	1,567,318	13.3
Montana Mortgages	4,543,342	3.4	8,471,892	8.6	(3,928,549)	(46.4)
International Stock Pool	3,725,609	2.8	4,082,530	4.2	(356,920)	(8.7)
Short Term Investment Pool	536,131	0.4	578,281	0.6	(42,150)	(7.3)
Equity Real Estate	451,301	0.3	498,812	0.5	(47,511)	(9.5)
Total Gross Income	132,268,183	100.0	98,263,826	100.0	34,004,357	34.6
Board Management Fees (1)	(799,821)		(780,378)		(19,443)	2.5
Custodial Bank Fees	(203,113)		(203,078)		(35)	0.0
External Manager Fees	(1,945,859)		(1,699,961)		(245,898)	14.5
Total Net Income	129,319,390		95,580,408		33,738,981	35.3

(1) FY 2004 Board Management Fees for TRS were 3.6 Basis Points of the Managed Portfolios Fair Value

TRS 2004 Total Rates of Return by Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Domestic Stock Pool	17.30	S & P 500 Index	19.11	(1.81)
Internal International Pool	30.54	MSCI Europe	32.85	(2.31)
Private Equity Pool	27.25	Montana Custom Index	15.00	12.25
Fixed Income (RFBP)	1.05	LB Aggregate Bond	0.32	0.73
Montana Mortgages	5.42	NA	NA	NA
Equity Real Estate	4.43	NA	NA	NA
All Assets	13.51	Composite (1)	13.47	0.04

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

TRS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2004	13.51	TRS Composite	13.47	0.04
3 Year Annualized Average	3.89	TRS Composite	3.87	0.02
5 Year Annualized Average	2.84	TRS Composite	2.70	0.14
10 Year Annualized Average	8.98	TRS Composite	9.09	(0.11)

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

TRS invested balances and income history are shown on Page A-19 in Appendix A.

OTHER RETIREMENT SYSTEMS

Assets of Individual Pensions at June 30

Systems	2004 $ Fair Value	2003 $ Fair Value	2004 $ Book Value	2003 $ Book Value	Fair % Change	Book % Change
Police	140,725,594	122,556,699	112,592,929	104,095,801	14.8	8.2
Sheriffs	139,910,633	123,040,202	111,178,424	103,873,483	13.7	7.0
Firefighters	134,140,179	116,816,914	108,238,534	100,204,442	14.8	8.0
Highway Patrol	78,310,865	70,686,225	60,068,673	57,427,404	10.8	4.6
Game Wardens	45,057,186	37,141,780	35,824,914	31,138,043	21.3	15.1
Judges	44,795,416	39,581,744	34,442,726	32,164,120	13.2	7.1
Vol. Firefighters	18,612,738	17,859,889	15,836,424	16,374,385	4.2	(3.3)
Total	601,552,610	527,683,454	478,182,625	445,277,677	14.0	7.4

Other Pensions Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	172,395,162	36.1	172,232,712	38.7	162,450	0.1
Domestic Stock Pool	184,112,859	38.5	181,806,462	40.8	2,306,397	1.3
International Stock Pool	78,934,042	16.5	52,762,042	11.8	26,172,000	49.6
Montana Private Equity Pool	24,052,500	5.0	26,760,204	6.0	(2,707,704)	(10.1)
Total Equity	287,099,401	60.0	261,328,708	58.7	25,770,693	9.9
Cash Equivalents (STIP)	18,688,062	3.9	11,716,257	2.6	6,971,805	59.5
Total	478,182,625	100.0	445,277,677	100.0	32,904,947	7.4

Other Pensions Book/Fair Values At June 30, 2004

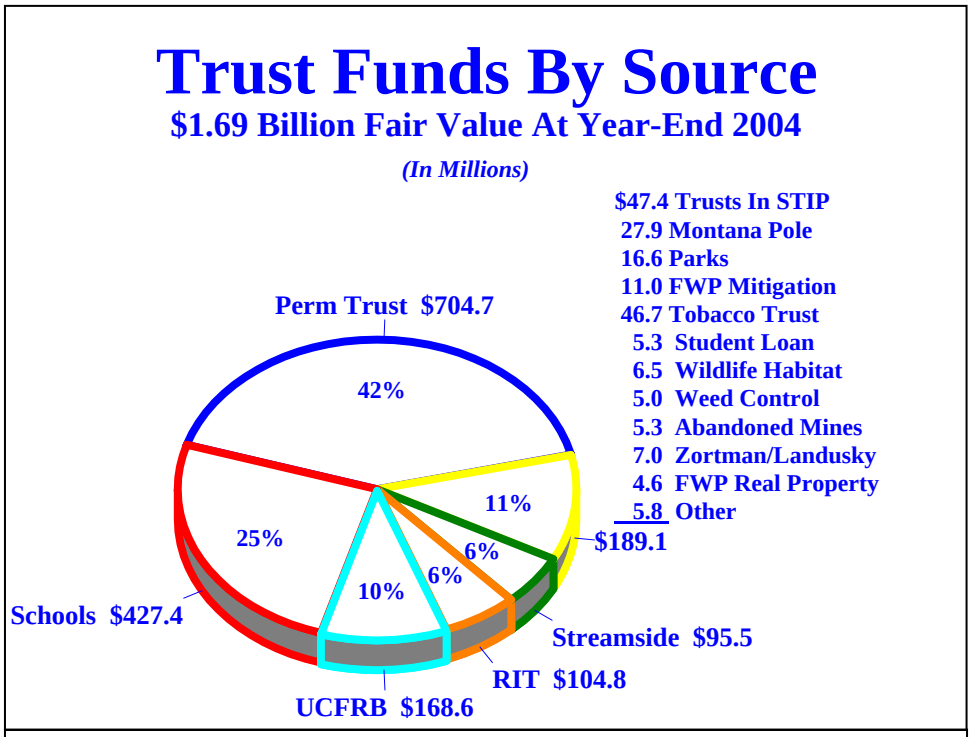
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	172,395,162	176,352,445	3,957,283	36.1	29.3
Domestic Stock Pool	184,112,859	293,811,075	109,698,216	38.5	48.8
International Stock Pool	78,934,042	86,861,158	7,927,116	16.5	14.4
Montana Private Equity Pool	24,052,500	25,839,871	1,787,371	5.0	4.3
Total Equity	287,099,401	406,512,104	119,412,703	60.0	67.6
Cash Equivalents (STIP)	18,688,062	18,688,062	0	3.9	3.1
Total	478,182,625	601,552,611	123,369,987	100.0	100.0

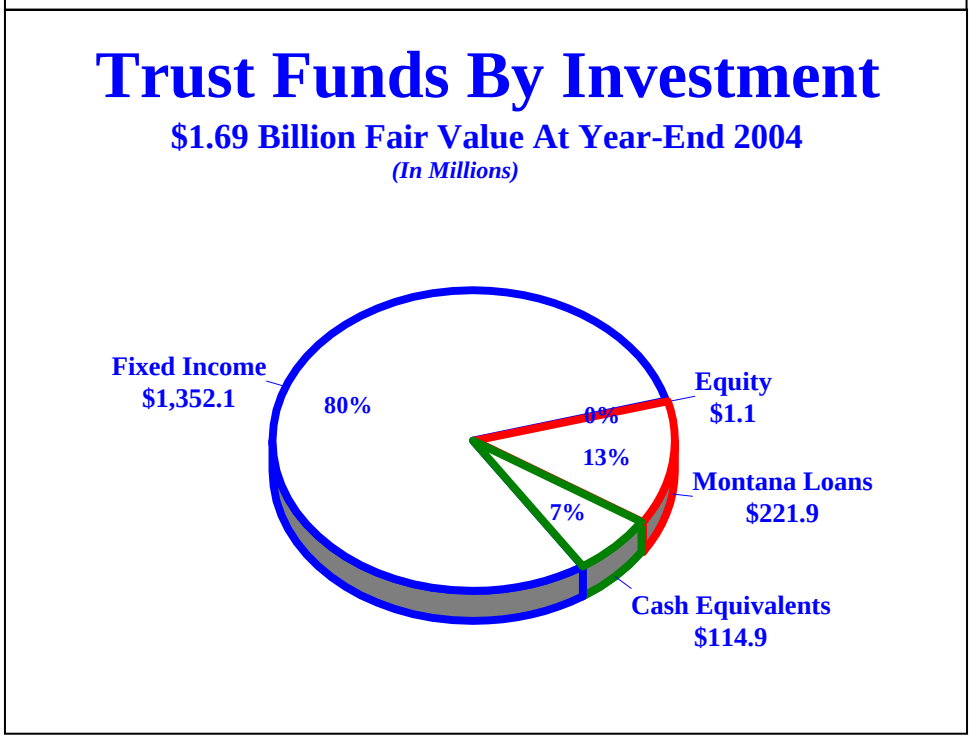
Other Retirement Systems 2004 Total Rates of Return

Fund	% Return	Index (1)	% Return	Fund +/-Index
Sheriffs	13.24	Composite	13.18	0.06
Police	12.85	Composite	12.81	0.04
Firefighters	12.93	Composite	12.88	0.05
Highway Patrol	13.25	Composite	13.18	0.07
Judges	13.21	Composite	13.14	0.07
Game Warden	13.22	Composite	13.18	0.04
Vol. Firefighters	13.12	Composite	13.05	0.07

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

The seven other retirement funds are administered by the Public Employees' Retirement Board, the same Board that administers the Public Employees' Retirement System. These smaller systems participate with the Public Employees' Retirement Fund and the Teachers' Retirement Fund in all investment pools managed by the Board, but do not participate in the Montana Residential Mortgage Program or real estate investments.





TRUST FUNDS

The Board invests several trust funds, some of which are created and protected by the state constitution.

Other trusts have been created statutorily by the legislature or involve federal funds.

Several trust funds were established as a part of settlements between the state and private corporations to ensure environmental clean up of polluted sites.

The upper graph shows the various trust funds by type. The lower graph shows the trust fund investments by major asset class.

The table on the next page shows the change in the book value from 2003 to 2004 by individual trust fund.

Total Trust Funds Annual Change At June 30

Trust	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Permanent Coal Tax Trust (1)	691,224,790	42.0	678,013,550	42.4	13,211,240	1.9
Schools (Trust and Legacy)	410,653,937	25.0	410,553,970	25.7	99,967	0.0
UCFRB Restoration	149,266,177	9.1	142,819,611	8.9	6,446,567	4.5
Resource Indemnity Trust	100,000,776	6.1	100,000,965	6.3	(189)	(0.0)
Streamside Tailings	93,785,967	5.7	93,536,658	5.9	249,309	0.3
Trusts in STIP	47,431,218	2.9	34,728,918	2.2	12,702,299	36.6
Tobacco Trust	46,756,451	2.8	35,672,910	2.2	11,083,541	31.1
Montana Pole	27,494,950	1.7	27,126,891	1.7	368,058	1.4
Parks Trust	16,188,964	1.0	15,891,667	1.0	297,296	1.9
UCFRB Reserve	14,157,512	0.9	13,180,781	0.8	976,731	7.4
FWP Mitigation	10,841,580	0.7	11,506,488	0.7	(664,908)	(5.8)
Wildlife Habitat	6,448,872	0.4	6,042,636	0.4	406,236	6.7
Zortman/Landusky	6,421,649	0.4	5,977,861	0.4	443,788	7.4
Guaranteed Student Loan	5,300,935	0.3	3,545,212	0.2	1,755,724	49.5
Abandoned Mines	5,199,950	0.3	4,962,800	0.3	237,150	4.8
Weed Control	4,866,922	0.3	4,998,883	0.3	(131,962)	(2.6)
Cultural Trust	4,689,175	0.3	4,515,175	0.3	174,000	3.9
FWP Real Property	4,525,667	0.3	4,373,670	0.3	151,997	3.5
Trusts in MTCP	244,213	0.0	244,213	0.0	0	0.0
Total	1,645,499,704	100.0	1,597,692,859	100.0	47,806,845	3.0
Fixed-Income	1,308,493,913	79.5	1,247,807,644	78.1	60,686,269	4.9
Montana Loans	221,861,642	13.5	236,820,571	14.8	(14,958,929)	(6.3)
Cash Equivalents (STIP)	114,899,937	7.0	112,820,432	7.1	2,079,505	1.8
Equity	244,213	0.0	244,213	0.0	0	0.0
Total	1,645,499,704	100.0	1,597,692,859	100.0	47,806,845	3.0

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond, and Permanent Income Accounts

A complete listing of individual trust fund investment portfolios is shown beginning on Page A – 1 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

COAL TAX TRUST FUND

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest up to 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new “Treasure State Endowment Regional Water Fund” sub-fund was created and 25 percent of Trust revenues dedicated to that account.

Income from the Permanent Fund and the two Bond Funds is deposited in the Permanent Fund Income Fund where it is swept periodically to the state General Fund. All sub-funds, except the income fund, are protected by the constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment is appropriated by the Legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the Legislature for local government water projects.

The book values of the Coal Tax Trust sub-funds are shown below:

Coal Tax Trust Subfunds at June 30

Subfund	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Permanent Fund	545,070,171	78.9	542,450,157	80.0	2,620,013	0.5
Treasure State Endowment	118,206,758	17.1	111,590,227	16.5	6,616,531	5.9
Treasure State Regional Water	18,288,550	2.6	14,962,866	2.2	3,325,684	22.2
Severance Tax Bond Fund	6,748,396	1.0	5,840,119	0.9	908,277	15.6
Permanent Fund Income	2,910,915	0.4	3,170,180	0.5	(259,265)	(8.2)
Total Coal Tax Trust	691,224,790	100.0	678,013,550	100.0	13,211,240	1.9

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities’ portfolio total rate of return.

Permanent Coal Tax Trust Change At June 30 (1)

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	428,271,992	62.0	395,738,156	58.4	32,533,836	8.2
Science and Technology	13,959,035	2.0	14,287,541	2.1	(328,507)	(2.3)
Department of Natural Resources	44,546,088	6.4	46,366,904	6.8	(1,820,816)	(3.9)
Department of Justice	2,037,000	0.3	1,902,000	0.3	135,000	7.1
Department of Revenue	5,698,442	0.8	0	0.0	5,698,442	NA
Montana Facility Finance	943,904	0.1	1,543,021	0.2	(599,117)	(38.8)
Local Gov. Infrastructure	8,298,805	1.2	9,050,975	1.3	(752,169)	(8.3)
Value-added Loans	9,202,821	1.3	6,854,640	1.0	2,348,181	34.3
Commercial Loans	137,175,547	19.8	156,815,490	23.1	(19,639,943)	(12.5)
Total In-State Investments	221,861,642	32.1	236,820,571	34.9	(14,958,929)	(6.3)
STIP Tr. St. Endow Trust	1,557,864	0.2	3,761,509	0.6	(2,203,645)	(58.6)
STIP Permanent Trust Income	2,910,915	0.4	3,170,180	0.5	(259,265)	(8.2)
STIP Permanent Fund	29,833,926	4.3	32,634,056	4.8	(2,800,131)	(8.6)
STIP Sev. Tax Bond Fund	6,748,396	1.0	5,840,119	0.9	908,277	15.6
STIP Tr. St. Regional Water	40,055	0.0	48,958	0.0	(8,903)	(18.2)
Cash Equivalents (STIP)	41,091,156	5.9	45,454,823	6.7	(4,363,667)	(9.6)
Total	691,224,790	100.0	678,013,550	100.0	13,211,240	1.9

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond and Permanent Income Account

Permanent Coal Tax Trust Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	428,271,992	441,728,385	13,456,393	62.0	62.7
In-State Investments	221,861,642	221,861,642	0	32.1	31.5
Cash Equivalents (STIP)	41,091,156	41,091,156	0	5.9	5.8
Total	691,224,790	704,681,184	13,456,393	100.0	100.0

Permanent Coal Tax Trust 2004 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Fixed Income (TFBP)	1.52	LB Aggregate Bond	0.32	1.20
Montana Loans (1)	6.17	In-State Loans	NA	NA
All Assets	3.29	Composite (2)	2.56	0.73

(1) In-State Investment Loans, Science & Tech Loans, and other legislatively authorized loans
(2) An Index Composite paralleling the Fund's asset allocation at fair value

The Coal Tax Trust earned $44.2 million in investment income in 2004, compared to $44.3 million in 2003.

The Coal Tax Trust is also used to fund the In-State Investment Program *(See Page 49)*. The Coal Tax Trust invested balances and investment income history are shown on Page A-20 in Appendix A.

TRUST AND LEGACY FUND

Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion.

Trust & Legacy Fund Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	410,653,937	100.0	410,553,970	100.0	99,967	0.0
Cash Equivalents (STIP)	0	0.0	0	0.0	0	0.0
Total	410,653,937	100.0	410,553,970	100.0	99,967	0.0

Trust & Legacy Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	410,653,937	427,382,979	16,729,042	100.0	100.0
Cash Equivalents (STIP)	0	0	0	0.0	0.0
Total	410,653,937	427,382,979	16,729,042	100.0	100.0

Trust & Legacy Fund 2004 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	1.09	91-Day T Bill	1.01	0.08
Fixed Income (TFBP)	1.52	LB Aggregate Bond	0.32	1.20
All Assets	1.48	Composite (1)	0.32	1.16

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The Trust and Legacy Fund earned $30.1 million in investment income in 2004, compared to $29.2 million in 2003. The Trust and Legacy Fund invested balances and investment income history are shown on Page A-21 in Appendix A.

RESOURCE INDEMNITY TRUST FUND

Article IX, Section 2 of the state Constitution requires that revenues from the Resource Indemnity Tax on minerals be deposited in the Resource Indemnity Trust Fund, the principal of which "shall forever remain inviolate" until the principal reaches $100 million. The fund's book value reached $100.0 million in fiscal 2002.

Resource Indemnity Trust Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	99,999,976	100.0	99,999,976	100.0	0	0.0
Cash Equivalents (STIP)	800	0.0	989	0.0	(189)	(19.1)
Total	100,000,776	100.0	100,000,965	100.0	(189)	(0.0)

Resource Indemnity Trust Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	99,999,976	104,763,528	4,763,552	100.0	100.0
Cash Equivalents (STIP)	800	800	0	0.0	0.0
Total	100,000,776	104,764,328	4,763,552	100.0	100.0

Resource Indemnity Trust Fund 2004 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Fixed Income (TFBP)	1.52	LB Aggregate Bond	0.32	1.20
All Assets	1.52	Composite (1)	0.33	1.19

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The Resource Indemnity Trust Fund earned $7.4 million in investment income in 2004, compared to $7.2 million in 2003. The Resource Indemnity Trust Fund invested balances and investment income history are shown on Page A-22 in Appendix A.

COAL TAX PARKS/CULTURAL TRUST FUNDS

A portion of the coal severance tax is dedicated to a statutorily created Parks Trust Fund and a Cultural Trust Fund (Trusts). Investment income generated by the Trusts is appropriated by the legislature to acquire/operate state parks and to fund cultural and aesthetics projects. The 1997 Legislature appropriated $3.9 million of Cultural Trust principal to Purchase Historical Properties.

Coal Tax Parks/Cultural Funds Annual Change At June 30

Fund Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
Parks Trust	16,188,964	77.5	15,891,667	77.9	297,296	1.87
Cultural Trust	4,689,175	22.5	4,515,175	22.1	174,000	3.85
Total	20,878,139	100.0	20,406,842	100.0	471,296	2.31
Investment Type						
Fixed Income (TFBP)	20,466,247	98.0	20,216,533	99.1	249,713	1.24
Cash Equivalents (STIP)	411,892	2.0	190,309	0.9	221,583	116.43
Total	20,878,139	100.0	20,406,842	100.0	471,296	2.31

Parks/Cultural Trusts Book/Fair Values At June 30, 2004

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Parks Trust	16,188,964	16,561,481	372,517	77.5	77.6
Cultural Trust	4,689,175	4,780,911	91,736	22.5	22.4
Total	20,878,139	21,342,391	464,253	100.0	100.0
Investment Type					
Fixed Income (TFBP)	20,466,247	20,930,500	464,253	98.0	98.1
Cash Equivalents (STIP)	411,892	411,892	0	2.0	1.9
Total	20,878,139	21,342,391	464,253	100.0	100.0

Parks/Cultural Trust Funds 2004 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Parks Trust:				
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Fixed Income (TFBP)	1.52	LB Aggregate Bond	0.32	1.20
Parks Trust All Assets	1.48	Composite (1)	0.31	1.17
Cultural Trust:				
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Fixed Income (TFBP)	1.52	LB Aggregate Bond	0.32	1.20
Cultural Trust All Assets	1.42	Composite (1)	0.27	1.15

(1) An index composite paralleling the Funds' asset allocation at fair value

The trusts earned $1.5 million in investment income in 2004, compared to $1.4 million in 2003. The invested balances and investment income history of these trusts are shown on Page A-23 in Appendix A.

OTHER TRUST FUNDS

Fish, Wildlife, and Parks (FWP) Mitigation Trust - expendable trust funds fish and wildlife mitigation/enhancements.
Abandoned Mine Trust - expendable trust funds abandoned mine reclamation.
FWP Real Property Trust - non-expendable trust funds operations, development, and maintenance of FWP real property.
Weed Control Trust - non-expendable $2.5 million trust funds noxious weed control.
Wildlife Habitat Trust - funds acquisition/development/maintenance of wildlife habitat.
Montana Post and Pole Trust - funds environmental cleanup of the former Montana Pole and Treatment Plant in Butte.
Guaranteed Student Loan - the federal portion of student loan monies.
The UCFRB Funds represent proceeds from state settlements with the Atlantic Richfield Company for restoration of the Upper Clark Fork River Basin.
Streamside Tailing Funds are derived from a consent decree between the state and the Atlantic Richfield Company for remedial treatment of the Silver Bow Creek/Butte area.
Tobacco Trust – The nation's largest tobacco companies are required to pay at least $205.0 billion over the next 25 years to the states. Forty percent of Montana's share is deposited in a trust fund.
Zortman/Landusky Funds were paid by the Pegasus mining company and its insurer to provide long-term water treatment at the closed Zortman and Landusky mines near Malta**.**

Other Trusts Annual Change At June 30

Fund	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% Change
UCFRB Restoration	149,266,177	39.8	142,819,611	40.4	6,446,567	4.5
Streamside Tailings	93,785,967	25.0	93,536,658	26.4	249,309	0.3
Tobacco Trust	46,756,451	12.5	35,672,910	10.1	11,083,541	31.1
Montana Pole	27,494,950	7.3	27,126,891	7.7	368,058	1.4
UCFRB Reserve	14,157,512	3.8	13,180,781	3.7	976,731	7.4
FWP Mitigation	10,841,580	2.9	11,506,488	3.3	(664,908)	(5.8)
Wildlife Habitat	6,448,872	1.7	6,042,636	1.7	406,236	6.7
Zortman/Landusky	6,421,649	1.7	5,977,861	1.7	443,788	7.4
Guaranteed Student Loan	5,300,935	1.4	3,545,212	1.0	1,755,724	49.5
Abandoned Mines	5,199,950	1.4	4,998,883	1.4	201,067	4.0
Weed Control	4,866,922	1.3	4,962,800	1.4	(95,878)	(1.9)
FWP Real Property	4,525,667	1.2	4,373,670	1.2	151,997	3.5
Total	375,066,632	100.0	353,744,401	100.0	21,322,232	6.0
Investment Type						
Trust Funds Bond Pool	257,536,227	68.7	224,733,710	63.5	32,802,517	14.6
Corporate Asset-Backed Bonds	12,217,058	3.3	11,387,998	3.2	829,060	7.3
Other Corporate Bonds	26,988,787	7.2	26,723,034	7.6	265,754	1.0
US Mortgage-Backed Bonds	6,641,924	1.8	9,538,874	2.7	(2,896,950)	(30.4)
US Government-Backed Bonds	44,818,523	11.9	48,915,392	13.8	(4,096,869)	(8.4)
International Bonds (US $)	899,241	0.2	0	0.0	899,241	NA
Total Fixed Income	349,101,761	93.1	321,299,008	90.8	27,802,753	8.7
Cash Equivalents (STIP)	25,964,872	6.9	32,445,393	9.2	(6,480,521)	(20.0)
Total	375,066,632	100.0	353,744,401	100.0	21,322,232	6.0

Other Trusts Book/Fair Values At June 30, 2004

Fund	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
UCFRB Restoration	149,266,177	154,008,833	4,742,655	39.8	40.2
Streamside Tailings	93,785,967	95,450,582	1,664,615	25.0	24.9
Tobacco Trust	46,756,451	46,728,936	(27,515)	12.5	12.2
Montana Pole	27,494,950	27,904,409	409,460	7.3	7.3
UCFRB Reserve	14,157,512	14,551,824	394,312	3.8	3.8
FWP Mitigation	10,841,580	11,047,031	205,451	2.9	2.9
Wildlife Habitat	6,448,872	6,460,521	11,649	1.7	1.7
Zortman/Landusky	6,421,649	7,049,605	627,956	1.7	1.8
Guaranteed Student Loan	5,300,935	5,300,935	0	1.4	1.4
Abandoned Mines	5,199,950	5,273,366	73,416	1.4	1.4
Weed Control	4,866,922	4,971,556	104,634	1.3	1.3
FWP Real Property	4,525,667	4,561,095	35,428	1.2	1.2
Total	375,066,632	383,308,693	8,242,061	100.0	100.0
Investment Type					
Trust Funds Bond Pool	257,536,227	263,555,068	6,018,841	68.7	68.8
Corporate Asset-Backed Bonds	12,217,058	12,061,850	(155,209)	3.3	3.1
Other Corporate Bonds	26,988,787	27,919,491	930,703	7.2	7.3
US Mortgage-Backed Bonds	6,641,924	6,730,148	88,224	1.8	1.8
US Government-Backed Bonds	44,818,523	46,171,229	1,352,706	11.9	12.0
International (US $)	899,241	906,037	6,796	0.2	0.2
Total Fixed-Income	349,101,761	357,343,822	8,242,061	93	93
Cash Equivalents (STIP)	25,964,872	25,964,872	0	6.9	6.8
Total	375,066,632	383,308,693	8,242,061	100.0	100.0

The other trust portfolios are listed beginning on Page A-7 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

STATE FUND INSURANCE

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries occurring on or after July 1, 1990. Effective on that date, the state's workers' compensation fund was divided into two funds with separate liabilities. The "old" fund retained all financial obligations for claims for injuries occurring prior to July 1, 1990, while the "new" fund assumed claim obligations for injuries occurring after that date.

State Fund Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Corporate Asset-Backed Bonds	23,105,996	3.9	15,494,411	2.8	7,611,586	49.1
Other Corporate Bonds	242,107,218	41.3	186,427,682	34.1	55,679,536	29.9
US Mortgage-Backed Bonds	43,220,924	7.4	68,051,580	12.5	(24,830,655)	(36.5)
US Government-Backed Bonds	182,136,355	31.1	151,604,707	27.7	30,531,648	20.1
International Bonds (US $)	8,940,976	1.5	15,960,381	2.9	(7,019,406)	(44.0)
Total Fixed Income	499,511,469	85.2	437,538,760	80.1	61,972,708	14.2
BGI S&P 500 Equity Index	68,406,676	11.7	79,000,000	14.5	(10,593,324)	(13.4)
Cash Equivalents (STIP)	18,207,649	3.1	29,965,376	5.5	(11,757,727)	(39.2)
Total	586,125,794	100.0	546,504,136	100.0	39,621,658	7.3

State Insurance Fund Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Corporate Asset-Backed Bonds	23,105,996	22,858,746	(247,250)	4.5	3.8
Other Corporate Bonds	242,107,218	248,448,152	6,340,934	48.7	41.4
US Mortgage-Backed Bonds	43,220,924	43,955,881	734,957	8.6	7.3
US Government-Backed Bonds	182,136,355	184,959,108	2,822,754	36.3	30.8
International Bonds (US $)	8,940,976	9,707,361	766,385	1.9	1.6
Total Fixed Income	499,511,469	509,929,249	10,417,780	100.0	84.9
BGI S&P 500 Equity Index	68,406,676	72,138,374	3,731,698		12.0
Cash Equivalents (STIP)	18,207,649	18,207,649	0		3.0
Total	586,125,794	600,275,272	14,149,478		100.0

State Fund Insurance 2004 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	1.11	91-Day T Bill	1.01	0.10
Equities	19.07	S & P 500 Index	19.11	(0.04)
Fixed Income	1.00	LB Gov/Corp Intermediate	(0.06)	1.06
All Assets	2.89	Composite (1)	2.00	0.89

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The State Fund earned $27.8 million in investment income in 2004, compared to $29.1 million in 2003. The State Fund portfolio is listed beginning on Page A-9 of Appendix A.

OTHER INSURANCE FUNDS

Old Workers - Compensation Fund - pays claims for all injury claims occurring prior to July 1, 1990.
Group Insurance - created in 1981, provides health and life insurance to non-university state employees.
Subsequent Injury - provides benefits to workers who are vocationally handicapped and whose Workers' Compensation benefits have expired.
Hail Insurance - insures crops from hail damage. The entire account is currently held in STIP.
Other insurance programs whose investments are held solely in STIP include:

University Group Benefits	**$14,405,399**
Uninsured Employers	**431,815**
Agency Insurance	**2,059,371**
Unemployment Insurance Benefits	**3,382,443**
Total	**$20,279,028**

Other Insurance Annual Change At June 30

Fund Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Old Fund	71,336,169	75.6	81,262,148	83.0	(9,925,979)	(12.2)
Group Insurance	15,214,849	16.1	9,442,301	9.6	5,772,548	61.1
Hail Insurance	6,102,175	6.5	5,390,669	5.5	711,507	13.2
Subsequent Injury	1,745,225	1.8	1,793,679	1.8	(48,454)	(2.7)
Total	94,398,418	100.0	97,888,797	100.0	(3,490,379)	(3.6)
Investment Type						
Corporate Asset-Backed Bonds	4,924,938	5.2	38,674	0.0	4,886,264	12,634.4
Other Corporate Bonds	16,103,603	17.1	25,781,435	26.3	(9,677,832)	(37.5)
US Mortgage-Backed Bonds	7,825,891	8.3	11,699,352	12.0	(3,873,461)	(33.1)
US Government-Backed Bonds	44,591,074	47.2	41,450,165	42.3	3,140,909	7.6
International Bonds (US $)	99,916	0.1	2,999,057	3.1	(2,899,141)	(96.7)
Total Fixed Income	73,545,422	77.9	81,968,683	83.7	(8,423,261)	(10.3)
Cash Equivalents (STIP)	20,852,996	22.1	15,920,113	16.3	4,932,883	31.0
Total	94,398,418	100.0	97,888,797	100.0	(3,490,379)	(3.6)

Other Insurance Book/Fair Values At June 30, 2004

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Old Fund	71,336,169	72,898,445	1,562,276	75.6	76.0
Group Insurance	15,214,849	15,195,246	(19,603)	16.1	15.8
Hail Insurance	6,102,175	6,102,175	0	6.5	6.4
Subsequent Injury	1,745,225	1,779,732	34,507	1.8	1.9
Total	94,398,418	95,975,598	1,577,181	100.0	100.0
Investment Type					
Corporate Asset-Backed Bonds	4,924,938	4,782,761	(142,178)	5.2	5.0
Other Corporate Bonds	16,103,603	16,658,613	555,010	17.1	17.4
US Mortgage-Backed Bonds	7,825,891	7,842,215	16,324	8.3	8.2
US Government-Backed Bonds	44,591,074	45,738,344	1,147,270	47.2	47.7
International Bonds (US $)	99,916	100,671	755	0.1	0.1
Total Fixed Income	73,545,422	75,122,603	1,577,181	77.9	78.3
Cash Equivalents (STIP)	20,852,996	20,852,996	0	22.1	21.7
Total	94,398,418	95,975,598	1,577,181	100.0	100.0

Other Insurance Portfolios are listed beginning on Page A-11 of Appendix A.

TREASURER'S FUND

The Treasurer's Fund (Fund) is comprised of surplus cash in all state accounts that do not retain their investment earnings. All earnings are deposited in the State General Fund. State law authorizes the Board to determine the amount of surplus cash in the Fund to be invested and the type of investments to be made. Invested balances at book value vary widely due to varying levels of excess cash in the state's General Fund and other accounts comprising the Fund. This fund has been a major investor in STIP since 1974 when STIP was created. The "Other" category depicted in the graph consists of US Government securities and Repurchase Agreements.

Treasurer's Fund Annual Change At June 30

Investment Type	2004 $ Book Value	% of Total	2003 $ Book Value	% of Total	$ Change	% of Change
Municipal Investor Account	37,847,576	8.6	140,005,238	40.3	(102,157,662)	(73.0)
US Government-Backed Bonds	182,257,449	41.3	59,789,418	17.2	122,468,031	204.8
Cash Equivalents (STIP)	221,130,581	50.1	147,708,039	42.5	73,422,542	49.7
Total	441,235,606	100.0	347,502,695	100.0	93,732,911	27.0

Treasurer's Fund Book/Fair Values At June 30, 2004

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Municipal Investor Account	37,847,576	37,847,576	0	8.6	8.6
US Government-Backed Bonds	182,257,449	181,052,079	(1,205,370)	41.3	41.1
Cash Equivalents (STIP)	221,130,581	221,130,581	0	50.1	50.3
Total	441,235,606	440,030,236	(1,205,370)	100.0	100.0

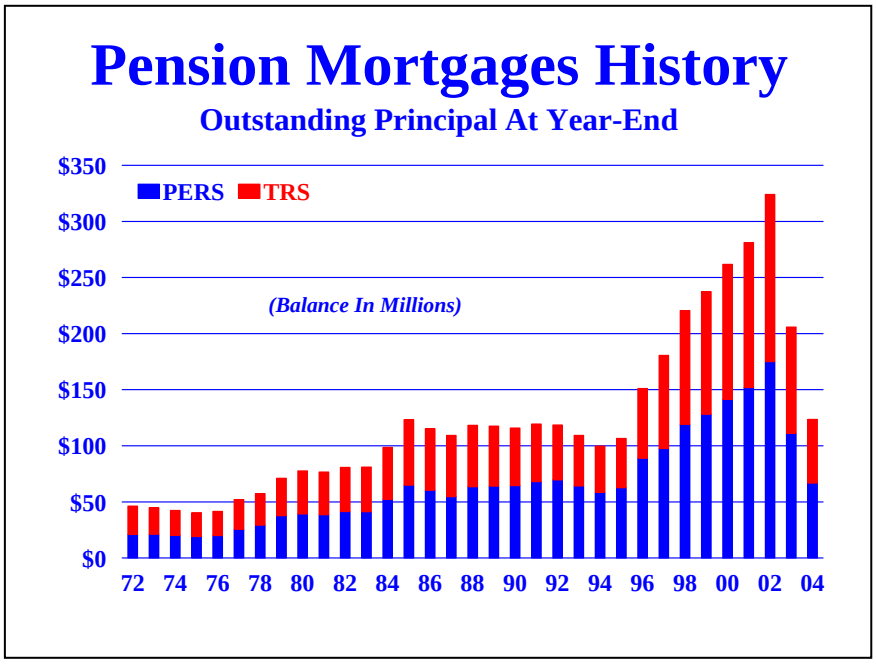
Treasurer's Fund 2004 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	1.17	91-Day T Bill	1.01	0.16
Fixed Income	0.62	ML US Treasury 1-3 Yrs.	0.50	0.12
All Assets	1.19	Composite (1)	0.94	0.25

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The Treasurer's Fund earned $6.4 million in investment income in 2004 and 2003. The Treasurer's Fund Portfolio is listed beginning on Page A-7 of Appendix A. The Treasurer's Fund invested balance and income history are shown on Page A-24 of Appendix A.

MONTANA RESIDENTIAL MORTGAGES



The Board invests pension funds in Montana mortgages by purchasing all or a portion of mortgages from qualified financial institutions. Interest rates are set weekly, based on quotes from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the two major US secondary mortgage markets. Financial institutions charge a fee for servicing the loans. The number and location of mortgages purchased by the Board depend upon the mortgage lending activities of individual financial institutions and their interest in the Board's mortgage program.

Montana Mortgages By Type Annual Change At June 30

Mortgage Type	2004 Book Value	% Of Total	2003 Book Value	% Of Total	$ Change	% Change
Residential Conventional	85,373,121	69.1	145,672,381	70.8	(60,299,260)	(41.4)
Residential FHA	30,690,906	24.8	44,621,235	21.7	(13,930,330)	(31.2)
Residential VA	3,387,178	2.7	5,151,065	2.5	(1,763,887)	(34.2)
Multi-Family Conventional	581,552	0.5	1,986,337	1.0	(1,404,785)	(70.7)
Commercial	3,586,615	2.9	8,430,191	4.1	(4,843,575)	(57.5)
Total Mortgages	123,619,372	100.0	205,861,209	100.0	(82,241,837)	(40.0)

Mortgage rates on the secondary market declined to less than 6 percent during 2003 and the Board declined to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage refinancings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio during 2003 and 2004.

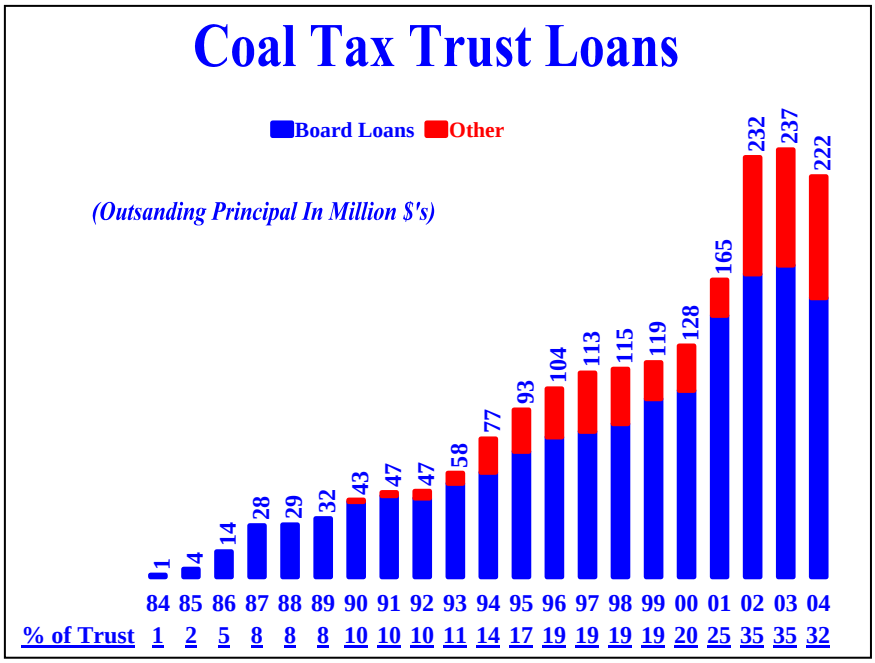
Loan Losses/Arrears – Pension Mortgage loans in arrears 90 or more days decreased from .36 percent of total mortgage holdings at year end 2003 to .24 percent of mortgage holdings at year end 2004. These arrears ratios compare to .50 percent and .44 percent respectively for Montana * financial institutions during the period. The number of properties in foreclosure decreased from six at year-end 2003 to one at year-end 2004. All mortgages are secured by single-family residential, multi-family residential, or commercial properties in Montana.

*Source: Mortgage Bankers Association National Delinquency Survey data dated 6/30/03 and 3/31/04

Residential Mortgage Balances By County Annual Change At June 30

County	2004 Balance	% Of Total	2003 Balance	% Of Total	03-04 $ Change	2004 Loans	2003 Loans	03 - 04 Change
Yellowstone	43,880,608	35.5	73,992,416	35.9	(30,111,807)	701	1,051	(350)
Gallatin	12,721,441	10.3	22,299,270	10.8	(9,577,828)	172	265	(93)
Flathead	9,186,354	7.4	16,783,889	8.2	(7,597,535)	134	220	(86)
Lake	6,917,452	5.6	12,405,508	6.0	(5,488,056)	107	172	(65)
Stillwater	6,138,979	5.0	10,489,135	5.1	(4,350,157)	86	138	(52)
Custer	5,637,845	4.6	7,671,907	3.7	(2,034,062)	132	165	(33)
Cascade	5,343,504	4.3	8,468,766	4.1	(3,125,262)	92	130	(38)
Missoula	4,380,505	3.5	9,726,520	4.7	(5,346,015)	36	66	(30)
Carbon	2,418,194	2.0	3,350,154	1.6	(931,960)	35	47	(12)
Sanders	2,359,762	1.9	3,893,223	1.9	(1,533,461)	37	56	(19)
Park	2,351,902	1.9	4,487,116	2.2	(2,135,214)	39	58	(19)
Richland	2,259,242	1.8	3,413,989	1.7	(1,154,747)	57	81	(24)
Hill	2,254,085	1.8	2,384,262	1.2	(130,177)	46	52	(6)
Roosevelt	2,019,438	1.6	2,709,741	1.3	(690,304)	46	58	(12)
Valley	1,560,814	1.3	2,094,697	1.0	(533,883)	38	50	(12)
Dawson	1,509,428	1.2	2,338,550	1.1	(829,122)	43	63	(20)
Beaverhead	1,385,193	1.1	2,200,708	1.1	(815,515)	22	33	(11)
Blaine	962,502	0.8	1,005,638	0.5	(43,136)	21	23	(2)
Lewis & Clark	920,095	0.7	1,593,097	0.8	(673,002)	23	35	(12)
Rosebud	762,097	0.6	965,952	0.5	(203,854)	16	21	(5)
Phillips	743,696	0.6	931,172	0.5	(187,477)	18	21	(3)
Jefferson	651,458	0.5	787,636	0.4	(136,178)	9	11	(2)
Silver Bow	644,571	0.5	833,575	0.4	(189,004)	12	14	(2)
Choteau	630,459	0.5	1,115,503	0.5	(485,044)	14	23	(9)
Madison	566,369	0.5	1,249,190	0.6	(682,821)	5	12	(7)
Fergus	565,984	0.5	844,929	0.4	(278,944)	13	17	(4)
Ravalli	513,761	0.4	956,711	0.5	(442,949)	6	11	(5)
Bighorn	469,048	0.4	630,271	0.3	(161,222)	11	14	(3)
Glacier	454,946	0.4	799,882	0.4	(344,936)	9	16	(7)
Fallon	451,237	0.4	485,026	0.2	(33,789)	9	10	(1)
Broadwater	429,979	0.3	923,496	0.4	(493,517)	14	23	(9)
Sweet Grass	252,871	0.2	571,798	0.3	(318,926)	5	9	(4)
Sheridan	236,023	0.2	269,705	0.1	(33,681)	10	11	(1)
Lincoln	229,317	0.2	312,810	0.2	(83,494)	3	5	(2)
Wheatland	223,558	0.2	304,146	0.1	(80,588)	5	7	(2)
Musselshell	168,442	0.1	458,469	0.2	(290,028)	5	11	(6)
Powell	148,309	0.1	362,642	0.2	(214,333)	3	7	(4)
McCone	142,756	0.1	151,091	0.1	(8,335)	4	4	0
Treasure	116,717	0.1	118,223	0.1	(1,505)	1	1	0
Teton	109,343	0.1	223,543	0.1	(114,200)	5	7	(2)
Daniels	109,086	0.1	173,216	0.1	(64,129)	2	3	(1)
Pondera	102,415	0.1	191,403	0.1	(88,988)	2	4	(2)
Garfield	99,642	0.1	103,579	0.1	(3,937)	2	2	0
Meagher	99,639	0.1	179,760	0.1	(80,121)	3	6	(3)
Mineral	98,160	0.1	104,358	0.1	(6,198)	1	1	0
Carter	61,365	0.1	65,036	0.0	(3,672)	2	2	0
Prairie	73,398	0.1	76,850	0.0	(3,452)	2	2	0
Judith Basin	52,060	0.0	53,055	0.0	(995)	1	1	0
Golden Valley	50,509	0.0	55,399	0.0	(4,890)	1	1	0
Toole	34,916	0.0	43,112	0.0	(8,195)	3	3	0
Deer Lodge	45,914	0.0	83,949	0.0	(38,035)	2	4	(2)
Granite	35,758	0.0	36,405	0.0	(646)	1	1	0
Wibaux	33,632	0.0	70,842	0.0	(37,210)	2	3	(1)
Powder River	28,592	0.0	31,162	0.0	(2,570)	1	1	0
Liberty	0	0.0	20,420	0.0	(20,420)	0	1	(1)
Total	123,619,372	100.0	205,861,209	100.0	(82,241,837)	2,069	3,053	(984)

COAL TAX TRUST LOANS



Created in 1984 as part of the "Build Montana" program, this program invests Coal Tax Trust funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment. The "other" portion of the graph is comprised of these loans:

DNRC - $44.5 Million
Science & Tech - 13.9 Million
Dep. of Revenue – 5.7 Million
Dep. of Justice - 2.0 Million
Facilities Finance - .9 Million

Loan Types – Five loans types are available in the In-State Investment Program, some of which offer a job credit interest rate reduction equal to 0.05 percent for each job created, up to a maximum reduction of 2.5 percent.

The Federal Guaranteed Loan Program purchases the guaranteed portion of loans, guaranteed by the Small Business Administration, the Bureau of Indian Affairs, the Rural Business and Cooperative Service, and the Economic Development Administration. Loan proceeds may be used for working capital, inventory, equipment, real property, or similar items. At year-end 2004, this Program had $66.99 million in loan principal outstanding, or 48.8 percent of total outstanding Commercial Loan principal.

The Business Loan Participation Program purchases from originating financial institutions up to 80 percent of a participation loan. Unencumbered land, buildings, and equipment may be financed with the loan proceeds. The financial institutions charge a fee to service the loan and the Board's loan is collateralized proportionally to the Board's share of the loan. At year-end 2004, this Program had $65.67 million in loan principal outstanding, or 47.9 percent of total outstanding Commercial Loan principal.

The Economic Development Linked Deposit Program offers businesses long-term, fixed-rate financing for working capital, inventory, or real property. The Board places a long-term deposit at a pre-established rate with the financial institution originating the loan. The lender assumes all loan risk and is assured a specific "spread" for the term of the loan. At year-end 2004, this Program had $4.52 million in loan principal outstanding, or 3.3 percent of total outstanding Commercial Loan principal.

The Infrastructure Loan Program provides loans to eligible local governments for constructing infrastructure required by job creating businesses in their jurisdiction. At year-end 2004, this Program had $8.30 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million.

The Value-added Loan Program provides low interest loans to value-added type businesses that create or retain jobs. At year-end 2004, this Program had $9.20 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million**.**

Loan Yield - On June 30, 2004, the average weighted yield of all outstanding commercial loans, excluding Value-Added Loans whose interest rates are set by law, was 6.33 percent.

Loans From Inception By County Annual Change At June 30

County	Through 2004	% Of Total	Through 2003	% Of Total	03-04 $ Increase	2004 <# Loans>	2003	03-04 Inc
Missoula	84,574,058	18.7	78,819,628	19.8	5,754,430	208	201	7
Gallatin	61,179,764	13.6	53,378,917	13.4	7,800,847	108	102	6
Yellowstone	55,146,758	12.2	48,371,543	12.1	6,775,215	117	109	8
Flathead	36,183,535	8.0	28,304,978	7.1	7,878,557	79	75	4
Cascade	34,463,707	7.6	30,739,912	7.7	3,723,794	38	37	1
Lewis & Clark	33,524,971	7.4	24,659,664	6.2	8,865,308	85	83	2
Lake	19,432,991	4.3	19,432,991	4.9	0	92	92	0
Park	17,260,860	3.8	17,260,860	4.3	0	31	31	0
Ravalli	14,987,006	3.3	14,987,006	3.8	0	48	48	0
Madison	13,713,554	3.0	13,566,731	3.4	146,823	70	69	1
Beaverhead	11,150,710	2.5	11,150,710	2.8	0	30	30	0
Silver Bow	9,984,143	2.2	5,151,986	1.3	4,832,158	10	8	2
Stillwater	9,037,797	2.0	8,385,297	2.1	652,500	46	45	1
Sanders	7,730,387	1.7	6,258,630	1.6	1,471,757	18	15	3
Blaine	5,928,325	1.3	4,334,612	1.1	1,593,713	34	27	7
Richland	3,580,953	0.8	3,353,633	0.8	227,321	26	24	2
Rosebud	3,162,078	0.7	478,562	0.1	2,683,517	2	1	1
Roosevelt	2,972,856	0.7	2,972,856	0.7	0	7	7	0
Carbon	2,904,586	0.6	2,904,586	0.7	0	13	13	0
Jefferson	2,863,980	0.6	2,653,136	0.7	210,844	12	11	1
Lincoln	1,923,608	0.4	1,923,608	0.5	0	6	6	0
Valley	1,906,399	0.4	1,906,399	0.5	0	15	15	0
Custer	1,725,449	0.4	1,725,449	0.4	0	2	2	0
Choteau	1,701,998	0.4	1,276,579	0.3	425,419	4	3	1
Mineral	1,611,093	0.4	1,611,093	0.4	0	3	3	0
Granite	1,524,095	0.3	1,524,095	0.4	0	6	6	0
Hill	1,511,297	0.3	1,511,297	0.4	0	9	9	0
Meagher	1,424,517	0.3	1,424,517	0.4	0	5	5	0
Fergus	1,219,955	0.3	1,219,955	0.3	0	3	3	0
Phillips	1,020,139	0.2	1,020,139	0.3	0	3	3	0
Dawson	874,285	0.2	874,285	0.2	0	1	1	0
Sweet Grass	751,737	0.2	751,737	0.2	0	3	3	0
Bighorn	676,400	0.1	676,400	0.2	0	3	3	0
Powell	616,500	0.1	616,500	0.2	0	1	1	0
Toole	492,707	0.1	492,707	0.1	0	1	1	0
Fallon	476,429	0.1	476,429	0.1	0	2	2	0
Broadwater	463,199	0.1	463,199	0.1	0	3	3	0
Liberty	455,439	0.1	455,439	0.1	0	3	3	0
Pondera	425,000	0.1	425,000	0.1	0	1	1	0
McCone	295,148	0.1	295,148	0.1	0	3	3	0
Musselshell	163,000	0.0	163,000	0.0	0	1	1	0
Wibaux	90,000	0.0	90,000	0.0	0	1	1	0
Powder River	57,105	0.0	57,105	0.0	0	1	1	0
Total	451,188,517	100.0	398,146,315	100.0	53,042,202	1,154	1,107	47

Commercial Loan By Sector Annual Change At June 30

Investment Type	2004 Book Value	% Of Total	2003 Book Value	% Of Total	$ Change	% Change
Service Industry	158,305,878	35.1	135,974,754	34.2	22,331,124	16.4
Manufacturing	64,964,335	14.4	64,112,610	16.1	851,725	1.3
Retail Trade	76,040,882	16.9	64,442,209	16.2	11,598,673	18.0
Agriculture/Forestry/Fishing	54,206,156	12.0	50,973,626	12.8	3,232,530	6.3
Finance/Insurance/Real Estate	74,759,022	16.6	62,232,980	15.6	12,526,042	20.1
Transportation/Utilities/Comm.	7,941,437	1.8	7,732,029	1.9	209,408	2.7
Wholesale Trade	6,180,451	1.4	5,808,507	1.5	371,945	6.4
Construction	5,843,345	1.3	5,943,839	1.5	(100,495)	(1.7)
Mining	2,947,010	0.7	925,760	0.2	2,021,250	218.3
Total	451,188,517	100.0	398,146,315	100.0	53,042,202	13.3

Loan Losses/Arrears - The number of loans in this program in arrears 90 or more days increased from .08 percent of total outstanding loans at year-end 2003 to .87 percent of outstanding loans at year-end 2004. These arrears ratios compare to .80 percent and 2.04 percent, respectively for Montana* financial institutions during that period. There were no losses in 2003 or 2004.

*Source: Total FDIC Past Due and Non Accrual as of 3/31-04

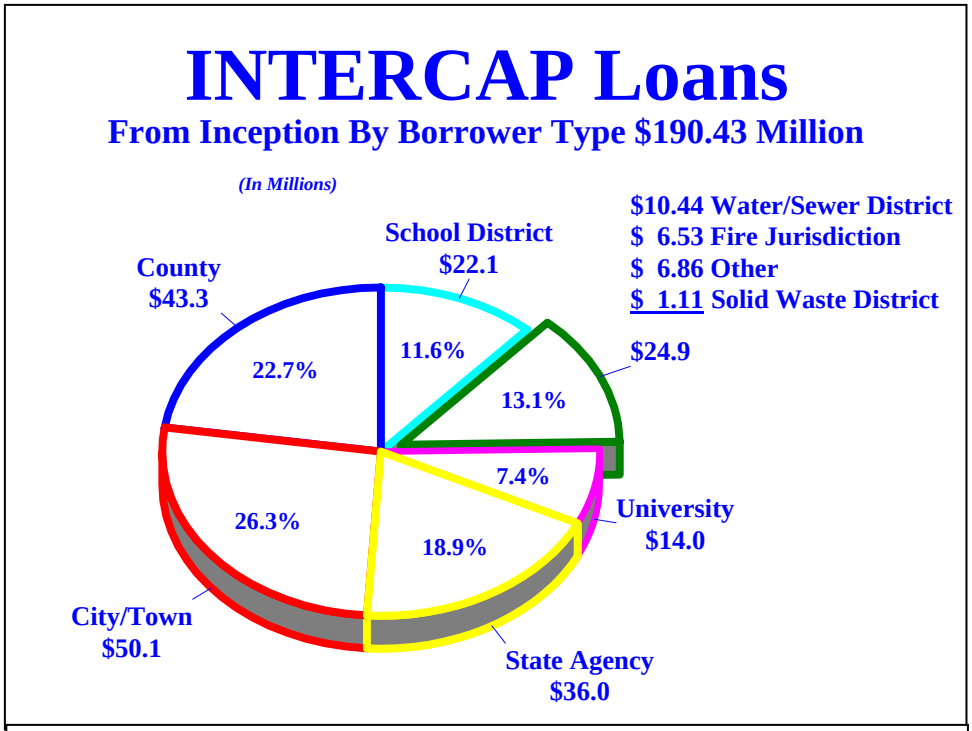
In addition to the Coal Tax Loan Program and the Residential Mortgage Programs, the Board also invests other state funds in Montana and guarantees bonds as shown in the table below:

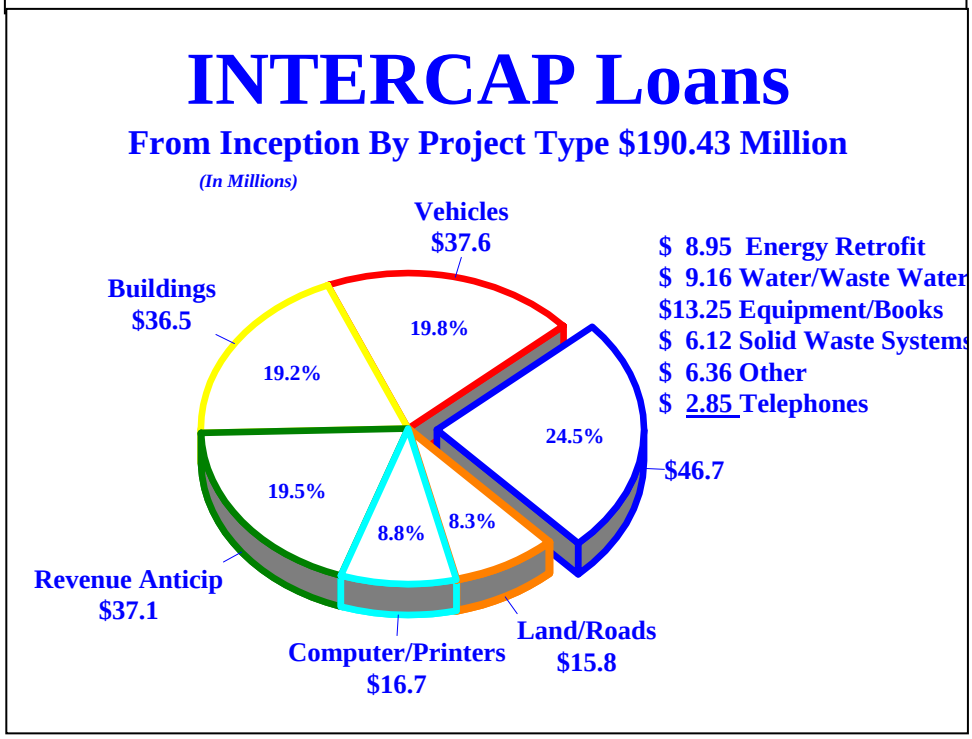
Instate Loans and Other In-State Investments

Loan Type	2004 $ Book Value	2003 $ Book Value	$ Change
Residential Mortgages	123,619,372	205,861,209	(82,241,837)
Commercial Loans	137,175,547	156,815,490	(19,639,943)
School Trust Loan	44,546,088	46,366,904	(1,820,816)
Department of Revenue Loan	5,698,442	0	5,698,442
Montana Science and Technology	13,959,035	14,287,541	(328,507)
Pension Equity Real Estate	16,092,940	13,512,086	2,580,854
Infrastructure Loans	8,298,806	9,050,975	(752,169)
Value-Added Loans	9,202,821	6,854,640	2,348,181
Facility Finance Authority Loans	943,904	1,543,021	(599,117)
Department of Justice Loan	2,037,000	1,902,000	135,000
Total In-State Loans	361,573,954	456,193,866	(94,619,912)
PPL Montana	48,221,512	41,831,627	6,389,885
Med Map LLC (St. Vincent's Hospital, Billings)	24,960,000	25,990,000	(1,030,000)
First Interstate BancSystem, Montana	12,900,000	16,600,000	(3,700,000)
Butte/Silver Bow Tax Increment	3,225,000	5,025,000	(1,800,000)
Montana CRP Bonds (83 issues)	4,789,283	6,976,862	(2,187,580)
Board of Housing	1,145,000	1,155,000	(10,000)
Renewable Resource (1997A GO)	733,242	732,975	267
Total State, Local Gvt and Corporate Bonds	95,974,037	98,311,464	(2,337,428)
Total Loans and Bonds	457,547,991	554,505,331	(96,957,339)
Bond Guarantees (1)	126,787,072	97,200,000	29,587,072

(1) Guarantees of INTERCAP and Montana Facility Finance Authority Bonds

BOND PROGRAMS





INTERCAP - The Board administers several bond programs under the Montana Economic Development Bond and the Municipal Finance Consolidation Acts, created as part of the "Build Montana" program in 1984.

The INTERCAP program lends funds to eligible governments for a variety of purposes. The upper graph depicts the types of borrowers using the program since its inception. Since 1987, 387 eligible governments have received 978 loans, totaling $190.43 million.

The lower graph shows the types of projects for which loans were made since program inception. At June 30, 2004, there was $64.92 million in outstanding loan balances.

INTERCAP loans are funded with proceeds from bonds issued by the Board. Since the program's inception, the Board has issued $109 million in bonds with $90.55 million outstanding at June 30, 2004.

Loan interest rates, which are reset each February 16 based on the interest on the bonds funding the loans, were set at 2.70 percent on February 16, 2004.

Other bond programs managed by the Board are**:**

- ***School District Pooled Refunding Program***

In 1991 the Board purchased general obligation refunding bonds of participating school districts, enabling the districts to refinance their outstanding bonds at a lower interest rate. The 16 school districts participating in this $6.234 million bond issue saved a total of $577,600 in interest over the life of the refunding bonds. Although this Program is inactive, it could be re-activated given sufficient demand.

- ***Pooled Irrigation Program***

Five irrigation districts participated in this Program that prepaid their outstanding loans to the federal Bureau of Reclamation. The Board issued bonds of $4.976 million in 1988 to prepay $15.6 million of non-interest bearing federal loans held by the districts. The Board lent the bond proceeds to the districts at an average 7.20 percent interest. Although the districts paid off non-interest federal loans with interest bearing loans, they saved a total of $5.9 million, because the federal loans were prepaid at steep discounts, thereby significantly lowering the amount of principal owed by the districts.

- ***Qualified Zone Academy Bond Program (QZAB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified zone academy bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/04 Balance
Huntley Project Schools	12/00	750,000	750,000
Bozeman Public Schools	11/03	1,586,000	1,586,000
Philipsburg Schools	12/04	2,000,000	2,000,000
Total		**4,336,000**	**4,336,000**

Economic Development Bond Act

- ***Stand Alone Economic Development Bond Program***

This Program provides qualifying businesses access to tax-exempt funds and the Board has issued bonds to finance several projects. The Board acts as a legal funding conduit only and is not pecuniarily liable for the repayment of the bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/04 Balance
Colstrip	10/89	60,800,000	55,300,000
BGI	07/93	118,345,000	116,945,000
Stillwater Mining	07/00	30,000,000	30,000,000
Gainey Foundation	10/02	6,000,000	5,570,000
Total		**219,070,000**	**207,815,000**

- ***Montana Conservation Reserve Payment (CRP) Enhancement Program***

This Program provides loans to Montana farmers to refinance outstanding loans and/or to purchase additional land and farm equipment. The borrowers assign their federal CRP contracts to the Board in exchange for a loan ranging from 60 percent to 75 percent of the remaining payments on the CRP contracts. When the Program began, bonds were issued to provide funding for the loans. Recently, the loans have been funded from the Trust Funds Bond Pool as an investment. Loan interest rates are typically set at 0.50 higher than the interest set by the Trust Funds Bond Pool manager. A total of 230 loans, totaling $30.11 million have been funded under this Program**.**

- ***Pooled Economic Development Bond Program***

This Program, inactive since 1986 due to federal tax law revisions, provided loans to small businesses to expand and improve their facilities. The Board funded the loans by issuing tax-exempt bonds. Except for a pledge of revenues and a guaranty fund, the Board has no pecuniary liability under this Program. Although there are two loans outstanding in this program, the bonds issued to fund the loans have been repaid.

The Bond Program financial statements begin on Page 68 of Appendix B**.**

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
Pubilc Employees Retirement System	40,300,431	797,817	17,213,144	4,741,267	40,833,740	57,048,864		160,935,264
Teachers Retirement	39,021,507	536,131	13,394,947	3,725,609	31,657,320	43,932,669		132,268,183
Coal Severance Tax Income Fund	12,125,908	451,386					22,318,851	34,896,145
Trust And Legacy		53,502					30,087,012	30,140,513
State Fund Insurance	27,487,052	338,939						27,825,991
UCFRB Restoration Fund	1,115,009	71,083					8,856,464	10,042,556
TSEF Income Fund	1,021,573	122,482					6,929,582	8,073,637
Resource Indemnity Trust Income Fu		5,073					7,375,168	7,380,241
General Fund	5,399,518	993,474						6,392,992
Sheriffs Retirement	1,098,166	29,772	792,411	218,980	1,879,254	2,981,132		6,999,716
State Policemen Retirement Reserve	845,094	39,883	795,550	219,314	1,926,365	3,056,748		6,882,953
Firefighters Unified Retirement	811,369	36,110	759,905	209,841	1,829,433	2,911,252		6,557,910
STIP Local Government		6,570,598						6,570,598
SST/OU Remedial Actio	2,496,567	44,717					3,590,164	6,131,448
Highway Patrol Retirement	1,068,542	13,260	450,456	123,012	1,068,892	1,705,976		4,430,139
Old State Fund	4,003,852	58,283						4,062,134
Tobacco Settlement Income		7,953					2,661,875	2,669,829
Montana Judges Retirement	471,001	9,469	253,905	69,249	604,792	956,056		2,364,472
Game Wardens Retirement	72,883	13,499	244,934	70,852	582,489	910,135		1,894,792
Montana Pole Remedial	416,321	87,451					841,924	1,345,695
TSEF Region Water Income		27,401					1,173,659	1,201,061
Coal Tax-FWP Part Acquisition		2,019					1,138,428	1,140,447
Volunteer Firefighter Retirement	176,492	5,410	109,070	28,026	267,643	415,440		1,002,081
UCFRB Assess/Litigation		309					991,859	992,167
General License Account	443,880	234,713						678,594
Retirement Funds Bond Pool		671,348						671,348
Trust Funds Bond Pool		647,853						647,853
FWP Wildlife Mitigation Fund	445,508	38,042						483,550
Zortman/Landusky Long Term	442,681	493						443,174
Group Benefits Claims	282,528	94,505						377,033
Wildlife Habitat Trust	207,702	9,481					134,904	352,088
Cultural Trust		1,158					324,526	325,684
UM-MSO Designated	146,509	14,958					117,570	279,037
Highways Special Revenue		278,724						278,724
UM-MSO Unrestricted		252,160					19,250	271,411
FWP Real Property Trust	174,724	5,941					80,318	260,983
MSU General Operating		245,690						245,690
Noxious Weed Management Trust	232,087	7,652						239,739
AML Trust Fund	204,145	19,057						223,202
Common School Permanent Trust		199,526						199,526
MSU Auxiliary Funds		152,145						152,145
MT Oil and Gas Production Tax		142,250						142,250
MUS Group Insurance		136,845						136,845
UM-MSO Endowments		1,290	9,427				106,165	116,882
MSU Renewal and Replacement		96,233						96,233
UM-MSO Renewal and Replacement		88,053					2,101	90,153
UM-MSO Auxiliary		87,531					1,639	89,170
MSU-Billings General Operating		83,920						83,920
MSU Designated Funds		82,175						82,175
Wildlife Habitat		81,579						81,579
Subsequent Injuiry	78,139	3,247						81,386
CST Bond Unrestricted Reserve		70,054						70,054
2003A LRBP Bonds		68,335						68,335
Hail Insurance		61,507						61,507
Agency Insurance Int.		59,371						59,371
Research & Commercial		52,121						52,121
U.S. Dept Ed / GSL Reserve		52,023						52,023
SOS Election Federal Grant Fund		49,620						49,620

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
MSU-Billings Renewal		48,737						48,737
MSU -AG General Operating		45,021						45,021
UM-TECH Unrestricted		43,763						43,763
MSU Retirement		43,733						43,733
U & I Tax Benefit		40,905						40,905
Orphan Share Fund		39,680						39,680
UM-MSO Agency		37,775						37,775
Guaranteed Student Loan		36,693						36,693
Science and Technology	32,702							32,702
Oil & Gas ERA		30,632						30,632
UM-TECH Restricted		2,506					25,846	28,352
HUD Section 8 Housing		26,975						26,975
MSU-Billings Auxiliary		26,890						26,890
Inspection And Control		26,561						26,561
Market Based Outfitter Combo Sales		26,202						26,202
Upland Game Bird Habitat		24,083						24,083
MSU Loan Funds		22,478						22,478
Long Range Building		22,293						22,293
C R Kendall Bond Forfeit		21,228						21,228
Noxious Weed Admin		20,472						20,472
GO Bond Debt Service-Renewed		20,346						20,346
CST 2001D Refunding Debt Service		19,845						19,845
UM-MSO Restricted		19,267					387	19,653
UM-TECH Student Loans	12,044	1,014	1,332				4,157	18,547
Wheat and Barley Research		17,926						17,926
Health Facilities Authority		17,695						17,695
Petroleum Storage Tank		17,054						17,054
Landusky Reel		16,723						16,723
MSU Restricted Funds		16,622						16,622
Zortman Reclamation Short Term		16,245						16,245
Forest Reserve Shared		15,718						15,718
OSM Trust Fund - Coal		15,714						15,714
Rural Develop & Rehab		15,583						15,583
MSU Unexpended Plant		15,495						15,495
UM-Western Unrestricted		15,152						15,152
Enterprise Fund		14,252						14,252
Housing Trust Fund		13,867						13,867
MSU-Northern Gen Operation		13,641						13,641
GO 03 SBP Bond Proceeds		12,877						12,877
CST 2003A Tax Debt		12,845						12,845
MSU-GCOT Unexpended Plant		12,800						12,800
MSU-EXT Designated Fund		12,685						12,685
Mountain Sheep Account		11,547						11,547
457 Deferred Compensation Plan		11,097						11,097
Habitat Trust		10,970						10,970
Enhanced 9-1-1 Emergency		10,932						10,932
Energy Conservation: Exxon		10,509						10,509
Coal Tax Trust Account		10,170						10,170
BVSL Special Revenue		10,110						10,110
2002B LRBP Bonds		9,805						9,805
State Lottery Fund		9,766						9,766
GO 2003C Taxable Private		9,562						9,562
UM-TECH Unexpended Plant		9,439						9,439
Warm Water Fish Stamp		9,327						9,327
UM-HCOT Unrestricted		9,225						9,225
Fishing Access		8,849						8,849
CST 96A Debt Service		8,365						8,365
Charles Bair Trust		2,115	2,870				3,368	8,353

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
MSU-EXT General Operating		8,167						8,167
MSU-AG Restricted Fund		7,815						7,815
Montana Heritage Preservation		7,706						7,706
MSU-Billings Designated		7,518						7,518
River Restoration Account		7,103						7,103
UM-TECH Renewal and Replacemen		6,826						6,826
MSU-GCOT General Operation		6,634						6,634
Pesticide Management		6,443						6,443
2000D IT Bonds		6,288						6,288
Juvenile Accountabiliy		6,274						6,274
Rural Physicians Trust		6,269						6,269
Pegasus - Basin Mine		6,205						6,205
PERS Educational Program		6,178						6,178
Waterfowl Stamp		6,038						6,038
Alternative Energy Loan Fund		6,034						6,034
UM-Western Auxiliary		5,860						5,860
Lvstk Per Capita Fees		5,791						5,791
MSU-GCOT Designated Fund		5,766						5,766
SEC 8 Project Based		5,665						5,665
Household Finance Settlement		5,639						5,639
Luzenac America-Yello		5,571						5,571
UM-MSO Student Loans		5,547						5,547
Fisheries Mitigation Private		5,529						5,529
Pegasus Bankruptcy Operations		5,482						5,482
Uninsured Employer Fund		5,140						5,140
457 Plan - Administration		5,098						5,098
Water Storage		5,091						5,091
MSU-Billings Unexpended		5,059						5,059
Treasure State Endowment		5,043						5,043
Energy Conservation: Stripper		4,700						4,700
James H. Bradley Memorial		279	3,957				363	4,599
Real Estate Recovery		4,418						4,418
Cashed Plan II Liquidation		4,411						4,411
Thomas Teakle Trust Fund		365	3,413				545	4,323
Pest Ag Chemical Group		4,255						4,255
Section 8FSS Escrow		3,984						3,984
MSU-Billings Loan Fund		3,955						3,955
Coal Bed Methane Prot		3,852						3,852
Broadwater Irrigation		3,809						3,809
Development Finance Bonds		3,582						3,582
Wildlife Mitigation Private		3,514						3,514
1998B LRBP Bonds		3,385						3,385
Real Estate Trust		3,318						3,318
2004B LRBP		3,298						3,298
Unlocated Mineral Owners Trust		3,049						3,049
UM-Western Renew and Replacemen		2,938						2,938
Hard Rock Mining Reclamation		2,918						2,918
UM-Western Unexpended		2,903						2,903
UM-HCOT Unexpended Plant		2,897						2,897
EDA Revolving Loan Fund		2,755						2,755
Moore-Sipple Connection		2,631						2,631
Big Horn Limestone		2,566						2,566
CST 2001F Taxable Debt Service		2,563						2,563
Produce Account		2,551						2,551
GO Bond Loan Loss Reserve		2,545						2,545
GO SBP Debt Service		2,509						2,509
State Lands Resource Development		2,470						2,470
BOH Financial Program		2,412						2,412

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
HFA Loan Program		2,405						2,405
Montana Arts Council		2,168						2,168
GO 2001E Taxable Private Proceeds		2,146						2,146
CST 92B Debt Service		2,065						2,065
Off Hwy Vehicle Park		2,023						2,023
Acquisitions Trust		612	467				910	1,989
OSM Trust Fund - Acid		1,865						1,865
Environmental Rehab and Response		1,852						1,852
MSU-GCOT Auxiliary Fund		1,844						1,844
Sobotka Memorial Trust							1,820	1,820
2000C LRBP Bonds		1,724						1,724
State-Tribal Economic Development		1,690						1,690
Foster Children's Trust		1,626						1,626
1996D LRBP Bonds		1,615						1,615
Oil and Gas Damage Mitigation		1,586						1,586
Merritt-Wheeler Memorial		264	769				545	1,578
MSU Agency Funds		1,574						1,574
GO 01 SBP Debt Service		1,524						1,524
2001B LRBP Bonds		1,476						1,476
Rail Construction Trust		1,469						1,469
Protest Oil/Gas Royal		1,445						1,445
Special Law Enforcement		1,320						1,320
MSU-GCOT Retirement		1,318						1,318
PERS-DC Disability		1,255						1,255
1999C LRBP Bond		1,250						1,250
Flexible Spending Fund		1,222						1,222
Claiborne-Ortenberg-MHP Trust		1,170						1,170
Montana State Library		1,110						1,110
Milk Control Bureau		1,104						1,104
UM-Western Student Loans		1,094						1,094
MSU Endowment Funds		1,091						1,091
Pegasus - Beal Mountain		1,081						1,081
UM-TECH Designated		1,077						1,077
CST 2001E Tax Debt Service		1,068						1,068
UM-Forest Experimental Station		1,052						1,052
Fishing Access Site		995						995
UM-Western Designated		990						990
CST OIC Refunding Debt Service		979						979
Montana Pole-Miners B		950						950
Microbusiness Admin		938						938
MSU-FIRE Designated Fund		906						906
MSU-GCOT Renewal and Rplacemer		881						881
Off-Highway Vehicle		872						872
Nongame Wildlife Account		864						864
MSU-GCOT Restricted		858						858
UM-HCOT Endowments		578	225					803
Grain Services		856						856
Snowmobile Registration		827						827
UM-TECH Auxiliary		791						791
Sigerson Fellowship Exhibit Tour		747						747
MSU-AG Unexpended Plant		736						736
MSU-FIRE General Operating		732						732
MSU-Billings Retirement		721						721
UM-Western Retirement		701						701
Paddlefish Roe Account		650						650
Alfalfa Seed Assessment		639						639
Acc. Cty Sick/Vacation		599						599
Cashed Plan I Liquidation		596						596

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
Hazardous Waste-CERCL		589						589
CST 90 A Fisheries Mitigation		574						574
VC National Park Service		573						573
Affordable House Rev		554						554
MSU-AG Renewal and Replacement		547						547
PERS Defined Contribution		517						517
CST 85A Debt Service		476						476
MSU-Northern Loan Fund		472						472
CST 97B Debt Service		467						467
Snowmobile Registration		463						463
Woodville Highways		442						442
Commercial Feed		439						439
Arbitrage Rebate		437						437
Potato Research & Marketing		417						417
Marketing Service		404						404
Pegasus Reclamation/Zortman		390						390
Stripper Wells Oil		379						379
Washington Gulch Bond Forfeit		366						366
Parks Enterprise Account		360						360
Moose Auction		350						350
Sobotka Expendable Trust		339						339
State Noxious Weed Forage		311						311
Upland Game Bird Planting		308						308
Stripper-SECP		308						308
Tongue River Fed		307						307
Commercial Fertilizer		300						300
Diamond Shamrock-Administration		297						297
2001C IT Bonds		289						289
FY01 CST Taxable Bond		288						288
Basin Creek Mine - Luttrill		278						278
Yellowstone Groundwater		276						276
Haynes Collection Trust		261						261
PERS-DC Education		235						235
AG NB Private Funds		220						220
Commercial Dealer/Public Ware		213						213
Mint Committee		206						206
Pegsaus Reclamation/Zortman		206						206
Exxon-SECP		205						205
Organic Certification		196						196
Nursery Account		190						190
CST 87C Debt Service		181						181
Churchill Endowment		178						178
Anhydrous Ammonia Account		154						154
Seed Account		154						154
Broadwater O & M		144						144
MSU-Northern Endowment		140						140
MSU-Billings Restricted		137						137
Montana IA Disaster Fund		129						129
Water Well Contractor		126						126
Fert. Ag Chemical Group		121						121
Off-Hwy Vehicle Acct		97						97
FY01 CST Nontaxable Bond		89						89
CST 97A Debt Service		72						72
Stripper-SBP		67						67
Search & Rescue		57						57
Donated SAR - Aeronautics		55						55
UM-Western Endowments		50						50
Alfalfa Leaf Cutting Bees		50						50

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
MT CISCO Academies		33						33
Glacier General Insurance		26						26
Mansfield Statue Fund		18						18
Montana Domestic Equity Pool		14						14
Beginning Farm Loans		14						14
Animal Health		11						11
Elk Auction		10						10
CST 2001B Taxable Proceeds		8						8
Mule Deer Auction		7						7
Child Abuse & Neglect		6						6
Oil Overcharge Leave		4						4
GROSS INCOME	**140,633,935**	**15,828,197**	**34,036,783**	**9,406,151**	**80,649,930**	**113,918,272**	**86,789,401**	**481,262,670**
LESS ADMIN EXPENSE*	(531,605)	(28,541)	(1,655,920)	(2,280,171)	(2,681,882)	(226,380)		(7,404,500)
SUBTOTAL	**140,102,330**	**15,799,656**	**32,380,863**	**7,125,980**	**77,968,048**	**113,691,892**	**86,789,401**	**473,858,170**
LESS RFBP STIP INCOME		(671,348)						(671,348)
LESS TFBP STIP INCOME		(647,853)						(647,853)
LESS MDEP STIP INCOME		(14)						(14)
NET INCOME	**140,102,330**	**14,480,440**	**32,380,863**	**7,125,980**	**77,968,048**	**113,691,892**	**86,789,401**	**472,538,954**

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Treasurer's Fund	USB MUNICIPAL INVESTOR ACCOUNT			37,847,576	37,847,576	37,847,576
	TOTAL CASH EQUIVALENT			**37,847,576**	**37,847,576**	**37,847,576**
Treasurer's Fund	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	15,000,000	14,981,075	14,823,191
Treasurer's Fund	FEDERAL AGRIC MTG CORP MTN	5.300	04/24/06	20,000,000	20,975,239	20,840,620
Treasurer's Fund	FEDERAL HOME LN BKS	3.500	08/15/06	10,000,000	10,240,813	10,072,788
Treasurer's Fund	FEDERAL HOME LN BKS	2.500	12/15/05	10,000,000	10,028,046	9,981,572
Treasurer's Fund	FEDERAL HOME LN BKS	2.500	03/15/06	10,000,000	10,038,663	9,941,230
Treasurer's Fund	FEDERAL HOME LN BKS	2.375	02/15/06	10,000,000	10,010,106	9,933,235
Treasurer's Fund	FEDERAL HOME LN BKS	2.250	05/15/06	10,000,000	9,979,216	9,878,765
Treasurer's Fund	FEDERAL HOME LN BKS	2.750	11/15/06	10,000,000	10,060,220	9,894,365
Treasurer's Fund	FEDERAL HOME LN MTG CORP	2.875	09/15/05	10,000,000	10,091,192	10,053,498
Treasurer's Fund	FEDERAL HOME LN MTG CORP	1.500	08/15/05	10,000,000	9,932,996	9,906,536
Treasurer's Fund	FEDERAL HOME LN MTG CORP	2.125	11/15/05	15,000,000	14,991,578	14,912,660
Treasurer's Fund	FEDERAL NATL MTG ASSN	7.000	07/15/05	20,000,000	20,948,464	20,965,996
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.010	06/02/06	15,000,000	14,993,248	14,971,751
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.250	05/11/07	15,000,000	14,986,592	14,875,874
	GOVERNMENT DIRECT-INDIRECT			180,000,000	182,257,449	181,052,079
	TOTAL FIXED INCOME			**180,000,000**	**182,257,449**	**181,052,079**
Treasurer's Fund	SHORT TERM INVESTMENT POOL			221,130,581	221,130,581	221,130,581
TREASURER'S FUND TOTAL				**438,978,157**	**441,235,606**	**440,030,236**
Abandoned Mine	ASHLAND INC	7.830	08/15/05	100,000	100,000	105,076
Abandoned Mine	CITIGROUP INC	5.750	05/10/06	100,000	99,997	104,717
Abandoned Mine	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	200,000	199,756	195,667
Abandoned Mine	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000	199,757	209,690
Abandoned Mine	GENERAL MTRS ACCEP CORP	7.500	07/15/05	100,000	99,980	104,641
Abandoned Mine	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,466	209,101
Abandoned Mine	WACHOVIA CORP 2ND NEW	4.950	11/01/06	100,000	99,898	103,699
Abandoned Mine	WELLS FARGO + CO NEW	5.900	05/21/06	100,000	99,954	105,214
	CORPORATE OTHER			1,100,000	1,098,807	1,137,804
Abandoned Mine	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	500,000	499,369	494,106
Abandoned Mine	FEDERAL HOME LN BKS	4.875	11/15/06	200,000	198,651	207,506
Abandoned Mine	FEDERAL HOME LN BKS	4.875	02/15/07	400,000	399,954	414,816
Abandoned Mine	FEDERAL HOME LN MTG CORP	2.125	11/15/05	500,000	499,719	497,089
Abandoned Mine	FEDERAL HOME LN MTG CORP	3.375	04/15/09	500,000	491,414	482,181
Abandoned Mine	FEDERAL NATL MTG ASSN	7.000	07/15/05	200,000	200,505	209,660
Abandoned Mine	FEDERAL NATL MTG ASSN	6.000	12/15/05	400,000	402,077	419,239
	GOVERNMENT DIRECT-INDIRECT			2,700,000	2,691,689	2,724,597
Abandoned Mine	HOUSEHOLD FIN CORP	4.750	05/15/09	200,000	199,831	201,342
	YANKEE BONDS			200,000	199,831	201,342
	TOTAL FIXED INCOME			**4,000,000**	**3,990,327**	**4,063,743**
Abandoned Mine	SHORT TERM INVESTMENT POOL			1,209,623	1,209,623	1,209,623
ABANDONED MINE TOTAL				**5,209,623**	**5,199,950**	**5,273,366**
FWP Mitigation	ASHLAND INC	7.830	08/15/05	400,000	400,000	420,304
FWP Mitigation	CITIGROUP INC	5.750	05/10/06	400,000	399,987	418,866
FWP Mitigation	CONSOLIDATED NAT GAS CO	7.250	10/01/04	150,000	150,008	152,036
FWP Mitigation	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	400,000	399,512	391,334
FWP Mitigation	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	500,000	499,393	524,224
FWP Mitigation	J P MORGAN CHASE + CO	5.350	03/01/07	400,000	398,931	418,202
FWP Mitigation	WACHOVIA CORP 2ND NEW	4.950	11/01/06	400,000	399,591	414,796
FWP Mitigation	WELLS FARGO + CO NEW	5.900	05/21/06	200,000	199,907	210,429
	CORPORATE OTHER			2,850,000	2,847,328	2,950,191
FWP Mitigation	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	1,000,000	998,738	988,213
FWP Mitigation	FEDERAL HOME LN BKS	4.875	11/15/06	800,000	794,604	830,022
FWP Mitigation	FEDERAL HOME LN BKS	4.875	02/15/07	800,000	799,908	829,633
FWP Mitigation	FEDERAL HOME LN MTG CORP	2.125	11/15/05	700,000	699,607	695,924

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
FWP Mitigation	FEDERAL HOME LN MTG CORP	3.375	04/15/09	800,000	786,262	771,490
FWP Mitigation	FEDERAL NATL MTG ASSN	7.000	07/15/05	900,000	902,272	943,470
FWP Mitigation	FEDERAL NATL MTG ASSN	6.000	12/15/05	500,000	502,596	524,048
	GOVERNMENT DIRECT-INDIRECT			5,500,000	5,483,987	5,582,800
FWP Mitigation	HOUSEHOLD FIN CORP	4.750	05/15/09	500,000	499,579	503,354
	YANKEE BONDS			500,000	499,579	503,354
	TOTAL FIXED INCOME			**8,850,000**	**8,830,894**	**9,036,345**
FWP Mitigation	SHORT TERM INVESTMENT POOL			2,010,686	2,010,686	2,010,686
FWP MITIGATION TOTAL				**10,860,686**	**10,841,580**	**11,047,031**
Montana Pole	ASHLAND INC	7.830	08/15/05	650,000	650,000	682,994
Montana Pole	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	800,000	799,024	782,668
Montana Pole	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	1,000,000	998,786	1,048,449
Montana Pole	WACHOVIA CORP 2ND NEW	4.950	11/01/06	1,000,000	998,976	1,036,990
Montana Pole	WELLS FARGO + CO NEW	5.900	05/21/06	200,000	199,907	210,429
	CORPORATE OTHER			3,650,000	3,646,693	3,761,529
Montana Pole	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	1,000,000	998,738	988,213
Montana Pole	FEDERAL HOME LN BKS	4.875	11/15/06	1,000,000	993,256	1,037,528
Montana Pole	FEDERAL HOME LN BKS	4.875	02/15/07	700,000	699,919	725,929
Montana Pole	FEDERAL HOME LN MTG CORP	2.125	11/15/05	1,000,000	999,439	994,177
	GOVERNMENT DIRECT-INDIRECT			3,700,000	3,691,352	3,745,846
Montana Pole	FNMA POOL 313999	6.000	02/01/13	382,278	380,638	400,123
	GOVERNMENT-MORTGAGE BACKED			382,278	380,638	400,123
Montana Pole	TRUST FUNDS BOND POOL			14,016,100	13,799,274	14,019,918
	TOTAL FIXED INCOME			**21,748,378**	**21,517,956**	**21,927,416**
Montana Pole	SHORT TERM INVESTMENT POOL			5,976,994	5,976,994	5,976,994
MONTANA POLE TOTAL				**27,725,371**	**27,494,950**	**27,904,409**
FWP License Account	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	700,000	699,146	684,835
FWP License Account	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	1,000,000	998,786	1,048,449
FWP License Account	J P MORGAN CHASE + CO	5.350	03/01/07	700,000	698,130	731,853
FWP License Account	WACHOVIA CORP 2ND NEW	4.950	11/01/06	1,000,000	998,976	1,036,990
	CORPORATE OTHER			3,400,000	3,395,038	3,502,126
FWP License Account	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	1,000,000	998,738	988,213
FWP License Account	FEDERAL HOME LN BKS	4.875	11/15/06	2,000,000	1,986,511	2,075,055
FWP License Account	FEDERAL HOME LN BKS	4.875	02/15/07	2,000,000	1,999,769	2,074,082
FWP License Account	FEDERAL HOME LN MTG CORP	2.125	11/15/05	1,000,000	999,439	994,177
	GOVERNMENT DIRECT-INDIRECT			6,000,000	5,984,457	6,131,528
	TOTAL FIXED INCOME			**9,400,000**	**9,379,495**	**9,633,653**
FWP License Account	SHORT TERM INVESTMENT POOL			19,420,335	19,420,335	19,420,335
FWP LICENSE ACCOUNT TOTAL				**28,820,335**	**28,799,830**	**29,053,988**
USDOE/MGSLP	SHORT TERM INVESTMENT POOL			5,300,935	5,300,935	5,300,935
USDOE/MGSLP TOTAL				**5,300,935**	**5,300,935**	**5,300,935**
Streamside Tailings	AA / FT WORTH HQ FIN TR	5.500	10/05/10	2,941,790	2,941,790	2,932,906
Streamside Tailings	J P MORGAN CHASE COML MTG SECS	4.200	07/12/35	4,615,670	4,637,634	4,564,472
	CORPORATE ASSET-BACKED			7,557,460	7,579,424	7,497,378
Streamside Tailings	ASHLAND INC	7.830	08/15/05	3,000,000	3,000,000	3,152,279
Streamside Tailings	GENERAL MTRS ACCEP CORP	7.500	07/15/05	3,000,000	2,999,409	3,139,226
	CORPORATE OTHER			6,000,000	5,999,409	6,291,505
Streamside Tailings	ENSCO OFFSHORE CO	6.360	12/01/15	3,833,395	3,833,395	4,139,453
Streamside Tailings	FEDERAL HOME LN MTG CORP MTN	5.125	05/13/13	5,000,000	5,000,000	4,960,164
Streamside Tailings	FEDERAL HOME LN BKS	2.375	02/15/06	5,000,000	4,994,120	4,966,618
Streamside Tailings	MAYBANK NAV LLC	7.620	07/25/20	4,125,000	4,125,000	3,980,625
	GOVERNMENT DIRECT-INDIRECT			17,958,395	17,952,515	18,046,860

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Streamside Tailings	FED HM LN PC POOL E00659	6.000	04/01/14	927,131	926,486	969,540
Streamside Tailings	FNMA POOL 254233	5.000	03/01/17	2,824,609	2,737,141	2,839,505
Streamside Tailings	GOVERNMENT NATL MTG ASSN	2.172	04/16/20	2,606,038	2,597,658	2,520,981
	GOVERNMENT-MORTGAGE BACKED			6,357,778	6,261,286	6,330,026
Streamside Tailings	TRUST FUNDS BOND POOL			52,275,800	50,998,558	52,290,039
	TOTAL FIXED INCOME			**90,149,434**	**88,791,191**	**90,455,807**
Streamside Tailings	SHORT TERM INVESTMENT POOL			4,994,775	4,994,775	4,994,775
STREAMSIDE TAILINGS TOTAL				**95,144,209**	**93,785,967**	**95,450,582**
UCFRB Restoration	J P MORGAN CHASE COML MTG SECS	4.200	07/12/35	4,615,670	4,637,634	4,564,472
	CORPORATE ASSET-BACKED			4,615,670	4,637,634	4,564,472
UCFRB Restoration	ASHLAND INC	7.830	08/15/05	1,500,000	1,500,000	1,576,140
UCFRB Restoration	FORD MTR CR CO	6.700	07/16/04	5,000,000	5,000,542	5,009,586
UCFRB Restoration	GENERAL MTRS ACCEP CORP	7.500	07/15/05	3,000,000	2,999,409	3,139,226
	CORPORATE OTHER			9,500,000	9,499,951	9,724,951
UCFRB Restoration	ENSCO OFFSHORE CO	6.360	12/01/15	3,833,395	3,833,395	4,139,453
	GOVERNMENT DIRECT-INDIRECT			3,833,395	3,833,395	4,139,453
UCFRB Restoration	TRUST FUNDS BOND POOL			130,247,400	125,998,117	130,282,877
	TOTAL FIXED INCOME			**148,196,465**	**143,969,097**	**148,711,752**
UCFRB Restoration	SHORT TERM INVESTMENT POOL			5,297,080	5,297,080	5,297,080
UCFRB RESTORATION TOTAL				**153,493,545**	**149,266,177**	**154,008,833**
UCFRB Access	TRUST FUNDS BOND POOL			14,527,400	14,137,045	14,531,357
	TOTAL FIXED INCOME			**14,527,400**	**14,137,045**	**14,531,357**
UCFRB Access	SHORT TERM INVESTMENT POOL			20,467	20,467	20,467
UCFRB ACCESS TOTAL				**14,547,867**	**14,157,512**	**14,551,824**
State Fund Insurance	AA / FT WORTH HQ FIN TR	5.500	10/05/10	9,193,094	9,193,094	9,165,331
State Fund Insurance	J P MORGAN CHASE COML MTG SECS	4.200	07/12/35	13,847,011	13,912,902	13,693,416
	CORPORATE ASSET-BACKED			23,040,105	23,105,996	22,858,746
State Fund Insurance	ABBOTT LABS	3.500	02/17/09	10,000,000	9,951,145	9,742,007
State Fund Insurance	AMERICAN AIRLINE	6.977	05/23/21	3,832,898	3,822,785	3,401,697
State Fund Insurance	AMERICAN TRANS AIR PASS THRU	8.039	07/15/17	4,312,092	4,312,092	4,373,947
State Fund Insurance	ASHLAND INC	7.830	08/15/05	3,000,000	3,000,000	3,152,279
State Fund Insurance	BANK OF AMERICA	7.875	05/16/05	5,000,000	5,078,668	5,239,577
State Fund Insurance	BANK AMER CORP	3.375	02/17/09	5,000,000	4,975,940	4,811,657
State Fund Insurance	BANK AMER CORP	5.375	06/15/14	5,000,000	4,954,438	4,959,675
State Fund Insurance	BANK ONE TEX N A MT SUB BK NTS	6.250	02/15/08	2,000,000	1,940,772	2,154,044
State Fund Insurance	BANKBOSTON NA MTN	6.375	03/25/08	2,000,000	1,943,988	2,161,875
State Fund Insurance	BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	3,000,000	3,026,093	3,230,725
State Fund Insurance	BURLINGTON NORTHN RR CO	6.940	01/02/14	3,414,052	3,414,052	3,761,450
State Fund Insurance	BURLINGTON NORTHN SANTA FE RY	7.160	01/02/20	4,530,651	4,530,651	5,004,991
State Fund Insurance	CIT GROUP EQUIP FING INC	6.490	01/05/21	7,758,301	7,758,301	8,154,767
State Fund Insurance	CIT GROUP INC NEW	5.750	09/25/07	5,000,000	5,138,182	5,270,901
State Fund Insurance	CSX CORP	7.450	05/01/07	5,000,000	4,997,859	5,479,353
State Fund Insurance	CENTEX CORP	5.700	05/15/14	3,000,000	2,995,924	2,940,331
State Fund Insurance	CITIGROUP INC	6.000	02/21/12	5,000,000	4,998,586	5,317,109
State Fund Insurance	CITIGROUP INC	3.625	02/09/09	5,000,000	4,988,939	4,863,684
State Fund Insurance	CONSOLIDATED NAT GAS CO	7.250	10/01/04	6,000,000	5,999,308	6,081,437
State Fund Insurance	CONTINENTAL AIRLS	6.563	08/15/13	5,000,000	5,021,539	5,200,027
State Fund Insurance	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	5,000,000	4,993,897	4,891,675
State Fund Insurance	DELTA AIR LINES INC DEL	6.417	07/02/12	10,000,000	9,964,203	10,343,739
State Fund Insurance	DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,942,565	4,997,813
State Fund Insurance	DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,800,701	4,768,987
State Fund Insurance	FIRST BK NATL ASSN	8.350	11/01/04	5,000,000	4,999,832	5,102,634
State Fund Insurance	FIRST CHICAGO CORP	6.375	01/30/09	2,000,000	1,911,654	2,160,882
State Fund Insurance	FIRST UN CORP	7.050	08/01/05	5,000,000	4,993,465	5,245,041
State Fund Insurance	FORD MTR CR CO	6.700	07/16/04	5,000,000	5,000,542	5,009,586

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
State Fund Insurance	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	5,000,000	5,178,631	5,242,243
State Fund Insurance	GENERAL MTRS ACCEP CORP	7.500	07/15/05	2,500,000	2,499,507	2,616,021
State Fund Insurance	GENERAL MTRS ACCEP CORP	6.125	08/28/07	5,000,000	5,005,784	5,216,097
State Fund Insurance	GOLDMAN SACHS GROUP INC	3.875	01/15/09	5,000,000	5,051,456	4,887,348
State Fund Insurance	J P MORGAN CHASE AND CO	3.500	03/15/09	10,000,000	9,944,109	9,603,677
State Fund Insurance	KCT INTERMODAL TRANSN CORP	6.884	08/01/18	3,617,867	3,617,867	3,898,528
State Fund Insurance	K N ENERGY INC	6.650	03/01/05	5,000,000	5,012,613	5,136,415
State Fund Insurance	KEYCORP NEW	7.500	06/15/06	5,000,000	4,998,087	5,400,278
State Fund Insurance	MARSH + MCLENNAN COS INC	7.125	06/15/09	3,000,000	2,996,314	3,360,438
State Fund Insurance	MERRILL LYNCH + CO INC	4.125	01/15/09	5,000,000	4,997,337	4,960,459
State Fund Insurance	METLIFE INC	5.000	11/24/13	5,000,000	4,954,844	4,848,260
State Fund Insurance	NATIONWIDE FINL SVCS INC	6.250	11/15/11	5,000,000	5,302,878	5,181,947
State Fund Insurance	NORFOLK SOUTHN CORP	7.350	05/15/07	3,500,000	3,499,306	3,833,843
State Fund Insurance	NORTHWEST AIRLINES PASSTHRU TR	6.810	02/01/20	4,284,297	4,225,694	4,134,346
State Fund Insurance	OLD REP INTL CORP	7.000	06/15/07	3,000,000	2,999,520	3,278,814
State Fund Insurance	PPL MONT LLC	8.903	07/02/20	4,367,175	4,367,175	5,125,953
State Fund Insurance	PRINCIPAL LIFE GLOBAL FDG MTN	5.125	10/15/13	5,000,000	4,993,173	4,905,588
State Fund Insurance	SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,995,953	4,431,728
State Fund Insurance	UNION PAC CORP	6.400	02/01/06	3,000,000	2,992,363	3,159,183
State Fund Insurance	UNION PAC RES GROUP INC	7.000	10/15/06	5,000,000	4,993,270	5,375,164
State Fund Insurance	UNION TANK CAR CO	7.125	02/01/07	2,000,000	1,999,447	2,175,447
State Fund Insurance	WAL MART STORES INC PASS THRU	8.450	07/01/04	274,484	274,484	274,535
State Fund Insurance	WELLS FARGO + CO NEW	4.625	04/15/14	5,000,000	4,789,281	4,710,174
State Fund Insurance	WESTERN PPTYS TR	7.200	09/15/08	1,000,000	975,124	1,096,345
State Fund Insurance	WYETH	5.500	02/01/14	5,000,000	4,990,724	4,807,679
State Fund Insurance	ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,996,155	2,965,755
	CORPORATE OTHER			242,391,816	242,107,218	248,448,152
State Fund Insurance	ENSCO OFFSHORE CO	6.360	12/01/15	3,833,395	3,833,395	4,139,453
State Fund Insurance	FEDERAL HOME LN MTG CORP	4.750	10/11/12	20,000,000	20,037,951	19,423,310
State Fund Insurance	FEDERAL HOME LN MTG CORP MTN	5.125	05/13/13	15,000,000	15,000,000	14,880,492
State Fund Insurance	FED HOME LN MTG CORP MTN	4.000	07/18/18	5,000,000	5,000,000	4,609,041
State Fund Insurance	FREDDIE MAC	4.100	01/28/14	15,000,000	15,000,000	14,396,730
State Fund Insurance	FEDERAL HOME LN BKS	3.625	11/14/08	10,000,000	9,979,795	9,821,302
State Fund Insurance	FEDERAL HOME LN MTG CORP	5.625	03/15/11	10,000,000	10,062,385	10,534,100
State Fund Insurance	FEDERAL HOME LN MTG CORP	6.000	06/15/11	15,000,000	14,990,754	16,119,744
State Fund Insurance	FEDERAL NATL MTG ASSN	6.000	05/15/08	5,000,000	4,915,765	5,383,304
State Fund Insurance	FEDERAL NATL MTG ASSN	7.250	01/15/10	8,000,000	8,319,494	9,107,509
State Fund Insurance	FEDERAL NATL MTG ASSN	6.625	10/15/07	10,000,000	10,690,804	10,924,462
State Fund Insurance	FEDERAL NATL MTG ASSN	6.625	11/15/10	10,000,000	10,277,099	11,104,473
State Fund Insurance	FEDERAL NATL MTG ASSN	4.375	07/17/13	20,000,000	19,289,755	18,746,594
State Fund Insurance	FEDERAL NATL MTG ASSN	4.125	04/15/14	10,000,000	9,367,083	9,206,043
State Fund Insurance	FEDERAL NATL MTG ASSN MTN	5.875	02/14/06	5,000,000	4,953,813	5,247,225
State Fund Insurance	GLOBAL INDS LTD	7.710	02/15/25	4,200,000	4,200,000	4,200,000
State Fund Insurance	PERFORADORA CENT S A DE C V	5.630	07/15/11	5,313,757	5,310,263	5,566,373
State Fund Insurance	ROWAN COS INC	5.880	03/15/12	10,908,000	10,908,000	11,548,954
	GOVERNMENT DIRECT-INDIRECT			182,255,152	182,136,355	184,959,108
State Fund Insurance	FED HM LN PC POOL G10814	5.500	05/01/13	2,395,885	2,394,292	2,464,486
State Fund Insurance	FED HM LN PC POOL E00540	6.000	03/01/13	1,767,460	1,762,514	1,849,412
State Fund Insurance	FED HM LN PC POOL E00659	6.000	04/01/14	1,483,410	1,482,378	1,551,264
State Fund Insurance	FNMA POOL 190985	7.500	08/01/09	963,936	963,922	1,031,675
State Fund Insurance	FNMA POOL 254140	5.500	01/01/17	12,071,064	12,025,785	12,388,402
State Fund Insurance	FNMA POOL 254233	5.000	03/01/17	5,649,219	5,474,283	5,679,009
State Fund Insurance	FNMA POOL 254631	5.000	02/01/18	6,902,863	6,993,043	6,934,304
State Fund Insurance	FNMA POOL 303590	7.000	11/01/10	1,174,205	1,174,205	1,251,675
State Fund Insurance	FNMA POOL 572220	6.000	03/01/16	830,185	828,060	866,344
State Fund Insurance	FNMA POOL 592327	5.500	06/01/16	1,494,873	1,463,583	1,536,040
State Fund Insurance	GOVERNMENT NATL MTG ASSN	2.172	04/16/20	8,686,794	8,658,861	8,403,270
	GOVERNMENT-MORTGAGE BACKED			43,419,893	43,220,924	43,955,881
State Fund Insurance	HOUSEHOLD FIN CORP	6.875	03/01/07	3,000,000	2,972,119	3,244,281
State Fund Insurance	IBP FIN CO CDA	7.450	06/01/07	4,000,000	3,999,195	4,283,080
State Fund Insurance	PANAMERICAN BEVERAGES INC	7.250	07/01/09	2,000,000	1,969,662	2,180,000

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
	YANKEE BONDS			9,000,000	8,940,976	9,707,361
	TOTAL FIXED INCOME			**500,106,966**	**499,511,469**	**509,929,249**
State Fund Insurance	BGI EQUITY INDEX FUND B			480,587	68,406,676	72,138,374
	TOTAL EQUITY			**480,587**	**68,406,676**	**72,138,374**
State Fund Insurance	SHORT TERM INVESTMENT POOL			18,207,649	18,207,649	18,207,649
STATE FUND INSURANCE TOTAL				**518,795,202**	**586,125,794**	**600,275,272**
Subsequent Injury	ASHLAND INC	7.830	08/15/05	50,000	50,000	52,538
Subsequent Injury	CONSOLIDATED NAT GAS CO	7.250	10/01/04	50,000	49,994	50,679
Subsequent Injury	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	50,000	49,939	48,917
Subsequent Injury	FIRST UN CORP	7.100	08/15/04	50,000	49,996	50,337
Subsequent Injury	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	100,000	99,879	104,845
Subsequent Injury	J P MORGAN CHASE + CO	5.350	03/01/07	100,000	99,733	104,550
Subsequent Injury	WELLS FARGO + CO NEW	5.900	05/21/06	100,000	99,954	105,214
	CORPORATE OTHER			500,000	499,494	517,080
Subsequent Injury	FEDERAL HOME LN BKS	4.875	11/15/06	200,000	198,651	207,506
Subsequent Injury	FEDERAL HOME LN BKS	4.875	02/15/07	100,000	99,988	103,704
Subsequent Injury	FEDERAL HOME LN MTG CORP	2.125	11/15/05	300,000	299,832	298,253
Subsequent Injury	FEDERAL HOME LN MTG CORP	3.375	04/15/09	200,000	196,565	192,873
Subsequent Injury	FEDERAL NATL MTG ASSN	7.000	07/15/05	100,000	100,252	104,830
Subsequent Injury	FEDERAL NATL MTG ASSN	6.000	12/15/05	100,000	100,519	104,810
	GOVERNMENT DIRECT-INDIRECT			1,000,000	995,808	1,011,975
Subsequent Injury	HOUSEHOLD FIN CORP	4.750	05/15/09	100,000	99,916	100,671
	YANKEE BONDS			100,000	99,916	100,671
	TOTAL FIXED INCOME			**1,600,000**	**1,595,218**	**1,629,726**
Subsequent Injury	SHORT TERM INVESTMENT POOL			150,006	150,006	150,006
SUBSEQUENT INJURY TOTAL				**1,750,006**	**1,745,225**	**1,779,732**
Old Fund Insurance	J P MORGAN CHASE COML MTG	3.053	01/15/38	4,903,231	4,924,938	4,782,761
	CORPORATE ASSET-BACKED			4,903,231	4,924,938	4,782,761
Old Fund Insurance	ASHLAND INC	7.830	08/15/05	1,000,000	1,000,000	1,050,760
Old Fund Insurance	BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	1,000,000	1,008,818	1,076,908
Old Fund Insurance	CONSOLIDATED NAT GAS CO	7.250	10/01/04	3,000,000	2,999,654	3,040,718
Old Fund Insurance	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	1,600,000	1,598,057	1,677,518
Old Fund Insurance	J P MORGAN CHASE + CO	5.350	03/01/07	3,000,000	2,991,985	3,136,512
Old Fund Insurance	K N ENERGY INC	6.650	03/01/05	2,000,000	2,005,045	2,054,566
Old Fund Insurance	UNION PAC CORP	6.400	02/01/06	2,000,000	2,001,462	2,106,122
	CORPORATE OTHER			13,600,000	13,605,022	14,143,104
Old Fund Insurance	FEDERAL HOME LN MTG CORP	2.125	11/15/05	2,000,000	2,001,050	1,988,355
Old Fund Insurance	FEDERAL NATL MTG ASSN	5.750	02/15/08	5,000,000	5,479,673	5,329,132
Old Fund Insurance	FEDERAL NATL MTG ASSN	6.625	10/15/07	5,000,000	5,222,957	5,462,231
Old Fund Insurance	FEDERAL NATL MTG ASSN	5.250	06/15/06	5,000,000	5,020,710	5,215,611
Old Fund Insurance	NORTH AMERICAN SHIP BUILDING	5.840	02/15/06	1,282,000	1,282,000	1,282,000
Old Fund Insurance	PERFORADORA CENT S A DE C V	5.630	07/15/11	9,375,243	9,369,078	9,820,942
Old Fund Insurance	ROWAN COS INC	5.880	03/15/12	7,271,000	7,271,000	7,698,244
Old Fund Insurance	TRICO MARINE INTERNATIONAL	6.080	09/01/06	3,125,000	3,125,000	3,125,000
Old Fund Insurance	MAY BANK NAVIGATION CO LLC	5.900	09/16/13	2,526,000	2,526,000	2,526,000
	GOVERNMENT DIRECT-INDIRECT			40,579,243	41,297,467	42,447,515
Old Fund Insurance	FED HM LN PC POOL G10814	5.500	05/01/13	1,290,092	1,289,234	1,327,031
Old Fund Insurance	FED HM LN PC POOL G10173	6.000	01/01/09	407,263	406,228	425,638
Old Fund Insurance	FED HM LN PC POOL E00247	5.500	10/01/08	328,741	325,339	337,821
Old Fund Insurance	FED HM LN PC POOL E00540	6.000	03/01/13	589,153	587,505	616,471
Old Fund Insurance	FNMA POOL 313999	6.000	02/01/13	891,982	888,155	933,619
Old Fund Insurance	GOVERNMENT NATL MTG ASSN	2.172	04/16/20	4,343,397	4,329,430	4,201,635
	GOVERNMENT-MORTGAGE BACKED			7,850,629	7,825,891	7,842,215

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
	TOTAL FIXED INCOME			**66,933,103**	**67,653,318**	**69,215,594**
Old Fund Insurance	SHORT TERM INVESTMENT POOL			3,682,851	3,682,851	3,682,851
OLD FUND INSURANCE TOTAL				**70,615,953**	**71,336,169**	**72,898,445**
Zortman/Landusky	FEDERAL NATL MTG ASSN	0.010	06/01/17	14,600,000	6,373,004	7,000,960
	GOVERNMENT DIRECT-INDIRECT			14,600,000	6,373,004	7,000,960
	TOTAL FIXED INCOME			**14,600,000**	**6,373,004**	**7,000,960**
Zortman/Landusky	SHORT TERM INVESTMENT POOL			48,645	48,645	48,645
ZORTMAN/LANDUSKY TOTAL				**14,648,645**	**6,421,649**	**7,049,605**
Group Benefits	CONSOLIDATED NAT GAS CO	7.250	10/01/04	500,000	499,942	506,786
Group Benefits	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	650,000	649,207	635,918
Group Benefits	FIRST UN CORP	7.100	08/15/04	850,000	849,938	855,725
	CORPORATE OTHER			2,000,000	1,999,087	1,998,429
Group Benefits	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	1,300,000	1,298,360	1,284,677
Group Benefits	FEDERAL HOME LN MTG CORP	2.125	11/15/05	1,000,000	999,439	994,177
	GOVERNMENT DIRECT-INDIRECT			2,300,000	2,297,798	2,278,854
	TOTAL FIXED INCOME			**4,300,000**	**4,296,885**	**4,277,283**
Group Benefits	SHORT TERM INVESTMENT POOL			10,917,964	10,917,964	10,917,964
GROUP BENEFITS TOTAL				**15,217,964**	**15,214,849**	**15,195,246**
Permanent Coal Trust	TRUST FUNDS BOND POOL			319,115,000	306,809,174	319,201,921
	TOTAL FIXED INCOME			**319,115,000**	**306,809,174**	**319,201,921**
Permanent Coal Trust	PERMANENT COAL TRUST			208,427,071	208,427,071	208,427,071
Permanent Coal Trust	SHORT TERM INVESTMENT POOL			29,833,926	29,833,926	29,833,926
Permanent Fund Inc.	SHORT TERM INVESTMENT POOL			2,910,915	2,910,915	2,910,915
CST Bond Fund	SHORT TERM INVESTMENT POOL			6,748,396	6,748,396	6,748,396
PERMANENT COAL TRUST TOTAL				**567,035,308**	**554,729,481**	**567,122,228**
FWP Real Property	ASHLAND INC	7.830	08/15/05	100,000	100,000	105,076
FWP Real Property	CITIGROUP INC	5.750	05/10/06	100,000	99,997	104,717
FWP Real Property	CONSOLIDATED NAT GAS CO	7.250	10/01/04	100,000	99,988	101,357
FWP Real Property	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000	199,757	209,690
FWP Real Property	GENERAL MTRS ACCEP CORP	7.500	07/15/05	100,000	99,980	104,641
FWP Real Property	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,466	209,101
FWP Real Property	WACHOVIA CORP 2ND NEW	4.950	11/01/06	200,000	199,795	207,398
FWP Real Property	WELLS FARGO + CO NEW	5.900	05/21/06	100,000	99,954	105,214
	CORPORATE OTHER			1,100,000	1,098,937	1,147,194
FWP Real Property	FEDERAL HOME LN BKS	4.875	11/15/06	200,000	198,651	207,506
FWP Real Property	FEDERAL HOME LN BKS	4.875	02/15/07	200,000	199,977	207,408
FWP Real Property	FEDERAL NATL MTG ASSN	7.000	07/15/05	200,000	200,505	209,660
FWP Real Property	FEDERAL NATL MTG ASSN	6.000	12/15/05	400,000	402,077	419,239
	GOVERNMENT DIRECT-INDIRECT			1,000,000	1,001,210	1,043,812
FWP Real Property	TRUST FUNDS BOND POOL			2,123,700	2,179,710	2,124,278
	TOTAL FIXED INCOME			**4,223,700**	**4,279,857**	**4,315,285**
FWP Real Property	SHORT TERM INVESTMENT POOL			245,811	245,811	245,811
FWP REAL PROPERTY TOTAL				**4,469,511**	**4,525,667**	**4,561,095**
Resource Indemnity Trust	TRUST FUNDS BOND POOL			104,735,000	99,999,976	104,763,528
	TOTAL FIXED INCOME			**104,735,000**	**99,999,976**	**104,763,528**
Resource Indemnity Trust	SHORT TERM INVESTMENT POOL			800	800	800
RESOURCE INDEMNITY TRUST TOTAL				**104,735,800**	**100,000,776**	**104,764,328**
Coal Tax Park Acquisition	TRUST FUNDS BOND POOL			16,229,300	15,861,203	16,233,721

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
	TOTAL FIXED INCOME			**16,229,300**	**15,861,203**	**16,233,721**
Coal Tax Park Acquisition	SHORT TERM INVESTMENT POOL			327,760	327,760	327,760
COAL TAX PARK ACQUISITION TOTAL				**16,557,060**	**16,188,964**	**16,561,481**
Wildlife Habitat	ASHLAND INC	7.830	08/15/05	100,000	100,000	105,076
Wildlife Habitat	CITIGROUP INC	5.750	05/10/06	200,000	199,993	209,433
Wildlife Habitat	CONSOLIDATED NAT GAS CO	7.250	10/01/04	100,000	99,988	101,357
Wildlife Habitat	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000	199,757	209,690
Wildlife Habitat	GENERAL MTRS ACCEP CORP	7.500	07/15/05	200,000	199,961	209,282
Wildlife Habitat	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,466	209,101
Wildlife Habitat	WACHOVIA CORP 2ND NEW	4.950	11/01/06	200,000	199,795	207,398
Wildlife Habitat	WELLS FARGO + CO NEW	5.900	05/21/06	200,000	199,907	210,429
	CORPORATE OTHER			1,400,000	1,398,868	1,461,765
Wildlife Habitat	FEDERAL HOME LN BKS	4.875	11/15/06	300,000	297,977	311,258
Wildlife Habitat	FEDERAL HOME LN BKS	4.875	02/15/07	300,000	299,965	311,112
Wildlife Habitat	FEDERAL NATL MTG ASSN	7.000	07/15/05	300,000	300,757	314,490
	GOVERNMENT DIRECT-INDIRECT			900,000	898,699	936,861
Wildlife Habitat	TRUST FUNDS BOND POOL	1.000	12/31/09	3,709,300	3,799,720	3,710,310
	TOTAL FIXED INCOME			**6,009,300**	**6,097,287**	**6,108,936**
Wildlife Habitat	SHORT TERM INVESTMENT POOL			351,585	351,585	351,585
WILDLIFE HABITAT TOTAL				**6,360,885**	**6,448,872**	**6,460,521**
Trust and Legacy Account	TRUST FUNDS BOND POOL			427,266,600	410,653,937	427,382,979
	TOTAL FIXED INCOME			**427,266,600**	**410,653,937**	**427,382,979**
TRUST AND LEGACY TOTAL				**427,266,600**	**410,653,937**	**427,382,979**
Weed Control	ASHLAND INC	7.830	08/15/05	100,000	100,000	105,076
Weed Control	CITIGROUP INC	5.750	05/10/06	200,000	199,993	209,433
Weed Control	CONSOLIDATED NAT GAS CO	7.250	10/01/04	100,000	99,988	101,357
Weed Control	COUNTRYWIDE HOME LNS INC MTN	2.875	02/15/07	200,000	199,756	195,667
Weed Control	FIRST UN CORP	7.100	08/15/04	100,000	100,003	100,673
Weed Control	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000	199,757	209,690
Weed Control	GENERAL MTRS ACCEP CORP	7.500	07/15/05	100,000	99,980	104,641
Weed Control	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,466	209,101
Weed Control	WACHOVIA CORP 2ND NEW	4.950	11/01/06	100,000	99,898	103,699
Weed Control	WELLS FARGO + CO NEW	5.900	05/21/06	100,000	99,954	105,214
	CORPORATE OTHER			1,400,000	1,398,795	1,444,552
Weed Control	FEDERAL HOME LOAN MTG CORP	2.850	02/23/07	200,000	199,748	197,643
Weed Control	FEDERAL HOME LN BKS	4.875	11/15/06	300,000	297,977	311,258
Weed Control	FEDERAL HOME LN BKS	4.875	02/15/07	500,000	499,942	518,521
Weed Control	FEDERAL HOME LN MTG CORP	2.125	11/15/05	500,000	499,719	497,089
Weed Control	FEDERAL HOME LN MTG CORP	3.375	04/15/09	500,000	491,414	482,181
Weed Control	FEDERAL NATL MTG ASSN	7.000	07/15/05	300,000	300,757	314,490
Weed Control	FEDERAL NATL MTG ASSN	6.000	12/15/05	600,000	603,116	628,858
	GOVERNMENT DIRECT-INDIRECT			2,900,000	2,892,672	2,950,040
Weed Control	HOUSEHOLD FIN CORP	4.750	05/15/09	200,000	199,831	201,342
	YANKEE BONDS			200,000	199,831	201,342
	TOTAL FIXED INCOME			**4,500,000**	**4,491,299**	**4,595,933**
Weed Control	SHORT TERM INVESTMENT POOL			375,623	375,623	375,623
WEED CONTROL TOTAL				**4,875,623**	**4,866,922**	**4,971,556**
Tobacco Trust	TRUST FUNDS BOND POOL			46,583,600	46,623,803	46,596,288
	TOTAL FIXED INCOME			**46,583,600**	**46,623,803**	**46,596,288**
Tobacco Trust	SHORT TERM INVESTMENT POOL			132,648	132,648	132,648

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
TOBACCO TRUST TOTAL				**46,716,248**	**46,756,451**	**46,728,936**
Coal Tax Cultural Trust	TRUST FUNDS BOND POOL			4,695,500	4,605,043	4,696,779
	TOTAL FIXED INCOME			**4,695,500**	**4,605,043**	**4,696,779**
Coal Tax Cultural Trust	SHORT TERM INVESTMENT POOL			84,132	84,132	84,132
COAL TAX CULTURAL TRUST TOTAL				**4,779,632**	**4,689,175**	**4,780,911**
Treasure State Water	TRUST FUNDS BOND POOL			18,410,200	18,248,495	18,415,215
	TOTAL FIXED INCOME			**18,410,200**	**18,248,495**	**18,415,215**
Treasure State Water	SHORT TERM INVESTMENT POOL			40,055	40,055	40,055
TREASURE STATE WATER TOTAL				**18,450,255**	**18,288,550**	**18,455,270**
Treasure State Endowment	TRUST FUNDS BOND POOL			104,082,900	103,214,324	104,111,250
	TOTAL FIXED INCOME			**104,082,900**	**103,214,324**	**104,111,250**
Treasure State Endowment	PERMANENT COAL TRUST			13,434,570	13,434,570	13,434,570
Treasure State Endowment	SHORT TERM INVESTMENT POOL			1,557,864	1,557,864	1,557,864
TREASURE STATE ENDOWMENT TOTAL				**119,075,335**	**118,206,758**	**119,103,685**
Public Employees' Retirement	RETIREMENT FUNDS BOND POOL			772,494,880	781,895,210	805,839,505
	TOTAL FIXED INCOME			**772,494,880**	**781,895,210**	**805,839,505**
Public Employees' Retirement	MONOGENESIS CORP			1		
Public Employees' Retirement	OCEAN WEST HOLDING CORP			100	15	23
Public Employees' Retirement	MONTANA PRIVATE EQUITY POOL			1,297,560	122,267,849	128,797,003
	PRIVATE EQUITY			1,297,661	122,267,864	128,797,026
Public Employees' Retirement	MONTANA INTERNATIONAL POOL			4,038,393	393,914,000	434,916,502
Public Employees' Retirement	MONTANA DOMESTIC EQUITY POOL			11,955,431	800,450,411	1,469,962,551
	STOCK TOTAL			15,993,824	1,194,364,411	1,904,879,053
Public Employees' Retirement	BOZEMAN PROPERTY			1,031,802	1,031,802	1,041,007
Public Employees' Retirement	CALIFORNIA STREET PROP			102,418	102,418	103,834
Public Employees' Retirement	MT COLONIAL DRIVE			3,520,878	3,520,878	3,790,500
Public Employees' Retirement	NINTH AVENUE			498,712	498,712	576,369
Public Employees' Retirement	NORTH PARK AVENUE			3,142,017	3,142,017	2,897,500
	REAL ESTATE TOTAL			8,295,827	8,295,827	8,409,210
	TOTAL EQUITY			**25,587,312**	**1,324,928,102**	**2,042,085,289**
Public Employees' Retirement	MONTANA ST			64,537,329	64,537,329	64,553,147
Public Employees' Retirement	MULTI FAM COMM RE MORT			2,217,132	2,217,132	2,202,120
	TOTAL MORTGAGES/LOANS			**66,754,461**	**66,754,461**	**66,755,267**
Public Employees' Retirement	SHORT TERM INVESTMENT POOL			102,342,795	102,342,795	102,342,795
PUBLIC EMPLOYEES' RETIREMENT TOTAL				**967,179,447**	**2,275,920,567**	**3,017,022,856**
Police Retirement	RETIREMENT FUNDS BOND POOL			39,863,268	40,525,633	41,583,960
	TOTAL FIXED INCOME			**39,863,268**	**40,525,633**	**41,583,960**
Police Retirement	MONTANA PRIVATE EQUITY POOL			61,502	5,714,071	6,104,784
	PRIVATE EQUITY			61,502	5,714,071	6,104,784
Police Retirement	MONTANA INTERNATIONAL POOL			189,964	18,600,000	20,458,213
Police Retirement	MONTANA DOMESTIC EQUITY POOL			562,614	44,350,025	69,175,437
	STOCK TOTAL			752,578	62,950,025	89,633,650
	TOTAL EQUITY			**814,080**	**68,664,096**	**95,738,434**
Police Retirement	SHORT TERM INVESTMENT POOL			3,403,200	3,403,200	3,403,200
POLICE RETIREMENT TOTAL				**44,080,548**	**112,592,929**	**140,725,594**
Game Wardens' Retirement	RETIREMENT FUNDS BOND POOL			12,305,775	12,668,743	12,836,952
	TOTAL FIXED INCOME			**12,305,775**	**12,668,743**	**12,836,952**

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Game Wardens' Retirement	MONTANA PRIVATE EQUITY POOL			18,699	1,748,156	1,856,063
	PRIVATE EQUITY			18,699	1,748,156	1,856,063
Game Wardens' Retirement	MONTANA INTERNATIONAL POOL			59,163	5,743,000	6,371,538
Game Wardens' Retirement	MONTANA DOMESTIC EQUITY POOL			175,030	13,192,957	21,520,575
	STOCK TOTAL			234,193	18,935,957	27,892,113
	TOTAL EQUITY			**252,892**	**20,684,113**	**29,748,176**
Game Wardens' Retirement	SHORT TERM INVESTMENT POOL			2,472,058	2,472,058	2,472,058
GAME WARDENS' RETIREMENT TOTAL				**15,030,725**	**35,824,914**	**45,057,186**
Sheriffs' Retirement	RETIREMENT FUNDS BOND POOL			38,996,919	39,535,901	40,680,215
	TOTAL FIXED INCOME			**38,996,919**	**39,535,901**	**40,680,215**
Sheriffs' Retirement	MONTANA PRIVATE EQUITY POOL			59,802	5,537,596	5,935,957
	PRIVATE EQUITY			59,802	5,537,596	5,935,957
Sheriffs' Retirement	MONTANA INTERNATIONAL POOL			186,886	18,368,000	20,126,748
Sheriffs' Retirement	MONTANA DOMESTIC EQUITY POOL			553,968	42,681,497	68,112,284
	STOCK TOTAL			740,853	61,049,497	88,239,032
	TOTAL EQUITY			**800,655**	**66,587,094**	**94,174,989**
Sheriffs' Retirement	SHORT TERM INVESTMENT POOL			5,055,429	5,055,429	5,055,429
SHERIFFS' RETIREMENT TOTAL				**44,853,003**	**111,178,424**	**139,910,633**
Judges' Retirement	RETIREMENT FUNDS BOND POOL			12,485,043	12,905,892	13,023,958
	TOTAL FIXED INCOME			**12,485,043**	**12,905,892**	**13,023,958**
Judges' Retirement	MONTANA PRIVATE EQUITY POOL			19,204	1,699,909	1,906,253
	PRIVATE EQUITY			19,204	1,699,909	1,906,253
Judges' Retirement	MONTANA INTERNATIONAL POOL			59,366	5,735,000	6,393,440
Judges' Retirement	MONTANA DOMESTIC EQUITY POOL			176,805	12,368,979	21,738,818
	STOCK TOTAL			236,171	18,103,979	28,132,258
	TOTAL EQUITY			**255,376**	**19,803,888**	**30,038,511**
Judges' Retirement	SHORT TERM INVESTMENT POOL			1,732,947	1,732,947	1,732,947
JUDGES' RETIREMENT TOTAL				**14,473,365**	**34,442,726**	**44,795,416**
Highway Patrol Retirement	RETIREMENT FUNDS BOND POOL			22,065,231	22,569,009	23,017,674
	TOTAL FIXED INCOME			**22,065,231**	**22,569,009**	**23,017,674**
Highway Patrol Retirement	MONTANA PRIVATE EQUITY POOL			34,001	3,079,371	3,375,008
	PRIVATE EQUITY			34,001	3,079,371	3,375,008
Highway Patrol Retirement	MONTANA INTERNATIONAL POOL			104,891	10,215,000	11,296,308
Highway Patrol Retirement	MONTANA DOMESTIC EQUITY POOL			310,623	21,775,570	38,192,152
	STOCK TOTAL			415,514	31,990,570	49,488,460
	TOTAL EQUITY			**449,515**	**35,069,941**	**52,863,468**
Highway Patrol Retirement	SHORT TERM INVESTMENT POOL			2,429,724	2,429,724	2,429,724
HIGHWAY PATROL RETIREMENT TOTAL				**24,944,470**	**60,068,673**	**78,310,865**
Teachers' Retirement	RETIREMENT FUNDS BOND POOL			592,011,574	597,952,977	617,565,665
	TOTAL FIXED INCOME			**592,011,574**	**597,952,977**	**617,565,665**
Teachers' Retirement	MONTANA PRIVATE EQUITY POOL			1,004,836	94,424,972	99,740,950
	PRIVATE EQUITY			1,004,836	94,424,972	99,740,950
Teachers' Retirement	MONTANA INTERNATIONAL POOL			3,121,183	303,644,000	336,137,139
Teachers' Retirement	MONTANA DOMESTIC EQUITY POOL			9,238,385	608,749,512	1,135,892,072
	STOCK TOTAL			12,359,568	912,393,512	1,472,029,212
Teachers' Retirement	BOZEMAN PROPERTY			1,031,802	1,031,802	1,041,007
Teachers' Retirement	CALIFORNIA STREET PROP			102,418	102,418	103,834
Teachers' Retirement	MT COLONIAL DRIVE			3,520,878	3,520,878	3,790,500
Teachers' Retirement	NORTH PARK AVENUE			3,142,017	3,142,017	2,897,500

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2004

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
	REAL ESTATE TOTAL			7,797,114	7,797,114	7,832,840
	TOTAL EQUITY			**21,161,518**	**1,014,615,599**	**1,579,603,002**
Teachers' Retirement	MULTI FAM COMM RE MORT			1,888,668	1,888,668	1,875,880
Teachers' Retirement	MONTANA ST			54,976,243	54,976,243	54,989,718
	TOTAL MORTGAGES/LOANS			**56,864,911**	**56,864,911**	**56,865,598**
Teachers' Retirement	SHORT TERM INVESTMENT POOL			73,133,009	73,133,009	73,133,009
TEACHERS' RETIREMENT TOTAL				**743,171,013**	**1,742,566,496**	**2,327,167,274**
Vol. Firemen's Retirement	RETIREMENT FUNDS BOND POOL			5,384,788	5,576,070	5,617,221
	TOTAL FIXED INCOME			**5,384,788**	**5,576,070**	**5,617,221**
Vol. Firemen's Retirement	MONTANA PRIVATE EQUITY POOL			8,547	748,939	848,352
	PRIVATE EQUITY			8,547	748,939	848,352
Vol. Firemen's Retirement	MONTANA INTERNATIONAL POOL			25,499	2,450,042	2,746,116
Vol. Firemen's Retirement	MONTANA DOMESTIC EQUITY POOL			74,994	6,881,154	9,220,831
	STOCK TOTAL			100,493	9,331,196	11,966,948
	TOTAL EQUITY			**109,040**	**10,080,136**	**12,815,299**
Vol. Firemen's Retirement	SHORT TERM INVESTMENT POOL			180,218	180,218	180,218
VOL. FIREMEN'S RETIREMENT TOTAL				**5,674,045**	**15,836,424**	**18,612,738**
Firefighters' Retirement	RETIREMENT FUNDS BOND POOL			37,954,178	38,613,912	39,592,465
	TOTAL FIXED INCOME			**37,954,178**	**38,613,912**	**39,592,465**
Firefighters' Retirement	MONTANA PRIVATE EQUITY POOL			58,567	5,524,457	5,813,455
	PRIVATE EQUITY			58,567	5,524,457	5,813,455
Firefighters' Retirement	MONTANA INTERNATIONAL POOL			180,776	17,823,000	19,468,794
Firefighters' Retirement	MONTANA DOMESTIC EQUITY POOL			535,576	42,862,678	65,850,978
	STOCK TOTAL			716,353	60,685,678	85,319,772
	TOTAL EQUITY			**774,920**	**66,210,135**	**91,133,227**
Firefighters' Retirement	SHORT TERM INVESTMENT POOL			3,414,487	3,414,487	3,414,487
FIREFIGHTERS' RETIREMENT TOTAL				**42,143,586**	**108,238,534**	**134,140,179**
U of M Endowment	TRUST FUNDS BOND POOL			1,514,900	1,544,165	1,515,313
	TOTAL FIXED INCOME			**1,514,900**	**1,544,165**	**1,515,313**
U of M Endowment	MONTANA DOMESTIC EQUITY POOL			7,063	531,639	868,379
	STOCK TOTAL			7,063	531,639	868,379
	TOTAL EQUITY			**7,063**	**531,639**	**868,379**
U of M Endowment	SHORT TERM INVESTMENT POOL			103,983	103,983	103,983
U OF M ENDOWMENT TOTAL				**1,625,946**	**2,179,788**	**2,487,674**
U of M Designated	TRUST FUNDS BOND POOL			1,981,700	2,008,865	1,982,240
	TOTAL FIXED INCOME			**1,981,700**	**2,008,865**	**1,982,240**
U of M Designated	SHORT TERM INVESTMENT POOL			12,909,943	12,909,943	12,909,943
U OF M DESIGNATED TOTAL				**14,891,643**	**14,918,808**	**14,892,183**
U of M Other	SHORT TERM INVESTMENT POOL			9,039,253	9,039,253	9,039,253
U OF M OTHER TOTAL				**9,039,253**	**9,039,253**	**9,039,253**
MT Tech UM Agency Fund	TRUST FUNDS BOND POOL			435,100	448,375	435,219
	TOTAL FIXED INCOME			**435,100**	**448,375**	**435,219**
MT Tech UM Agency Fund	SHORT TERM INVESTMENT POOL			1,384,890	1,384,890	1,384,890
MT TECH UM AGENCY FUND TOTAL				**1,819,990**	**1,833,265**	**1,820,109**

Total Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*270,550,024*		*11.0*	
2004	8,978,592,670	457,255,647	472,538,954	5.4	5.40
2003	8,521,337,023	(24,684,663)	394,899,778	(0.3)	4.63
2002	8,546,021,686	147,775,828	417,327,390	1.8	4.93
2001	8,398,245,858	658,923,289	570,461,812	8.5	7.07
2000	7,739,322,569	693,439,982	447,627,517	9.8	6.06
1999	7,045,882,586	463,293,558	415,348,813	7.0	6.10
1998	6,582,589,029	686,850,999	403,985,459	11.6	6.47
1997	5,895,738,030	267,508,710	384,866,212	4.8	6.68
1996	5,628,229,319	605,461,292	369,439,052	12.1	6.94
1995	5,022,768,027	250,748,706	311,952,313	5.3	6.37
1994	4,772,019,321	480,559,669	302,093,612	11.2	6.67
1993	4,291,459,652	492,251,338	325,722,769	13.0	8.05
1992	3,799,208,314	355,765,056	307,462,334	10.3	8.49
1991	3,443,443,258	246,482,405	296,946,028	7.7	8.94
1990	3,196,960,853	288,091,626	295,081,958	9.9	9.67
1989	2,908,869,227	280,122,753	269,244,243	10.7	9.72
1988	2,628,746,474	235,709,041	241,658,140	9.8	9.62
1987	2,393,037,433	233,749,895	239,583,020	10.8	10.53
1986	2,159,287,538	170,672,805	241,937,271	8.6	11.67
1985	1,988,614,733	206,311,756	213,464,258	11.6	11.32
1984	1,782,302,977	235,104,098	186,457,609	15.2	11.20
1983	1,547,198,879	178,461,561	164,390,784	13.0	11.28
1982	1,368,737,318	212,737,071	154,789,542	18.4	12.26
1981	1,156,000,247	126,611,696	114,119,374	12.3	10.44
1980	1,029,388,551	138,857,798	86,842,796	15.6	9.05
1979	890,530,753	94,217,581	65,520,161	11.8	7.77
1978	796,313,172	88,666,884	54,276,875	12.5	7.22
1977	707,646,288	80,721,049	47,313,627	12.9	7.09
1976	626,925,239	89,088,506	41,459,770	16.6	7.12
1975	537,836,733	70,390,182	37,118,312	15.1	7.38
1974	467,446,551	86,059,140	29,439,170	22.6	6.94
1973	381,387,411	60,395,524	20,367,231	18.8	5.80
1972	320,991,887		16,132,196		5.46

PERS Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*68,620,790*		*11.0*	
2004	2,275,920,567	129,832,585	157,174,263	6.0	7.11
2003	2,146,087,982	71,237,880	114,127,866	3.4	5.41
2002	2,074,850,102	106,785,197	107,865,330	5.4	5.34
2001	1,968,064,905	170,773,454	170,918,237	9.5	9.08
2000	1,797,291,451	112,876,555	125,474,099	6.7	7.21
1999	1,684,414,896	105,784,616	112,867,195	6.7	6.92
1998	1,578,630,280	106,522,015	111,445,739	7.2	7.31
1997	1,472,108,266	111,355,981	110,533,498	8.2	7.80
1996	1,360,752,285	100,819,152	102,873,163	8.0	7.85
1995	1,259,933,133	83,895,411	83,425,354	7.1	6.85
1994	1,176,037,722	88,830,571	87,660,863	8.2	7.75
1993	1,087,207,151	103,262,368	95,914,874	10.5	9.26
1992	983,944,783	88,442,271	85,428,480	9.9	9.09
1991	895,502,511	86,322,266	79,719,985	10.7	9.35
1990	809,180,245	73,974,823	77,847,393	10.1	10.08
1989	735,205,422	71,140,882	72,003,023	10.7	10.29
1988	664,064,540	61,353,155	64,036,322	10.2	10.11
1987	602,711,385	73,745,575	63,439,745	13.9	11.21
1986	528,965,810	67,608,025	58,693,664	14.7	11.85
1985	461,357,785	57,520,058	47,403,616	14.2	10.96
1984	403,837,727	50,640,947	40,615,456	14.3	10.73
1983	353,196,780	48,909,250	34,958,940	16.1	10.63
1982	304,287,530	33,579,211	28,815,109	12.4	10.02
1981	270,708,319	26,408,693	23,489,723	10.8	9.12
1980	244,299,626	29,277,738	19,321,321	13.6	8.41
1979	215,021,888	28,633,695	16,357,252	15.4	8.15
1978	186,388,193	25,532,853	13,520,389	15.9	7.79
1977	160,855,340	21,732,482	11,361,593	15.6	7.57
1976	139,122,858	19,833,635	9,641,522	16.6	7.46
1975	119,289,223	15,815,377	7,593,641	15.3	6.82
1974	103,473,846	12,710,258	6,351,974	14.0	6.54
1973	90,763,588	10,708,308	5,471,314	13.4	6.41
1972	80,055,280		4,566,690		6.09

TRS Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*52,172,866*		*10.4*	
2004	1,742,566,496	83,777,665	129,319,390	5.1	7.60
2003	1,658,788,831	41,959,040	95,580,408	2.6	5.84
2002	1,616,829,791	63,244,376	93,575,646	4.1	5.90
2001	1,553,585,415	116,367,847	152,363,493	8.1	10.19
2000	1,437,217,568	82,198,204	102,257,693	6.1	7.32
1999	1,355,019,364	67,803,208	92,826,763	5.3	7.03
1998	1,287,216,156	75,053,541	91,673,149	6.2	7.34
1997	1,212,162,615	87,081,006	92,197,958	7.7	7.89
1996	1,125,081,609	78,827,109	85,368,503	7.5	7.86
1995	1,046,254,500	72,939,312	73,018,070	7.5	7.23
1994	973,315,188	71,749,470	72,973,821	8.0	7.78
1993	901,565,718	89,220,933	78,687,668	11.0	9.18
1992	812,344,785	75,529,049	70,469,210	10.3	9.10
1991	736,815,736	74,733,955	65,948,441	11.3	9.43
1990	662,081,781	62,484,325	63,628,096	10.4	10.09
1989	599,597,456	60,465,431	58,607,895	11.2	10.29
1988	539,132,025	54,915,708	51,714,157	11.3	10.11
1987	484,216,317	69,184,764	49,117,437	16.7	10.92
1986	415,031,553	55,364,281	45,425,369	15.4	11.73
1985	359,667,272	51,074,593	36,036,654	16.6	10.79
1984	308,592,679	43,299,873	30,222,754	16.3	10.53
1983	265,292,806	32,138,199	25,772,023	13.8	10.34
1982	233,154,607	20,177,836	21,717,577	9.5	9.74
1981	212,976,771	20,686,541	18,108,545	10.8	8.94
1980	192,290,230	20,009,545	14,936,461	11.6	8.19
1979	172,280,685	19,350,005	13,272,323	12.7	8.16
1978	152,930,680	17,406,858	11,098,439	12.8	7.70
1977	135,523,822	16,820,305	9,405,270	14.2	7.40
1976	118,703,517	15,506,452	8,076,379	15.0	7.28
1975	103,197,065	10,132,831	6,702,284	10.9	6.83
1974	93,064,234	8,920,253	5,963,267	10.6	6.73
1973	84,143,981	11,109,208	5,075,899	15.2	6.46
1972	73,034,773		4,402,802		6.39

Coal Tax Trust Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*26,344,708*		*19.8*	
2004	691,224,790	13,211,240	44,170,843	1.9	6.45
2003	678,013,550	14,230,928	44,313,873	2.1	6.61
2002	663,782,622	13,720,298	45,049,799	2.1	6.86
2001	650,062,324	13,310,993	44,342,611	2.1	6.89
2000	636,751,331	22,134,147	44,308,988	3.6	7.08
1999	614,617,184	11,643,713	45,531,774	1.9	7.48
1998	602,973,471	16,194,141	44,918,922	2.8	7.55
1997	586,779,330	23,795,447	44,918,922	4.2	7.81
1996	562,983,883	15,973,100	44,376,465	2.9	8.00
1995	547,010,783	15,576,784	38,341,049	2.9	7.11
1994	531,433,999	19,416,428	43,012,532	3.8	8.24
1993	512,017,571	19,027,837	51,246,095	3.9	10.20
1992	492,989,734	18,731,378	47,594,422	3.9	9.84
1991	474,258,356	27,246,023	46,327,632	6.1	10.06
1990	447,012,333	35,228,274	45,785,254	8.6	10.66
1989	411,784,059	30,880,710	41,508,302	8.1	10.47
1988	380,903,349	41,062,015	35,294,692	12.1	9.79
1987	339,841,334	38,367,530	37,468,144	12.7	11.68
1986	301,473,804	49,052,410	38,475,175	19.4	13.89
1985	252,421,394	49,765,895	29,247,622	24.6	12.85
1984	202,655,499	44,076,324	24,105,342	27.8	13.35
1983	158,579,175	41,433,379	19,626,992	35.4	14.24
1982	117,145,796	42,617,964	13,233,786	57.2	13.81
1981	74,527,832	34,579,927	6,492,082	86.6	11.34
1980	39,947,905	23,040,483	2,619,380	136.3	9.21
1979	16,907,422	10,645,052	950,026	170.0	8.20
1978	6,262,370		177,366		NA

Trust and Legacy Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*10,875,175*		*6.1*	
2004	410,653,937	99,967	30,140,513	0.0	7.34
2003	410,553,970	(4,348,424)	29,215,115	(1.0)	7.08
2002	414,902,395	48,679,980	29,772,669	13.3	7.62
2001	366,222,415	11,759,523	26,219,151	3.3	7.28
2000	354,462,892	9,744,112	25,470,629	2.8	7.29
1999	344,718,781	8,419,172	26,263,226	2.5	7.71
1998	336,299,609	11,091,289	25,927,613	3.4	7.84
1997	325,208,320	9,713,224	24,473,449	3.1	7.64
1996	315,495,096	20,199,818	25,828,860	6.8	8.46
1995	295,295,278	10,150,565	23,149,117	3.6	7.98
1994	285,144,713	10,913,173	25,970,470	4.0	9.29
1993	274,231,540	7,937,366	30,069,820	3.0	11.13
1992	266,294,174	14,462,111	27,169,293	5.7	10.49
1991	251,832,063	17,495,864	25,950,710	7.5	10.68
1990	234,336,199	11,730,261	24,874,021	5.3	10.89
1989	222,605,938	14,200,044	23,942,716	6.8	11.11
1988	208,405,894	12,245,758	21,509,513	6.2	10.63
1987	196,160,136	8,677,947	23,295,649	4.6	12.14
1986	187,482,189	13,983,199	23,755,608	8.1	13.16
1985	173,498,990	12,133,321	19,358,472	7.5	11.56
1984	161,365,669	11,781,056	17,541,642	7.9	11.28
1983	149,584,613	16,377,726	16,136,589	12.3	11.41
1982	133,206,887	9,765,918	13,334,761	7.9	10.39
1981	123,440,969	14,491,921	10,771,441	13.3	9.27
1980	108,949,048	11,966,982	8,173,411	12.3	7.94
1979	96,982,066	9,691,121	6,813,640	11.1	7.40
1978	87,290,945	9,221,849	5,902,955	11.8	7.14
1977	78,069,096	6,766,268	5,244,983	9.5	7.02
1976	71,302,828	4,295,066	4,543,390	6.4	6.57
1975	67,007,762	2,743,989	3,712,287	4.3	5.66
1974	64,263,773	(658,629)	3,495,629	(1.0)	5.41
1973	64,922,402	2,274,069	3,373,031	3.6	5.29
1972	62,648,333		2,666,280		4.31

Resource Indemnity Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*3,296,754*		*16.2*	
2004	100,000,776	(189)	7,380,241	(0.0)	7.38
2003	100,000,965	(1,506,659)	7,174,343	(1.5)	7.12
2002	101,507,624	1,731,043	7,320,563	1.7	7.27
2001	99,776,581	333,491	7,305,992	0.3	7.33
2000	99,443,090	3,263,413	7,200,280	3.4	7.36
1999	96,179,677	761,624	7,528,795	0.8	7.86
1998	95,418,053	1,077,039	7,555,620	1.1	7.96
1997	94,341,015	1,517,077	7,318,083	1.6	7.82
1996	92,823,938	2,180,282	7,959,842	2.4	8.68
1995	90,643,656	747,988	6,380,294	0.8	7.07
1994	89,895,668	2,529,018	8,241,711	2.9	9.30
1993	87,366,650	4,737,267	8,715,126	5.7	10.25
1992	82,629,383	4,721,885	8,245,913	6.1	10.27
1991	77,907,497	4,467,644	8,097,553	6.1	10.70
1990	73,439,854	6,687,357	7,473,283	10.0	10.66
1989	66,752,497	4,507,782	6,941,486	7.2	10.76
1988	62,244,715	5,170,017	6,066,172	9.1	10.17
1987	57,074,698	4,015,025	7,205,821	7.6	13.09
1986	53,059,673	6,090,898	6,548,573	13.0	13.09
1985	46,968,775	4,693,048	5,509,892	11.1	12.35
1984	42,275,727	6,626,874	4,509,923	18.6	11.58
1983	35,648,853	7,692,479	4,021,028	27.5	12.64
1982	27,956,374	7,225,741	2,544,162	34.9	10.45
1981	20,730,633	4,537,059	1,767,418	28.0	9.57
1980	16,193,574	3,631,669	1,243,397	28.9	8.65
1979	12,561,905	1,924,348	956,045	18.1	8.24
1978	10,637,557	2,422,688	754,068	29.5	8.00
1977	8,214,869	2,672,848	532,922	48.2	7.75
1976	5,542,021	2,262,360	321,782	69.0	7.30
1975	3,279,661	2,181,518	96,126	198.7	4.39
1974	1,098,143		3,485		NA

Parks/Cultural Trust Funds Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*735,714*		*16.7*	
2004	20,878,139	471,296	1,466,131	2.3	7.10
2003	20,406,842	(60,541)	1,429,181	(0.3)	6.99
2002	20,467,384	1,094,498	1,411,317	5.6	7.08
2001	19,372,886	897,953	1,369,148	4.9	7.24
2000	18,474,933	277,660	1,328,128	1.5	7.24
1999	18,197,273	143,496	1,381,258	0.8	7.62
1998	18,053,777	786,529	1,373,997	4.6	7.78
1997	17,267,248	(3,328,466)	1,505,353	(16.2)	7.95
1996	20,595,714	585,498	1,620,819	2.9	7.98
1995	20,010,216	(256,515)	1,479,603	(1.3)	7.35
1994	20,266,731	155,683	1,527,827	0.8	7.57
1993	20,111,048	1,211,787	1,851,220	6.4	9.49
1992	18,899,261	71,481	2,072,292	0.4	10.99
1991	18,827,780	867,833	1,895,380	4.8	10.30
1990	17,959,947	1,334,564	1,878,213	8.0	10.86
1989	16,625,383	(925)	1,812,862	(0.0)	10.90
1988	16,626,308	299,147	1,713,180	1.8	10.40
1987	16,327,161	142,998	1,836,570	0.9	11.30
1986	16,184,163	2,318,634	2,482,341	16.7	16.52
1985	13,865,529	2,357,908	1,628,262	20.5	12.83
1984	11,507,621	2,026,260	1,138,911	21.4	10.85
1983	9,481,361	2,001,547	941,225	26.8	11.10
1982	7,479,814	2,154,736	857,069	40.5	13.39
1981	5,325,078	1,760,617	518,146	49.4	11.66
1980	3,564,461	2,089,194	276,134	141.6	10.96
1979	1,475,267	301,781	107,070	25.7	8.08
1978	1,173,486	415,871	67,614	54.9	7.00
1977	757,615	479,465	33,227	172.4	6.42
1976	278,150		5,004		NA

Treasurer's Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		*11,939,495*		*6.5*	
2004	441,235,606	93,732,911	6,392,992	27.0	1.62
2003	347,502,695	21,932,553	6,366,439	6.7	1.89
2002	325,570,142	(92,198,060)	12,440,828	(22.1)	4.54
2001	417,768,202	(21,626,740)	20,771,980	(4.9)	6.21
2000	439,394,942	44,935,239	15,526,493	11.4	5.11
1999	394,459,703	58,729,353	17,041,259	17.5	5.49
1998	335,730,350	46,229,002	17,276,565	16.0	5.82
1997	289,501,348	(116,879,353)	14,499,914	(28.8)	5.00
1996	406,380,701	130,573,055	15,869,477	47.3	5.04
1995	275,807,646	(55,486,611)	16,161,064	(16.7)	5.29
1994	331,294,257	75,980,006	11,486,172	29.8	3.77
1993	255,314,251	49,497,122	12,916,816	24.0	4.50
1992	205,817,129	(87,133,254)	16,504,585	(29.7)	7.02
1991	292,950,383	(62,810,336)	22,536,484	(17.7)	7.91
1990	355,760,719	62,711,613	26,351,179	21.4	8.37
1989	293,049,106	75,093,422	21,294,365	34.5	7.99
1988	217,955,684	497,584	15,406,342	0.2	6.79
1987	217,458,100	16,766,997	12,759,394	8.4	5.49
1986	200,691,103	(54,516,631)	13,215,592	(21.4)	6.42
1985	255,207,734	24,465,129	24,920,025	10.6	9.85
1984	230,742,605	1,456,166	23,048,654	0.6	10.45
1983	229,286,439	(56,554,692)	28,477,046	(19.8)	10.29
1982	285,841,131	38,330,194	42,501,636	15.5	13.57
1981	247,510,937	32,810,117	29,020,120	15.3	12.05
1980	214,700,820	12,827,050	21,341,613	6.4	10.51
1979	201,873,770	16,449,453	12,982,433	8.9	8.41
1978	185,424,317	13,016,569	10,827,779	7.5	6.88
1977	172,407,748	11,796,744	9,789,327	7.3	6.28
1976	160,611,004	5,757,912	10,458,037	3.7	6.74
1975	154,853,092	21,984,238	12,135,349	16.5	8.59
1974	132,868,854	50,478,772	8,340,038	61.3	8.66
1973	82,390,082	23,218,332	3,385,647	39.2	5.28
1972	59,171,750		1,507,755		4.63

LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Retirement Funds Bond Pool, as of June 30, 2004, and 2003, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Retirement Funds Bond Pool, as of June 30, 2004, and 2003, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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STATE OF MONTANA BOARD OF INVESTMENTS
RETIREMENT FUNDS BOND POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2004 AND 2003

		2004		2003
Assets				
Cash	$	0	$	9,519,570
Security lending cash collateral (Notes 3 and 4)		215,688,215		82,134,484
Interest receivable		21,278,290		23,193,652
Investments managed at fair value (amortized cost of $1,552,369,244 in 2004 and $1,424,315,436 in 2003)(Notes 2 and 4)		1,619,985,769		1,588,980,615
Total assets	$	1,856,952,274	$	1,703,828,321
Liabilities				
Income due participants (Note 2)		11,798,842		9,800,159
Broker payable for securities purchased but not settled (Note 2)		29,517,180		0
Security lending obligations (Notes 3 and 4)		215,688,215		82,134,484
Security lending expense payable		190,415		87,402
Total liabilities		257,194,652		92,022,045
Net asset value	$	1,599,757,622	$	1,611,806,276
Units Outstanding (Note 2)		15,335,617		14,541,546
Unit Value (Note 2)	$	104.32	$	110.84

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net asset value, beginning of year	$	1,611,806,276	$	1,725,096,994
Value of units purchased by participants		87,900,000		0
Value of units sold by participants		(2,737,550)		(213,482,974)
Changes in fair value of investments managed		(97,211,104)		100,192,256
Net asset value, end of year	$	1,599,757,622	$	1,611,806,276

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Interest income (Note 2)	$	85,498,351	$	98,976,319
Amortization/accretion		12,834,615		15,293,362
Net realized gains		15,413,877		17,919,073
Security lending income		1,815,757		1,825,473
Security lending expense		(1,628,334)		(1,653,821)
Administrative expenses		(226,380)		(262,848)
Income due participants, beginning of year		9,800,159		10,898,107
Income available for distribution		123,508,045		142,995,665
Distribution		111,709,203		133,195,506
Income due participants, end of year (Note 2)	$	11,798,842	$	9,800,159

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

STATE OF MONTANA BOARD OF INVESTMENTS
RETIREMENT FUNDS BOND POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Retirement Funds Bond Pool (RFBP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, to participate in a diversified pool. The RFBP was created on April 1, 1995, by the transfer of all fixed income and variable-rate securities owned by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

RFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The RFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, government, Yankee securities and cash investments. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated bonds issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The RFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Some RFBP REMICs are interest-only strips (IOs). Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. IOs receive cash flow from the interest payment component on underlying mortgage loans. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Categories and Note 6 for the Year End Portfolio.)

RFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The RFBP variable-rate securities float with LIBOR (London Interbank Offered Rate) or the weighted average of the net mortgage interest rates for the mortgage loan group. The three variable-rate securities, with a total amortized cost of $250,000 and $450,000, respectively, as of June 30, 2004 and 2003, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Categories and Note 6 for the Year End Portfolio.)

The RFBP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Investments are presented in the Statement of Net Asset Value at fair value. Fair values are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Participant Units

The Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all fixed income and variable-rate securities, at amortized cost, into the RFBP at the start-up date and were issued units according to the market value of each participant's portfolio. The initial unit value as of April 1, 1995, was $100.00. Unit values thereafter are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the investment staff.

The June 30, 2004 unit value of $104.32 decreased from a June 30, 2003 unit value of $110.84. The yield on bonds increased during the fiscal year, which has the effect of decreasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a five to seven percent (5%-7%) inverse change in the unit value. RFBP investments are considered long-term in nature.

The Value of Units Purchased and Sold by Participants of $87.9 million and $2.7 million, respectively, for fiscal year 2004, as compared to $213.5 million sold for fiscal year 2003, reflects the pension funds' portfolio rebalancing. RFBP units were purchased and sold to adjust the pension funds' portfolio towards the stated equity/fixed income asset allocation.

Broker Receivable/Payable

RFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the RFBP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Accumulated income, recorded as Income Due Participants, is distributed monthly on the first calendar day of each month. Realized portfolio gains/losses are distributed at least annually to the participants.

Interest income reported in the Statement of Investment Income and Distribution includes interest accruals and miscellaneous income. For fiscal year 2004, the decrease in interest income of $13.5 million is attributed, primarily, to lower interest rates.

Administrative expenses incurred by the Board are charged daily to RFBP based on the Board's expenses applicable to RFBP. These expenses include costs for the custodial bank contract.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, 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. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

As of June 30, 2004, the carrying and fair values of the underlying securities on loan for the RFBP were $198,575,526 and $209,968,206 respectively. Cash collateral provided for the securities on loan totaled $215,688,215.

As of June 30, 2003, the carrying and fair values of the underlying securities on loan for the RFBP were $63,891,787 and $79,703,155 respectively. Cash collateral provided for the securities on loan totaled $82,134,484.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 2004 and June 30, 2003. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2004

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 57,411,212	$ 0	$ 0	$ 57,411,212	$ 57,044,332
Corporate Other	686,126,743	0	25,908,826	712,035,569	752,471,975
US Govt Mortgage-Backed	193,433,816	0	0	193,433,816	189,124,322
US Govt Direct/Indirect	293,921,182	0	168,298,000	462,219,182	488,066,522
Yankee Bonds	59,146,474	0	4,368,700	63,515,174	69,524,327
STIP	63,754,291	0	0	63,754,291	63,754,291
Total Investments	$ 1,353,793,718	$ 0	$ 198,575,526	$ 1,552,369,244	$ 1,619,985,769
Securities Lending Collateral Investment Pool			$ 215,688,215	$ 215,688,215	$ 215,688,215

***At June 30, 2004, these underlying securities with fair values of $209,968,206 were loaned for cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 10,000,000	$ 0	$ 0	$ 10,000,000	$ 10,000,000
Corporate Other	839,198,080	0	9,277,647	848,475,727	930,781,145
US Govt Mortgage-Backed	74,506,361	0	0	74,506,361	77,402,316
US Govt Direct/Indirect	326,000,808	0	53,620,070	379,620,878	449,442,686
Yankee Bonds	81,281,490	0	994,070	82,275,560	91,917,558
STIP	29,436,910	0	0	29,436,910	29,436,910
Total Investments	$ 1,360,423,649	$ 0	$ 63,891,787	$ 1,424,315,436	$ 1,588,980,615
Securities Lending Collateral Investment Pool			$ 82,134,484	$ 82,134,484	$ 82,134,484

***At June 30, 2003, these underlying securities with fair values of $79,703,155 were loaned for cash collateral under a security lending agreement with the state's agent.**

With the exception of the US government securities, the above instruments have credit risk as measured by major credit rating services. Credit risk is defined as the risk that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires RFBP investments, at the time of purchase, to be rated investment grade as defined by Moody's or Standard & Poor's (S&P) rating services. The US government securities are guaranteed directly or indirectly by the US government.

Market risk for the above securities is caused by changes in the price or principal value of the security due to changes in interest rates and market liquidity.

As reported in the government mortgage-backed category, the RFBP portfolio holds REMICs totaling $1,034,466 and $1,703,480 in amortized cost, respectively, as of June 30, 2004 and June 30, 2003. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages. The IOs are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities.

The IO REMIC securities purchased in August and September 1992 are being reduced periodically towards zero according to the expected average life of the underlying mortgages. The IO securities amortized cost is $250,000 as of June 30, 2004 and $450,000 as of June 30, 2003.

Corporate asset-backed securities represent debt securities collateralized by a pool of assets. The RFBP corporate asset-backed securities are secured by lease payments and real estate. Credit risk for corporate asset backed securities is generally less than other corporate securities because assets are held by a third party.

As of June 30, 2004 and June 30, 2003, Burlington Industries, Inc. presented a legal and higher credit risk to the Board.

The Board owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5,609,640 to $2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the Board received $1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $254,961. The Board is expected to receive additional proceeds for its claim.

As of June 30, 2003, Enron Corp. presented a legal and higher credit risk to the Board.

The RFBP held a $7 million par 6.40% Enron bond maturing July 15, 2006 and a $7 million par 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities was $13,582,030 as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the November 2001 book value for the two issues was reduced to $5.6 million as of June 30, 2002. In October 2002, the book value was reduced to $2.8 million for both issues. In July 2003, both issues were sold, on the market, for a total of $2.36 million.

5. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $5,683,075 in principal and interest plus $150,000 as a consent fee. As of November 15, 2004, this matter is still pending.

6. YEAR END PORTFOLIO

The June 30, 2004 RFBP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AA / FT WORTH HQ FINANCE TRUST	5.500	10/05/10	9,193,094	9,193,094	9,165,331	0.57%
AERO 1 HQ FINANCE TRUST	4.640	07/07/10	5,745,000	5,745,000	5,483,717	0.34%
DOT HEADQUARTERS II LEASE MTG	0.000	12/07/21	30,000,000	25,548,300	25,548,300	1.58%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRUST	4.555	06/12/41	12,000,000	11,999,880	12,064,223	0.74%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRUST	3.053	01/15/38	4,903,231	4,924,938	4,782,761	0.30%
Corporate Asset-Backed	**5 Issue(s)**		**61,841,325**	**57,411,212**	**57,044,332**	**3.52%**
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.930	01/02/19	5,086,518	5,086,518	5,473,399	0.34%
AMERICAN AIRLINES 1991 EQUIPMENT TRUST	10.180	01/02/13	5,000,000	4,998,259	3,612,500	0.22%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	9,198,956	9,178,080	8,164,073	0.50%
AMERICAN EXPRESS CO	4.750	06/17/09	3,000,000	2,995,028	3,041,505	0.19%
AMERICAN GEN FINANCIAL CORP	4.625	05/15/09	6,000,000	6,027,984	6,008,670	0.37%
AMERICAN TRANS AIR EQUIPMENT TRUST	8.039	07/15/17	11,211,440	11,211,440	11,372,262	0.70%
ARCHER DANIELS MIDLAND CO	10.250	01/15/06	3,500,000	3,498,321	3,890,055	0.24%
ASHLAND OIL CO	8.800	11/15/12	7,500,000	7,651,680	8,906,042	0.55%
ATCHISON TOPEKA + SANTA FE RY	6.550	01/06/13	7,160,088	7,160,088	7,630,689	0.47%
BANK ONE TEXAS	6.250	02/15/08	4,000,000	3,881,544	4,308,088	0.27%
BANKBOSTON NA	6.375	03/25/08	4,000,000	3,887,975	4,323,750	0.27%
BORDEN INC	9.250	06/15/19	5,500,000	5,349,636	5,225,000	0.32%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	5,000,000	5,006,349	5,384,541	0.33%
BURLINGTON INDUSTRIES INC	7.250	09/15/05	6,000,000	1,200,000	2,250,000	0.14%
BURLINGTON NORTHERN RR CO	7.970	01/01/15	3,736,011	3,736,011	4,407,252	0.27%
BURLINGTON NORTHERN RR CO	6.940	01/02/14	3,414,052	3,414,052	3,761,450	0.23%
CIT GROUP INC	4.750	12/15/10	7,000,000	7,290,887	6,868,687	0.42%
CSX CORP	7.450	05/01/07	3,000,000	3,059,740	3,287,612	0.20%
CSX CORP	7.900	05/01/17	5,000,000	4,998,138	5,924,175	0.37%
CAPITAL ONE BANK	5.000	06/15/09	6,000,000	5,988,767	6,017,172	0.37%
CHAMPION INTERNATIONAL CORP	7.150	12/15/27	7,000,000	6,869,271	7,273,785	0.45%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	8,119,066	8,119,066	9,698,330	0.60%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,836,101	5,394,994	0.33%
CITICORP CAPITAL II	8.015	02/15/27	4,000,000	3,970,401	4,320,779	0.27%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.545	02/02/19	6,753,544	6,753,544	6,550,938	0.40%
CORPORATE PROPERTY REIT	7.750	08/15/04	5,000,000	5,001,802	5,036,023	0.31%
CORPORATE PROPERTY REIT	7.875	03/15/16	12,000,000	12,052,032	13,877,779	0.86%
DEER PARK REFINING L P	6.470	12/15/08	5,024,200	4,980,149	5,318,605	0.33%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	2,000,000	2,000,000	1,260,000	0.08%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	4,000,000	3,987,690	2,520,000	0.16%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/11	1,971,000	1,957,965	1,241,730	0.08%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/13	3,000,000	3,000,000	1,890,000	0.12%
EL PASO NATURAL GAS CO	8.625	01/15/22	5,000,000	5,204,071	4,887,500	0.30%
ENSERCH CORP	7.125	06/15/05	5,000,000	5,012,794	5,205,646	0.32%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,823,309	4,321,764	0.27%
FIRST INTERSTATE BANC SYSTEM, MONTANA	7.500	10/01/06	9,030,000	9,030,000	9,030,000	0.56%
FIRST UNION BANK N C CHARLOTTE	5.800	12/01/08	6,000,000	5,703,205	6,386,710	0.39%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	10,000,000	9,945,842	12,294,922	0.76%
FORD MOTOR CREDIT CO	6.750	05/15/05	5,000,000	4,996,649	5,157,368	0.32%
FORD MOTOR CREDIT CO	7.375	10/28/09	8,000,000	8,006,956	8,522,216	0.53%
FORD MOTOR CREDIT CO	7.000	10/01/13	5,000,000	4,870,910	5,047,330	0.31%
GTE CORP	7.900	02/01/27	14,000,000	14,000,000	14,910,197	0.92%
GTE SOUTH INC	7.500	03/15/26	9,000,000	8,886,597	9,320,576	0.58%
GENERAL AMERICAN TRANSN CORP EQUIPMENT TR	8.420	01/01/15	7,761,232	7,761,232	8,721,966	0.54%
GENERAL ELECTRIC CAPITAL CORP	8.125	05/15/12	5,000,000	5,225,471	5,964,560	0.37%
GENERAL MOTORS ACCEPTANCE CORP	0.000	12/01/12	25,000,000	14,956,840	14,538,203	0.90%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,012,257	5,216,097	0.32%
GENERAL RE CORP	0.000	07/30/37	375,723,766	24,892,507	25,060,775	1.55%
GEORGIA PACIFIC CORP	8.250	03/01/23	5,000,000	5,046,063	5,093,750	0.31%
GEORGIA PACIFIC CORP	8.625	04/30/25	3,000,000	3,137,620	3,161,250	0.20%
ILLINOIS BELL TELEPHONE CO	6.625	02/01/25	2,000,000	1,805,523	1,976,114	0.12%
INTERNATIONAL LEASE FINANCE CORP	4.550	10/15/09	2,000,000	2,008,326	1,992,402	0.12%
INTERNATIONAL PAPER CO	6.875	11/01/23	3,000,000	2,965,502	3,055,316	0.19%
INTERNATIONAL PAPER CO	4.000	04/01/10	4,000,000	4,001,448	3,815,232	0.24%
J P MORGAN CAPITAL TRUST	7.540	01/15/27	6,000,000	5,689,849	6,232,771	0.38%
KCT INTERMODAL TRANSPORTATION CORP	6.884	08/01/18	3,617,867	3,617,867	3,898,528	0.24%
K N ENERGY INC	6.650	03/01/05	3,000,000	3,007,568	3,081,849	0.19%
KELLWOOD CO	7.625	10/15/17	12,000,000	11,823,502	12,742,284	0.79%
KERR MCGEE CORP	7.125	10/15/27	7,000,000	7,085,550	7,089,360	0.44%
KERR MCGEE CORP	6.950	07/01/24	4,000,000	3,968,880	3,987,108	0.25%
KEYCORP	7.500	06/15/06	5,000,000	4,998,087	5,400,278	0.33%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
KEYCORP	4.700	05/21/09	5,000,000	4,999,365	5,017,985	0.31%
MARSH + MCLENNAN COS INC	7.125	06/15/09	7,000,000	6,996,036	7,841,023	0.48%
MEAD CORP	7.350	03/01/17	11,000,000	10,992,222	12,080,274	0.75%
MED MAP L L C MONTANA	7.060	12/01/15	9,615,000	9,615,000	9,615,000	0.59%
MED MAP L L C MONTANA	7.000	06/01/21	6,140,000	6,140,000	6,140,000	0.38%
MERIDIAN TRAILER TRAIN EQUIPMENT TRUST	9.850	01/29/10	1,125,094	1,125,094	1,125,094	0.07%
MERIDIAN TRAILER TRAIN EQUIPMENT TRUST	9.850	01/29/08	1,011,058	1,011,058	1,011,058	0.06%
METLIFE INC	5.000	11/24/13	5,000,000	4,954,844	4,848,260	0.30%
MILLENIUM AMERICAN INC	7.000	11/15/06	4,000,000	3,971,397	4,110,000	0.25%
MOBIL CORP	5.940	01/15/19	8,809,983	8,809,983	9,279,998	0.57%
MORGAN J P + CO INC	0.000	04/15/27	30,000,000	5,434,163	5,398,737	0.33%
NATIONWIDE FINANCIAL SERVICES INC	8.000	03/01/27	6,000,000	5,914,742	6,367,252	0.39%
NEW YORK LIFE INSURANCE CORP	7.500	12/15/23	5,000,000	4,809,243	5,189,760	0.32%
NORFOLK SOUTHERN CORP	7.700	05/15/17	6,000,000	6,026,713	7,104,718	0.44%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	02/01/20	10,282,313	9,894,771	9,922,432	0.61%
NORTHWEST AIRLINES EQUIPMENT TRUST	7.935	04/01/19	8,081,672	7,928,459	8,606,980	0.53%
OCCIDENTAL PETROLEUM CORP	7.200	04/01/28	13,000,000	12,856,199	14,579,820	0.90%
OCCIDENTAL PETROLEUM CORP	8.750	01/15/23	6,000,000	5,955,149	7,685,516	0.47%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	4,000,000	3,999,360	4,371,752	0.27%
PPL MONTANA LLC	8.903	07/02/20	21,835,873	21,927,169	25,629,766	1.58%
PACIFIC BELL TEL CO	7.250	11/01/27	6,000,000	5,960,634	6,204,932	0.38%
PANHANDLE EASTERN CORP	8.625	04/15/25	5,000,000	5,072,274	5,359,681	0.33%
PENNEY J C INC	9.750	06/15/21	3,609,000	3,609,000	3,735,315	0.23%
PHILLIPS PETROLEUM CO	7.125	03/15/28	11,000,000	10,849,922	11,495,506	0.71%
ST LOUIS SOUTHWESTERN RY CO	10.100	05/15/05	152,366	152,366	152,366	0.01%
SEARS ROEBUCK ACCEP CORP	7.500	10/15/27	10,000,000	10,074,711	10,355,887	0.64%
SECURITY CAP GROUP INC	7.700	06/15/28	3,000,000	3,526,928	3,529,367	0.22%
SONAT INC	7.000	02/01/18	3,000,000	2,999,690	2,362,500	0.15%
SOUTHERN UNION CO	7.600	02/01/24	7,000,000	7,035,762	7,623,411	0.47%
SOUTHWEST GAS CORP	7.500	08/01/06	6,000,000	6,059,587	6,369,779	0.39%
SOUTHWEST GAS CORP	8.375	02/15/11	6,000,000	5,985,899	6,647,593	0.41%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	3,000,000	2,996,776	3,166,417	0.20%
SUNAMERICA INC	8.125	04/28/23	13,000,000	13,017,609	15,930,948	0.98%
SUPER VALUE INC	7.875	08/01/09	3,000,000	3,003,664	3,363,563	0.21%
TENNECO PACKAGING INC	7.200	12/15/05	5,000,000	5,011,313	5,293,650	0.33%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	3,000,000	2,769,483	3,253,453	0.20%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	3,000,000	3,002,937	2,966,250	0.18%
TRISTATE GENERATION + TRANSPORTATION ASSOC.	6.040	01/31/18	5,000,000	5,000,000	5,002,350	0.31%
TYSON FOODS INC	8.250	10/01/11	5,000,000	5,453,986	5,720,114	0.35%
US BANK NA MINNEAPOLIS	6.500	02/01/08	5,000,000	4,999,480	5,439,089	0.34%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	3,000,000	2,981,578	3,236,120	0.20%
UNION OIL CO CALIFORNIA	7.000	05/01/28	9,000,000	8,697,546	9,616,960	0.59%
UNION OIL CO CALIFORNIA	6.700	10/15/07	5,000,000	4,994,687	5,227,237	0.32%
UNION PACIFIC RR CO	7.750	07/01/12	4,634,149	4,634,149	5,211,795	0.32%
UNION PACIFIC RESOURCES GROUP INC	7.050	05/15/18	12,000,000	11,932,341	12,979,970	0.80%
UNION TANK CAR CO	7.125	02/01/07	6,000,000	5,998,341	6,526,340	0.40%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	5,668,462	0.35%
UNITED AIRLINES EQUIPMENT TRUST	7.032	10/01/10	9,408,328	9,345,586	7,855,954	0.48%
WAL MART STORES INC PASS THRU TRUST	7.490	06/21/07	2,605,690	2,593,748	2,819,770	0.17%
WESTERN PROPERTIES REIT	7.200	09/15/08	3,000,000	2,925,372	3,289,035	0.20%
WESTVACO CORP	7.650	03/15/27	9,000,000	8,964,985	10,016,809	0.62%
WEYERHAEUSER CO	8.500	01/15/25	7,000,000	7,288,918	8,436,191	0.52%
WILLAMETTE INDUSTRIES INC	7.000	02/01/18	4,000,000	3,978,039	4,184,002	0.26%
WILMINGTON TRUST TUCSON ELECTRIC	10.211	01/01/09	7,995,365	7,995,365	7,995,365	0.49%
WINN DIXIE TRUST	0.000	09/01/24	70,000,000	5,200,000	5,204,080	0.32%
ZIONS BANCORPORATION	5.650	05/15/14	4,000,000	3,928,987	3,954,340	0.24%
Corporate Other	**117 Issue(s)**		**1,168,613,630**	**712,035,569**	**752,471,975**	**46.45%**
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	1,140,337	1,138,618	1,191,786	0.07%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
FEDERAL HOME LOAN POOL G30006	7.000	07/01/13	688,614	692,685	728,130	0.04%
FEDERAL HOME LOAN POOL E99081	4.500	09/01/18	25,813,133	25,654,687	25,281,157	1.56%
FEDERAL HOME LOAN MTG PC REMIC IO	VAR	08/15/07	1,404,956	100,000	64,993	0.00%
FEDERAL HOME LOAN MTG PC REMIC IO	VAR	09/15/07	979,309	50,000	63,909	0.00%
FEDERAL HOME LOAN POOL C01523	5.000	03/01/33	12,738,464	12,631,732	12,331,927	0.76%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	1,455,855	1,452,537	1,496,064	0.09%
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	927,131	926,486	969,540	0.06%
FEDERAL HOME LOAN POOL E01376	4.000	04/01/18	26,822,963	26,621,439	25,571,924	1.58%
FEDERAL HOME LOAN POOL E01418	4.000	07/01/18	27,498,408	26,817,776	26,246,777	1.62%
FEDERAL HOME LOAN POOL E01425	4.500	08/01/18	27,667,779	27,594,062	27,097,582	1.67%
FEDERAL HOME LOAN POOL B13150	4.000	03/01/19	29,193,982	29,193,982	27,865,175	1.72%
FEDERAL HOME LOAN MORTGAGE PC REMIC	9.300	11/15/20	178,400	173,821	178,093	0.01%
FEDERAL NATIONAL MTG ASSN REMIC IO	VAR	08/25/07	1,377,554	100,000	104,261	0.01%
FEDERAL NATIONAL MTG ASSN REMIC	9.500	03/25/20	618,350	610,644	674,999	0.04%
FNMA POOL 109031	6.695	08/01/05	122,492	122,105	124,849	0.01%
FNMA POOL 303365	6.500	05/01/09	2,324,113	2,300,953	2,459,384	0.15%
FNMA POOL 303125	7.500	01/01/10	700,660	698,962	739,493	0.05%
FNMA POOL 303202	6.500	05/01/14	1,080,529	1,071,860	1,134,508	0.07%
FNMA POOL 303590	7.000	11/01/10	782,803	782,803	834,450	0.05%
FNMA POOL 313999	6.000	02/01/13	1,274,260	1,268,793	1,333,742	0.08%
FNMA POOL 572220	6.000	03/01/16	1,660,371	1,656,120	1,732,688	0.11%
FNMA POOL 592327	5.500	06/01/16	2,776,192	2,718,082	2,852,646	0.18%
FNMA POOL 725346	4.000	03/01/19	29,251,285	28,937,270	27,912,161	1.72%
GNMA II POOL 001254	9.500	09/20/19	33,460	33,323	37,277	0.00%
GNMA POOL 046249	10.000	12/15/10	12,940	12,882	14,385	0.00%
GNMA POOL 135544	10.000	01/15/16	72,508	72,193	82,424	0.01%
Government Mortgage-Backed	**27 Issue(s)**		**198,596,845**	**193,433,816**	**189,124,322**	**11.67%**
ASTRO OFFSHORE CORP USGG XI	6.000	12/20/19	12,499,000	12,499,000	12,499,000	0.77%
ENSCO OFFSHORE CO USGG XI	6.360	12/01/15	7,666,790	7,666,790	8,278,906	0.51%
FEDERAL HOME LOAN MORTGAGE CORP	5.125	11/07/13	13,000,000	12,916,120	12,726,662	0.79%
FEDERAL HOME LOAN MORTGAGE CORP	3.250	06/18/18	15,000,000	14,963,885	13,890,885	0.86%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	06/12/13	13,000,000	11,873,901	11,866,231	0.73%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	07/18/18	15,000,000	15,000,000	13,827,123	0.85%
FEDERAL HOME LOAN MORTGAGE CORP	4.500	04/02/14	11,000,000	10,957,084	10,422,665	0.64%
FEDERAL HOME LOAN MORTGAGE CORP	4.100	01/28/14	35,000,000	35,000,000	33,592,370	2.07%
FEDERAL HOME LOAN MORTGAGE CORP	5.000	01/30/14	13,000,000	12,995,886	12,582,622	0.78%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/21/32	100,000,000	14,591,838	13,940,000	0.86%
FEDERAL HOME LOAN BANKS	6.395	06/03/14	4,000,000	3,745,507	4,354,634	0.27%
FEDERAL HOME LOAN BANKS	7.000	08/26/19	8,000,000	7,974,887	9,514,272	0.59%
FEDERAL HOME LOAN BANKS	7.450	02/03/20	15,000,000	15,095,645	18,607,500	1.15%
FEDERAL HOME LOAN MORTGAGE CORP	8.250	06/01/26	8,000,000	8,336,079	9,911,288	0.61%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/05/28	150,000,000	29,642,265	29,910,000	1.85%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	09/14/29	100,000,000	18,075,929	17,541,900	1.08%
FEDERAL HOME LOAN MORTGAGE CORP	3.500	09/15/07	10,000,000	10,134,954	9,971,550	0.62%
FEDERAL NATIONAL MORTGAGE ASSN	6.000	05/15/08	30,000,000	29,494,587	32,299,824	1.99%
FEDERAL NATIONAL MORTGAGE ASSN	7.250	01/15/10	17,000,000	16,996,729	19,353,456	1.19%
FEDERAL NATIONAL MORTGAGE ASSN	7.125	01/15/30	20,000,000	21,437,682	23,350,302	1.44%
FEDERAL NATIONAL MORTGAGE ASSN	6.625	11/15/10	5,000,000	5,138,549	5,552,237	0.34%
FEDERAL NATIONAL MORTGAGE ASSN	2.800	03/01/19	10,000,000	9,808,537	9,903,930	0.61%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	8,400,000	8,400,000	8,400,000	0.52%
STUDENT LOAN MARKETING ASSN	0.000	05/15/14	150,000,000	57,573,776	68,702,550	4.24%
TUNISIA USGG XI	6.710	02/01/24	4,000,000	3,806,408	4,000,000	0.25%
USGG SHIPPING + CENAC TOWING USGG XI	7.000	05/15/21	11,067,000	11,067,000	11,067,000	0.68%
U S ARMY HOSPITALITY FUND	7.467	05/01/32	14,708,889	14,708,889	14,708,889	0.91%
UNITED STATES TREASURY BONDS	7.250	05/15/16	21,000,000	21,717,255	25,390,313	1.57%
VESSEL MGMT SERVICES INC USGG XI	6.080	05/20/24	12,000,000	12,000,000	12,477,480	0.77%
VESSEL MGMT SERVICES INC USGG XI	6.750	06/15/25	8,600,000	8,600,000	9,422,934	0.58%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
Government Direct-Indirect	**30 Issue(s)**		**841,941,679**	**462,219,182**	**488,066,522**	**30.13%**
AMERICAN PRESIDENT COS LTD	8.000	01/15/24	5,000,000	4,738,226	4,500,000	0.28%
CANADIAN NATIONAL RAILWAY CO	6.800	07/15/18	6,000,000	5,966,792	6,721,720	0.41%
CANADIAN PACIFIC LTD	9.450	08/01/21	5,000,000	5,140,622	6,707,115	0.41%
EASTERN ENERGY LTD	7.250	12/01/16	5,000,000	4,944,174	5,874,148	0.36%
GREAT LAKES POWER INC	9.000	08/01/04	5,000,000	4,999,801	5,028,521	0.31%
HOUSEHOLD FINANCE CORP	6.875	03/01/07	4,000,000	3,962,825	4,325,708	0.27%
HOUSEHOLD FINANCE CORP	6.500	11/15/08	5,000,000	4,863,590	5,415,679	0.33%
IBP FINANCIAL CO CANADA	7.450	06/01/07	3,000,000	2,999,396	3,212,310	0.20%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	10,000,000	9,833,726	11,182,805	0.69%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	6,000,000	5,970,467	6,540,000	0.40%
TRANSCANADA PIPELINES LTD	8.500	03/20/23	5,000,000	5,137,882	5,211,323	0.32%
UNITED MEXICAN STATES	5.875	01/15/14	5,000,000	4,957,672	4,805,000	0.30%
Yankee Bonds	**12 Issue(s)**		**64,000,000**	**63,515,174**	**69,524,327**	**4.29%**
SHORT TERM INVESTMENT POOL			63,754,291	63,754,291	63,754,291	3.94%
Cash Equivalents	**1 Issue(s)**		**63,754,291**	**63,754,291**	**63,754,291**	**3.94%**
RFBP Total	**192 Issue(s)**		**2,398,747,770**	**1,552,369,244**	**1,619,985,769**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Trust Funds Bond Pool, as of June 30, 2004, and 2003, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Trust Funds Bond Pool, as of June 30, 2004, and 2003, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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STATE OF MONTANA BOARD OF INVESTMENTS
TRUST FUNDS BOND POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2004 AND 2003

		2004		2003
Assets				
Cash	$	1,068,110	$	10,238,624
Security lending cash collateral (Notes 3 and 4)		174,252,479		76,755,887
Interest receivable		17,996,911		18,928,190
Investments managed at fair value (amortized cost of $1,228,326,752 in 2004 and $1,139,041,264 in 2003) (Notes 2 and 4)		1,272,454,411		1,251,081,198
Total assets	$	1,465,771,911	$	1,357,003,899
Liabilities				
Income due participants (Note 2)	$	8,651,899	$	7,509,196
Broker payable for securities purchased but not settled (Note 2)		20,008,860		0
Security lending obligations (Notes 3 and 4)		174,252,479		76,755,887
Security lending expense payable		167,835		78,517
Total liabilities		203,081,073		84,343,600
Net asset value	$	1,262,690,838	$	1,272,660,299
Units Outstanding (Note 2)		12,623,470		12,056,106
Unit Value (Note 2)	$	100.03	$	105.56

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net asset value, beginning of year	$	1,272,660,299	$	1,168,668,577
Value of units purchased by participants		67,599,046		44,047,976
Value of units sold by participants		(9,509,724)		(21,937,900)
Changes in fair value of investments managed		(68,058,783)		81,881,646
Net asset value, end of year	$	1,262,690,838	$	1,272,660,299

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Interest income (Note 2)	$	68,116,393	$	73,216,763
Amortization/accretion		6,403,105		6,834,869
Net realized gains (Note 2)		12,315,173		1,355,444
Security lending income		1,510,514		1,367,131
Security lending expense		(1,334,702)		(1,239,426)
Administrative expenses		(203,928)		(225,408)
Income due participants, beginning of year		7,509,196		6,911,434
Income available for distribution		94,315,751		88,220,807
Distribution		85,663,852		80,711,611
Income due participants, end of year (Note 2)	$	8,651,899	$	7,509,196

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

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Trust Funds Bond Pool (TFBP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, to participate in a diversified pool. The TFBP was created on October 1, 1995, by the transfer of all fixed income and variable-rate securities owned by six funds. These funds included the 1) Coal Severance Tax Permanent Trust, 2) Resource Indemnity Trust, 3) Coal Tax Park Trust, 4) Trust and Legacy, 5) Coal Tax Cultural Trust and 6) Treasure State Endowment Trust funds. Since the pool's creation in 1995, the funds listed below became participants in the TFBP:

University of Montana Endowment Fund	January 1996
Montana Pole Superfund	September 1996
Upper Clark Fork River Basin (UCFRB) Restoration	July 1999
Upper Clark Fork River Basin (UCFRB) Cost Recovery	July 1999
Streamside Tailings Operable Unit	July 1999
Treasure State Regional Water Systems	July 2000
Tobacco Trust Fund	January 2001
University of Montana Designated Fund	July 2002
University of Montana Other Fund*	July 2002
Montana Tech of the U of M	March 2003
Real Property Trust	September 2003
Wildlife Habitat	September 2003
Acquisition Trust	April 2004
Bair Trust Fund	April 2004
Bradley Trust	April 2004
Merritt Wheeler Trust	April 2004
Sobotka Memorial Trust	April 2004
Teakle Trust	April 2004

*In October 2003, the University of Montana Other Fund withdrew from the TFBP.
In July 2004, Montana State University requested funds to be invested in the TFBP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, government, Yankee securities and cash investments. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated securities issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Categories and Note 7 for the Year End Portfolio.)

TFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The TFBP did not hold any variable rate securities as of June 30, 2004 and June 30, 2003.

Investments are presented in the Statement of Net Asset Value at fair value. Fair values for securities are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

The TFBP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Participant Units

The Coal Severance Tax Permanent Trust, Resource Indemnity Trust, Coal Tax Park Trust, Trust and Legacy, Coal Tax Cultural Trust, and Treasure State Endowment Trust funds transferred all fixed income and variable-rate securities, at amortized cost, into the TFBP at the start-up date and were issued units according to the fair value of each participant's portfolio. The initial unit value as of October 1, 1995, was $100.00. Unit values are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the investment staff.

The June 30, 2004 unit value of $100.03 decreased from a June 30, 2003 unit value of $105.56. The yield on bonds increased during the fiscal year, which has the effect of decreasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a five to seven percent (5%-7%) inverse change in the unit value. TFBP investments are considered long-term in nature and participants require long-term time horizons.

Broker Receivable/Payable

TFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the TFBP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Accumulated income, recorded as Income Due Participants, is distributed monthly on the first calendar day of each month. Realized portfolio gains/losses are distributed at least annually to the participants.

Interest income reported in the Statement of Investment Income and Distribution includes interest accruals and miscellaneous income. For fiscal year 2004, the decrease in interest income of $5.1 million is attributed, primarily, to lower interest rates. Net realized gains increased by $10.9 million in fiscal year 2004 due to market conditions.

Administrative expenses incurred by the Board are charged daily to TFBP based on the Board's expenses applicable to TFBP. These expenses include costs for the custodial bank contract.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, 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. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

As of June 30, 2004, the carrying and fair value of the underlying securities on loan for the Trust Funds Bond Pool was $164,208,920 and $172,167,230, respectively. The collateral provided for the securities on loan totaled $177,281,934 representing $174,252,479 in cash and $3,029,455 in securities collateral.

As of June 30, 2003, the carrying and fair value of the underlying securities on loan for the Trust Funds Bond Pool was $57,555,310 and $70,451,001, respectively. The cash collateral provided for the securities on loan totaled $76,755,887.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 2004 and June 30, 2003. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2004

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 61,012,957	$ 0	$ 0	$ 61,012,957	$ 60,172,310
Corporate Other	504,213,488	0	13,195,489	517,408,977	546,932,475
US Govt Mortgage-Backed	150,317,964	0	0	150,317,964	147,756,275
US Govt Direct/Indirect	225,256,904	2,531,803	144,490,702	372,279,409	385,437,965
Yankee Bonds	68,920,280	0	3,990,926	72,911,206	77,757,388
State and Local Government	9,892,524	0	0	9,892,524	9,894,283
STIP	44,503,715	0	0	44,503,715	44,503,715
Total Investments	$ 1,064,117,832	$ 2,531,803	$ 161,677,117	$ 1,228,326,752	$ 1,272,454,411
Securities Lending Collateral Investment Pool			$ 174,252,479	$ 174,252,479	$ 174,252,479

***At June 30, 2004, these underlying securities, with fair values of $2,965,830 and $169,201,400, respectively, were loaned for securities and cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 12,255,000	$ 0	$ 0	$ 12,255,000	$ 12,255,000
Corporate Other	604,884,995	0	6,505,228	611,390,223	664,571,494
US Govt Mortgage-Backed	76,290,821	0	0	76,290,821	79,160,041
US Govt Direct/Indirect	245,586,129	0	51,050,082	296,636,211	340,815,409
Yankee Bonds	92,470,191	0	0	92,470,191	104,278,410
State and Local Government	13,884,836	0	0	13,884,836	13,886,862
STIP	36,113,982	0	0	36,113,982	36,113,982
Total Investments	$ 1,081,485,954	$ 0	$ 57,555,310	$ 1,139,041,264	$ 1,251,081,198
Securities Lending Collateral Investment Pool			$ 76,755,887	$ 76,755,887	$ 76,755,887

*At June 30, 2003, these underlying securities, with a fair value of $70,451,001, were loaned for cash collateral under a security lending agreement with the state's agent.

With the exception of the U.S. government securities, the above instruments have credit risk as measured by major credit rating services. Credit risk is defined as the risk that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires TFBP investments, at the time of purchase, to be rated investment grade as defined by Moody's or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government.

Market risk for the above securities is caused by changes in the price or principal value of the security due to changes in interest rates and market liquidity.

As reported in the U.S. government mortgage-backed category, the TFBP portfolio holds REMICs totaling $429,878 and $706,427, respectively, at amortized cost, as of June 30, 2004 and June 30, 2003. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

Corporate asset-backed securities represent debt securities collateralized by a pool of assets. The TFBP corporate asset-backed security is secured by lease payments and real estate. Credit risk for corporate asset backed securities is generally less than other corporate securities because assets are held by a third party.

As of June 30, 2004 and June 30, 2003, Burlington Industries, Inc. presented a legal and higher credit risk to the Board.

The Board owns a Burlington Industries, Inc., $4 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $3,739,760 to $1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the Board received $969,974 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $169,974. The Board is expected to receive additional proceeds for its claim.

As of June 30, 2003, Enron Corp. presented a legal and higher credit risk to the Board.

The TFBP held a $2 million par, 6.75% Enron bond maturing August 1, 2009, a $3 million par 6.40% Enron bond maturing July 15, 2006 and a $3 million par 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities was $7,560,870 as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the November 2001 book value for the three issues was reduced to $3.2 million as of June 30, 2002.

In October 2002, the book value was reduced to $1.6 million for the three issues. In July 2003, the three issues were sold, on the market, for a total of $1.35 million.

5. PARTICIPANT LOAN

In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of $46,366,904, to the Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund. On June 30, 2004, the Trust and Legacy Fund paid $1,820,816 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 464,613 with a corresponding book value of $44,546,088.

6. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $8 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $861,811 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $9,092,920 in principal and interest plus $240,000 as a consent fee. As of November 15, this matter is still pending.

7. YEAR END PORTFOLIO

The June 30, 2004 TFBP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AA / FT WORTH HQ FINANCE TRUST	5.50	10/05/10	11,951,022	11,951,022	11,914,930	0.94%
AERO 1 HQ FINANCE TRUST	4.64	07/07/10	9,255,000	9,255,000	8,834,083	0.69%
DOT HEADQUARTERS II LEASE MTG	0.00	12/07/21	20,000,000	17,032,200	17,032,200	1.34%
J P MORGAN CHASE COMMERCIAL MORTGAGE TR	4.56	06/12/41	8,000,000	7,999,920	8,042,815	0.63%
J P MORGAN CHASE COMMERCIAL MORTGAGE TR	3.05	01/15/38	14,709,692	14,774,815	14,348,282	1.13%
Corporate Asset-Backed	**5 Issue(s)**		**63,915,714**	**61,012,957**	**60,172,310**	**4.73%**
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.93	01/02/19	3,391,012	3,391,012	3,648,933	0.29%
AMERICAN AIRLINES 1991 EQUIPMENT TRUST	9.73	09/29/14	5,000,000	4,979,630	3,650,000	0.29%
AMERICAN AIRLINE EQUIPMENT TRUST	6.98	05/23/21	6,132,637	6,119,813	5,442,716	0.43%
AMERICAN EXPRESS CO	4.75	06/17/09	2,000,000	1,996,686	2,027,670	0.16%
AMERICAN GEN FINANCIAL CORP	4.63	05/15/09	4,000,000	4,018,656	4,005,780	0.31%
AMERICAN TRANS AIR EQUIPMENT TRUST	8.04	07/15/17	6,036,929	6,036,929	6,123,526	0.48%
ARCHER DANIELS MIDLAND CO	10.25	01/15/06	5,000,000	4,997,339	5,557,221	0.44%
ASHLAND OIL CO	8.80	11/15/12	2,500,000	2,537,920	2,968,681	0.23%
BANK ONE TEXAS N A	6.25	02/15/08	4,000,000	3,881,544	4,308,088	0.34%
BANKBOSTON NA	6.38	03/25/08	4,000,000	3,887,975	4,323,750	0.34%
BORDEN INC	9.25	06/15/19	1,500,000	1,458,595	1,425,000	0.11%
BORG WARNER AUTOMOTIVE INC	7.00	11/01/06	1,000,000	1,008,556	1,076,908	0.08%
BURLINGTON INDUSTRIES INC	7.25	09/15/05	4,000,000	800,000	1,500,000	0.12%
BURLINGTON NORTHERN RR CO	7.97	01/01/15	3,736,011	3,736,011	4,407,252	0.35%
BURLINGTON NORTHERN SANTA FE RY	7.16	01/02/20	13,591,952	13,591,952	15,014,973	1.18%
CIT GROUP EQUIPMENT TRUST	6.49	01/05/21	11,637,451	11,637,451	12,232,151	0.96%
CIT GROUP INC	7.38	04/02/07	5,000,000	5,322,128	5,470,185	0.43%
CIT GROUP INC	4.75	12/15/10	3,000,000	3,124,666	2,943,723	0.23%
CNA FINANCIAL CORP	6.45	01/15/08	5,000,000	5,047,940	5,257,810	0.41%
CSX CORP	7.45	05/01/07	2,000,000	1,999,144	2,191,741	0.17%
CSX CORP	7.90	05/01/17	5,000,000	4,998,138	5,924,175	0.47%
CAPITAL ONE BANK	5.00	06/15/09	4,000,000	3,992,511	4,011,448	0.31%
CHAMPION INTERNATIONAL CORP	7.15	12/15/27	3,000,000	2,939,952	3,117,337	0.24%
CHICAGO + NORTH WESTERN RY	8.91	01/01/15	4,059,533	4,059,533	4,849,165	0.38%
CITIGROUP INC	6.20	03/15/09	5,000,000	4,836,101	5,394,994	0.42%
CITICORP CAPITAL II	8.02	02/15/27	6,000,000	5,955,601	6,481,169	0.51%
CLEVELAND ELECTRIC ILLUM CO	7.13	07/01/07	5,000,000	4,992,002	5,445,315	0.43%
CONAGRA INC	9.88	11/15/05	5,000,000	5,094,526	5,470,193	0.43%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.55	02/02/19	5,909,351	5,909,351	5,732,071	0.45%
CORPORATE PROPERTY REIT	7.75	08/15/04	5,000,000	5,001,802	5,036,023	0.40%
CORPORATE PROPERTY REIT	7.88	03/15/16	3,000,000	2,993,882	3,469,445	0.27%
DEER PARK REFINING L P	6.47	12/15/08	2,512,100	2,482,733	2,659,302	0.21%
DELTA AIR LINES INC EQUIPMENT TRUST	10.14	08/14/12	1,000,000	1,000,000	630,000	0.05%
DELTA AIR LINES INC EQUIPMENT TRUST	10.14	08/14/12	2,000,000	1,993,845	1,260,000	0.10%
DELTA AIR LINES INC EQUIPMENT TRUST	10.00	06/05/13	2,000,000	2,000,000	1,260,000	0.10%
ENSERCH CORP	7.13	06/15/05	5,000,000	5,012,761	5,205,646	0.41%
FIRST CHICAGO CORP	6.38	01/30/09	4,000,000	3,823,309	4,321,764	0.34%
FIRST INTERSTATE BANC SYSTEM MONTANA	7.50	10/01/06	3,870,000	3,870,000	3,870,000	0.30%
FIRST UNION CORP	8.00	08/15/09	5,000,000	5,003,978	5,040,712	0.40%
FIRST UNION BANK	5.80	12/01/08	4,000,000	3,802,136	4,257,806	0.33%
FLORIDA GAS TRANSMISSION CO	9.19	11/01/24	5,000,000	5,000,000	6,147,461	0.48%
FLORIDA GAS TRANSMISSION CO	7.00	07/17/12	3,000,000	2,996,501	3,233,743	0.25%
FORD MOTOR CREDIT CO	6.75	05/15/05	5,000,000	5,002,307	5,157,368	0.40%
FORD MOTOR CREDIT CO	7.38	10/28/09	7,000,000	7,006,086	7,456,939	0.59%
FORD MOTOR CREDIT CO	7.00	10/01/13	5,000,000	4,870,910	5,047,330	0.40%
GTE CORP	7.90	02/01/27	6,000,000	6,000,000	6,390,085	0.50%
GTE SOUTH INC	7.50	03/15/26	6,000,000	5,924,398	6,213,718	0.49%
GENERAL AMERICAN TRANS CORP EQUIPMT TR	8.42	01/01/15	7,761,232	7,761,232	8,721,966	0.68%
GENERAL MOTORS ACCEPTANCE CORP	0.00	12/01/12	25,000,000	14,657,604	14,538,203	1.14%
GENERAL MOTORS ACCEPTANCE CORP	6.13	08/28/07	5,000,000	5,012,257	5,216,097	0.41%
GEORGIA PACIFIC CORP	8.25	03/01/23	5,000,000	5,053,668	5,093,750	0.40%
GEORGIA PACIFIC CORP	8.63	04/30/25	2,000,000	2,091,746	2,107,500	0.17%
ILLINOIS BELL TELEPHONE CO	6.63	02/01/25	2,000,000	1,805,523	1,976,114	0.16%
INTERNATIONAL LEASE FINANCE CORP	4.55	10/15/09	3,000,000	3,012,489	2,988,603	0.23%
INTERNATIONAL PAPER CO	6.88	11/01/23	2,000,000	1,977,001	2,036,877	0.16%
INTERNATIONAL PAPER CO	4.00	04/01/10	6,000,000	5,999,790	5,722,848	0.45%
JP MORGAN CAPITAL TRUST	7.54	01/15/27	4,000,000	3,793,232	4,155,180	0.33%
KCT INTERMODAL TRANSPORTATION CORP	6.88	08/01/18	1,808,933	1,808,933	1,949,264	0.15%
KELLWOOD CO	7.63	10/15/17	8,000,000	7,919,653	8,494,856	0.67%
KERR MCGEE CORP	7.13	10/15/27	3,000,000	3,036,664	3,038,297	0.24%
KERR MCGEE CORP	6.95	07/01/24	3,000,000	2,976,660	2,990,331	0.23%
KEYCORP	4.70	05/21/09	5,000,000	4,999,365	5,017,985	0.39%
MARSH + MCLENNAN COS INC	7.13	06/15/09	5,000,000	5,060,408	5,600,731	0.44%
MEAD CORP	7.35	03/01/17	4,000,000	3,997,171	4,392,827	0.34%
MED MAP L L C MONTANA	7.06	12/01/15	4,485,000	4,485,000	4,485,000	0.35%
MED MAP L L C MONTANA	7.00	06/01/21	4,720,000	4,720,000	4,720,000	0.37%
METLIFE INC	5.00	11/24/13	5,000,000	4,954,844	4,848,260	0.38%
MILLENIUM AMERICA INC	7.00	11/15/06	1,000,000	992,849	1,027,500	0.08%
MOBIL CORP	5.94	01/15/19	8,809,983	8,809,983	9,279,998	0.73%
MORGAN J P + CO INC	0.00	04/15/27	70,000,000	12,679,714	12,597,053	0.99%
NATIONWIDE FINANCIAL SERVICES INC	8.00	03/01/27	4,000,000	3,943,161	4,244,834	0.33%
NORFOLK SOUTHERN CORP	7.70	05/15/17	4,000,000	4,012,648	4,736,478	0.37%
NORFOLK SOUTHERN CORP	7.35	05/15/07	6,500,000	6,503,282	7,119,995	0.56%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.81	02/01/20	11,139,172	10,848,043	10,749,301	0.84%
NORTHWEST AIRLINES EQUIPMENT TRUST	7.94	04/01/19	4,040,836	3,997,205	4,303,490	0.34%
OCCIDENTAL PETROLEUM CORP	7.20	04/01/28	7,000,000	6,877,909	7,850,672	0.62%
OCCIDENTAL PETROLEUM CORP	8.75	01/15/23	4,000,000	4,000,000	5,123,677	0.40%
OLD REPUBLIC INTERNATIONAL CORP	7.00	06/15/07	3,000,000	2,999,520	3,278,814	0.26%
PPL MONTANA LLC	8.90	07/02/20	21,835,873	21,927,169	25,629,766	2.01%
PACIFIC BELL	7.25	11/01/27	4,000,000	3,973,756	4,136,621	0.32%
PHILLIPS PETROLEUM CO	7.13	03/15/28	4,000,000	3,945,426	4,180,184	0.33%
SEARS ROEBUCK ACCEP CORP	7.50	10/15/27	5,000,000	5,015,809	5,177,944	0.41%
SECURITY CAP GROUP INC	7.70	06/15/28	2,000,000	2,351,286	2,352,911	0.18%
SONAT INC	7.00	02/01/18	2,000,000	1,999,794	1,575,000	0.12%
SOUTHERN UNION CO	7.60	02/01/24	8,000,000	7,426,404	8,712,470	0.68%
SOUTHWEST GAS CORP	7.50	08/01/06	4,000,000	4,161,949	4,246,519	0.33%
SOUTHWEST GAS CORP	8.38	02/15/11	8,000,000	8,007,966	8,863,457	0.70%
SOUTHWESTERN BELL TEL CO	7.00	11/15/27	2,000,000	1,997,850	2,110,944	0.17%
SUNAMERICA INC	8.13	04/28/23	7,000,000	7,038,648	8,578,203	0.67%
SUPERVALU INC	7.88	08/01/09	7,000,000	6,988,797	7,848,313	0.62%
TEXAS GAS TRANSMISSION CORP	7.25	07/15/27	2,000,000	1,846,322	2,168,969	0.17%
TRANSCONTINENTAL GAS PIPE LINE	7.25	12/01/26	2,000,000	2,010,955	1,977,500	0.16%
TRISTATE GENERATIONTRANSPORTATION ASSOC	6.04	01/31/18	5,000,000	5,000,000	5,002,350	0.39%
TYSON FOODS INC	8.25	10/01/11	5,000,000	5,583,871	5,720,114	0.45%
ULTRAMAR DIAMOND SHAMROCK CORP	7.20	10/15/17	2,000,000	1,987,719	2,157,413	0.17%
UNION OIL CO CALIFORNIA	7.00	05/01/28	6,000,000	5,778,520	6,411,307	0.50%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
UNION PACIFIC RR CO	7.75	07/01/12	2,317,074	2,317,074	2,605,898	0.20%
UNION PACIFIC RESOURCES GROUP INC	7.05	05/15/18	6,000,000	5,940,805	6,489,985	0.51%
UNION TANK CAR CO	7.13	02/01/07	2,000,000	1,999,447	2,175,447	0.17%
UNION TANK CAR CO	7.45	06/01/09	5,000,000	5,000,000	5,668,462	0.45%
UNITED AIRLINES EQUIPMENT TRUST	7.03	10/01/10	9,408,328	9,306,823	7,855,954	0.62%
WESTERN PROPERTIES REIT	7.20	09/15/08	1,000,000	975,124	1,096,345	0.09%
WESTVACO CORP	7.65	03/15/27	6,000,000	5,976,657	6,677,873	0.52%
WEYERHAEUSER CO	8.50	01/15/25	8,000,000	9,244,284	9,641,361	0.76%
WILLAMETTE INDUSTRIES INC	7.00	02/01/18	1,000,000	938,230	1,046,001	0.08%
WILMINGTON TRUST TUCSON ELECTRIC	10.21	01/01/09	3,997,682	3,997,682	3,997,682	0.31%
WINN DIXIE	0.00	09/01/24	64,509,810	4,800,000	4,795,917	0.38%
ZIONS BANCORPORATION	5.65	05/15/14	3,000,000	2,946,741	2,965,755	0.23%
Corporate Other	**108 Issue(s)**		**648,210,901**	**517,408,977**	**546,932,475**	**42.98%**
FEDERAL HOME LOAN POOL G10814	5.50	05/01/13	921,494	920,882	947,879	0.07%
FEDERAL HOME LOAN POOL G10173	6.00	01/01/09	488,716	487,979	510,766	0.04%
FEDERAL HOME LOAN POOL G30006	7.00	07/01/13	541,054	541,054	572,102	0.04%
FEDERAL HOME LOAN POOL E99081	4.50	09/01/18	20,281,747	20,157,254	19,863,767	1.56%
FEDERAL HOME LOAN PC REMIC	9.15	10/15/20	186,967	184,903	186,928	0.01%
FEDERAL HOME LOAN PC REMIC	6.25	11/15/07	246,724	244,975	251,670	0.02%
FEDERAL HOME LOAN POOL C01523	5.00	03/01/33	8,492,309	8,421,155	8,221,285	0.65%
FEDERAL HOME LOAN POOL E00247	5.50	10/01/08	610,520	609,128	627,382	0.05%
FEDERAL HOME LOAN POOL E00659	6.00	04/01/14	1,297,983	1,297,081	1,357,356	0.11%
FEDERAL HOME LOAN POOL E01376	4.00	04/01/18	17,881,975	17,747,626	17,047,949	1.34%
FEDERAL HOME LOAN POOL E01418	4.00	07/01/18	18,332,272	17,680,324	17,497,852	1.37%
FEDERAL HOME LOAN POOL E01425	4.50	08/01/18	18,445,186	18,396,041	18,065,055	1.42%
FEDERAL HOME LOAN POOL B13150	4.00	03/01/19	19,462,655	19,462,655	18,576,783	1.46%
FNMA POOL 254233	5.00	03/01/17	8,473,828	8,211,424	8,518,514	0.67%
FNMA POOL 254631	5.00	02/01/18	10,354,295	10,489,565	10,401,457	0.82%
FNMA POOL 303202	6.50	05/01/14	1,620,793	1,607,791	1,701,761	0.13%
FNMA POOL 313999	6.00	02/01/13	637,130	634,396	666,871	0.05%
FNMA POOL 572220	6.00	03/01/16	1,660,371	1,656,120	1,732,688	0.14%
FNMA POOL 592327	5.50	06/01/16	2,135,532	2,090,832	2,194,343	0.17%
FNMA POOL 725346	4.00	03/01/19	19,500,856	19,291,513	18,608,107	1.46%
GNMA POOL 032974	9.50	09/15/09	29,177	27,975	31,646	0.00%
GNMA POOL 038164	10.00	01/15/10	70,971	70,786	78,354	0.01%
GNMA POOL 039321	10.00	12/15/09	27,872	27,800	30,688	0.00%
GNMA POOL 042547	10.00	10/15/10	8,807	8,782	9,766	0.00%
GNMA POOL 065459	11.50	04/15/13	5,804	5,747	6,729	0.00%
GNMA POOL 166690	9.00	06/15/16	16,256	16,170	17,705	0.00%
GNMA POOL 281467	9.00	09/15/19	28,111	28,007	30,875	0.00%
Government Mortgage-Backed	**27 Issue(s)**		**151,759,406**	**150,317,964**	**147,756,275**	**11.61%**
BENDER SHIPBUILDING + REPAIR USGG XI	6.20	09/30/12	10,987,530	10,987,530	10,987,530	0.86%
FEDERAL HOME LOAN MORTGAGE CORP	5.13	11/07/13	12,000,000	11,922,572	11,747,688	0.92%
FEDERAL HOME LOAN MORTGAGE CORP	3.25	06/18/18	20,000,000	19,951,847	18,521,180	1.45%
FEDERAL HOME LOAN MORTGAGE CORP	4.00	06/12/13	12,000,000	10,960,524	10,953,444	0.86%
FEDERAL HOME LOAN MORTGAGE CORP	4.00	07/18/18	15,000,000	15,000,000	13,827,123	1.09%
FEDERAL HOME LOAN MORTGAGE CORP	4.50	04/02/14	9,000,000	8,964,887	8,527,635	0.67%
FREDDIE MAC	4.10	01/28/14	30,000,000	30,000,000	28,793,460	2.26%
FEDERAL HOME LOAN MORTGAGE CORP	5.00	01/30/14	12,000,000	11,996,203	11,614,728	0.91%
FEDERAL HOME LOAN MORTGAGE CORP	0.00	06/21/32	100,000,000	14,591,838	13,940,000	1.09%
FEDERAL HOME LOAN BANKS	6.40	06/03/14	6,000,000	5,618,260	6,531,951	0.51%
FEDERAL HOME LOAN BANKS	7.00	08/26/19	7,000,000	6,962,906	8,324,988	0.65%
FEDERAL HOME LOAN BANKS	7.45	02/03/20	10,000,000	10,063,763	12,405,000	0.97%
FEDERAL HOME LOAN MORTGAGE CORP	8.25	06/01/26	7,000,000	7,294,069	8,672,377	0.68%
FEDERAL HOME LOAN MORTGAGE CORP	0.00	06/05/28	50,000,000	9,880,755	9,970,000	0.78%
FEDERAL HOME LOAN MORTGAGE CORP	0.00	09/14/29	100,000,000	18,075,929	17,541,900	1.38%
FEDERAL HOME LOAN MORTGAGE CORP	3.50	09/15/07	20,000,000	20,269,908	19,943,100	1.57%
FEDERAL NATIONAL MORTGAGE ASSN	6.00	05/15/08	15,000,000	14,747,294	16,149,912	1.27%
FEDERAL NATIONAL MORTGAGE ASSN	7.25	01/15/10	15,000,000	14,957,951	17,076,579	1.34%
FEDERAL NATIONAL MORTGAGE ASSN	7.13	01/15/30	25,000,000	27,075,700	29,187,878	2.29%
FEDERAL NATIONAL MORTGAGE ASSN	2.80	03/01/19	7,000,000	6,865,976	6,932,751	0.54%
GLOBAL INDUSTRIES LTD USGG XI	7.71	02/15/25	8,400,000	8,400,000	8,400,000	0.66%
REINAUER MARITIME CO LLC USGG XI	6.50	06/30/28	19,776,000	19,776,000	19,776,000	1.55%
STUDENT LOAN MARKETING ASSN	0.00	05/15/14	50,000,000	18,649,109	22,900,850	1.80%
T T BARGE SERVICES USGG XI	6.45	12/16/12	1,732,300	1,732,300	1,732,300	0.14%
TUNISIA AID USGG XI	6.71	02/01/24	4,000,000	3,806,408	4,000,000	0.31%
U S ARMY HOSPITALITY FUND	7.47	05/01/32	9,805,926	9,805,926	9,805,926	0.77%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
UNITED STATES TREASURY BONDS	7.25	05/15/16	14,000,000	14,449,755	16,926,875	1.33%
VESSEL MGMT SERVICES INC USGG XI	6.08	05/20/24	19,472,000	19,472,000	20,246,791	1.59%
Government Direct-Indirect	**28 Issue(s)**		**610,173,756**	**372,279,409**	**385,437,965**	**30.29%**
CANADIAN NATIONAL RY CO	6.80	07/15/18	4,000,000	3,980,795	4,481,146	0.35%
EASTERN ENERGY LTD	7.25	12/01/16	10,000,000	9,888,348	11,748,296	0.92%
GREAT LAKES POWER INC	9.00	08/01/04	10,000,000	9,999,603	10,057,041	0.79%
HOUSEHOLD FINANCE CORP	6.88	03/01/07	3,000,000	2,972,119	3,244,281	0.25%
HOUSEHOLD FINANCE CORP	6.50	11/15/08	5,000,000	4,865,042	5,415,679	0.43%
IBP FINANCIAL CO CANADA	7.45	06/01/07	3,000,000	2,999,396	3,212,310	0.25%
MACMILLAN BLOEDEL LTD	7.70	02/15/26	5,000,000	4,893,033	5,591,403	0.44%
PANAMERICAN BEVERAGES INC	7.25	07/01/09	7,000,000	6,986,038	7,630,000	0.60%
TRANSAMERICA FINANCIAL CORP	0.00	09/01/12	20,000,000	11,199,321	11,555,910	0.91%
TRANSCANADA PIPELINES LTD	8.50	03/20/23	5,000,000	5,212,167	5,211,323	0.41%
UNITED MEXICAN STATES	5.88	01/15/14	10,000,000	9,915,344	9,610,000	0.75%
Yankee Bonds	**11 Issue(s)**		**82,000,000**	**72,911,206**	**77,757,388**	**6.11%**
BUTTE SILVER BOW MONTANA TAX INDL	6.89	07/01/05	3,225,000	3,225,000	3,225,000	0.25%
MONTANA STATE TAXABLE RENEW (4 ISSUES)	7.35-7.40	8/1/2009-12	735,000	733,242	170,000	0.01%
MONTANA STATE BOARD HOUSING	8.45	08/01/39	1,145,000	1,145,000	1,145,000	0.09%
MONTANA CRP (83 ISSUES)	6.00-8.00	11/15/05-15	4,789,283	4,789,283	4,789,283	0.38%
State/Local Government	**89 Issue(s)**		**9,894,283**	**9,892,524**	**9,894,283**	**0.78%**
SHORT TERM INVESTMENT POOL			44,503,715	44,503,715	44,503,715	3.50%
Cash Equivalents	**1 Issue(s)**		**44,503,715**	**44,503,715**	**44,503,715**	**3.50%**
TFBP Total	**269 Issue(s)**		**1,610,457,775**	**1,228,326,752**	**1,272,454,411**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Short Term Investment Pool, as of June 30, 2004, and 2003, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Short Term Investment Pool, as of June 30, 2004, and 2003, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT TERM INVESTMENT POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2004 AND 2003

		2004		2003
Assets				
Cash	$	203,235	$	252,434
Interest receivable		403,650		619,408
Security lending cash collateral (Notes 3 and 4)		0		0
Unrealized loss (Note 2)		37,638		15,180
Investments managed at fair value (amortized cost of $1,479,812,941 in 2004 and $1,420,403,394 in 2003)(Notes 2 and 4)		1,479,775,303		1,420,388,214
Total assets	$	1,480,419,826	$	1,421,275,236
Liabilities				
Security lending expense payable	$	0	$	0
Income due participants		203,236		252,441
Security lending obligations(Notes 3 and 4)		0		0
Total liabilities	$	203,236	$	252,441
Net asset value	$	1,480,216,590	$	1,421,022,795
Units Outstanding (Note 2)		1,480,216,590		1,421,022,795
Unit Value (Note 2)	$	1	$	1

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net asset value, beginning of year	$	1,421,022,795	$	1,502,237,435
Value of units purchased by participants		6,284,553,085		6,003,654,371
Value of units sold by participants		(6,225,359,290)		(6,084,869,011)
Net asset value, end of year	$	1,480,216,590	$	1,421,022,795

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Investment income (Note 2)	$	16,110,043	$	21,605,295
Security lending income		0		209
Security lending expense		0		(187)
Administrative expenses		(310,392)		(322,224)
Income due participants, beginning of year		252,441		1,002,463
Income available for distribution		16,052,092		22,285,556
Distribution		15,848,856		22,033,115
Income due participants, end of year	$	203,236	$	252,441

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

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Short Term Investment Pool (STIP) was created by the Board to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. Although state agencies are legally required to invest in STIP, local governments may voluntarily participate in STIP.

The purpose of STIP is to obtain the highest possible return, yet maintain a highly liquid position whereby funds may be invested for relatively short periods, one day or more, depending upon the participant's anticipated use of the funds. The investments and the income from STIP are owned by the participants, as they purchase units, and are managed on their behalf by the Board.

Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Board has as policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of US government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities float with LIBOR (London Interbank Offered Rate).

Investments held are reported at fair value, annually, based on market prices supplied to the Board by the Board's custodial bank. The difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The STIP investment portfolio consists of securities with a maximum maturity of 397 days or less with the exception of securities having rate reset dates. The portfolio is carried at amortized cost or book value.

Participant Units

The STIP unit value is fixed at $1 for both participant buys and sells. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. Participants may buy or sell fractional shares. For fiscal years 2004 and 2003, income was distributed on the first calendar day of each month, with the exception of the June distribution. Income for June 2004 and June 2003 was distributed on the last calendar day of the month. Participants may automatically reinvest their income in additional units.

During fiscal years 2004 and 2003, the Board did not provide or obtain any legally binding guarantees to support the value of the participant units.

Broker Receivable/Payable

STIP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the STIP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Administrative expenses incurred by the Board are charged daily to STIP based on the Board's expenses applicable to STIP.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, 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. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2004 and June 30, 2003, the Board had no credit risk exposure to borrowers.

As of June 30, 2004 and June 30, 2003, there were no securities on loan.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below and on the following page to give an indication of the level of risk assumed at June 30, 2004 and June 30, 2003. Category 1 includes investments that are insured or registered or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2004

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral	Not Categorized	Carrying Amount	Fair Value
Asset-Backed Securities	940,831,210	0	0	940,831,210	940,844,477
Repurchase Agreements	34,000,000	0	0	34,000,000	34,000,000
Variable-Rate (Floating-Rate)	504,981,731	0	0	504,981,731	504,930,826
Total Investment	$ 1,479,812,941	$ 0	$ 0	$ 1,479,812,941	$ 1,479,775,303
Securities Lending Collateral Investment Pool			$ 0	$ 0	$ 0

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral	Not Categorized	Carrying Amount	Fair Value
Asset-Backed Securities	733,397,874	0	0	733,397,874	733,410,024
Repurchase Agreements	56,000,000	0	0	56,000,000	56,000,000
Variable-Rate (Floating-Rate)	631,005,520	0	0	631,005,520	630,978,190
Total Investment	$ 1,420,403,394	$ 0	$ 0	$ 1,420,403,394	$ 1,420,388,214
Securities Lending Collateral Investment Pool			$ 0	$ 0	$ 0

STIP investments' credit risk is measured by investment grade ratings given individual securities. Board of Investment's policy requires that STIP investments have the highest rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSRO's include Standard and Poors, Moody's, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch.

Asset-backed securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

While variable-rate securities have credit risk identical to similar fixed-rate securities, their interest rate (income) is more sensitive to interest rate changes. However, their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

The Board is not aware of any legal risks regarding any STIP investments.

5. YEAR END PORTFOLIO

The June 30, 2004 STIP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
CLIPPER RECEIVABLES CORP	discount	07/01/04	40,000,000	40,000,000	39,998,320	2.70%
MILLSTONE FUNDING LTD	discount	07/01/04	20,000,000	20,000,000	19,999,400	1.35%
HANNOVER FUNDING CO	discount	07/02/04	17,949,000	17,948,457	17,947,913	1.21%
HIGH PEAK FUNDING	discount	07/06/04	20,000,000	19,996,917	19,996,300	1.35%
RHINELAND FUNDING CAPITAL	discount	07/07/04	20,000,000	19,996,233	19,995,600	1.35%
RHINELAND FUNDING CAPITAL	discount	07/08/04	15,040,000	15,036,695	15,036,225	1.02%
EIFFEL FUNDING LTD	discount	07/09/04	20,000,000	19,995,067	19,994,460	1.35%
LOCKHART FUNDING LLC	discount	07/09/04	20,000,000	19,995,111	19,994,500	1.35%
EDISON ASSET SECURITIZATION	discount	07/12/04	20,000,000	19,993,217	19,992,600	1.35%
AUTOBAHN FUNDING CO LLC	discount	07/13/04	20,000,000	19,992,467	19,991,840	1.35%
LOCKHART FUNDING LLC	discount	07/13/04	20,000,000	19,992,467	19,991,840	1.35%
FIVE FINANCE INC	discount	07/14/04	20,000,000	19,991,911	19,991,280	1.35%
EDISON ASSET SECURITIZATION	discount	07/15/04	20,000,000	19,991,367	19,990,760	1.35%
HBOS TREASURY SERVICES PLC	discount	07/16/04	20,200,000	20,190,321	20,189,678	1.36%
EMINENT FUNDING I, LTD	discount	07/19/04	20,000,000	19,988,300	19,987,660	1.35%
DNA FINANCE CORP	discount	07/20/04	20,830,000	20,817,357	20,816,690	1.41%
PB FINANCE DEL INC	discount	07/21/04	20,000,000	19,987,111	19,986,460	1.35%
SUNBELT FUNDING CORP	discount	07/22/04	20,000,000	19,986,583	19,985,940	1.35%
EMINENT FUNDING I, LTD	discount	07/23/04	20,000,000	19,985,700	19,985,060	1.35%
SUNBELT FUNDING CORP	discount	07/26/04	20,000,000	19,983,889	19,983,240	1.35%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
NEPTUNE FUNDING CORP	discount	07/27/04	20,000,000	19,983,244	19,982,600	1.35%
BEETHOVEN FUNDING CORP	discount	07/28/04	20,000,000	19,982,300	19,981,640	1.35%
CHECK POINT CHARLIE, INC	discount	07/29/04	13,825,000	13,813,064	13,812,751	0.93%
DEALERS CAPITAL ACCESS TRUST INC	discount	07/30/04	12,700,000	12,688,133	12,687,719	0.86%
FIVE FINANCE INC	discount	07/30/04	10,000,000	9,990,656	9,990,330	0.68%
NEPTUNE FUNDING CORP	discount	07/30/04	15,000,000	14,985,983	14,985,495	1.01%
PB FINANCE DEL INC	discount	08/02/04	20,000,000	19,978,133	19,977,460	1.35%
MANHATTAN ASSET FUNDING	discount	08/03/04	20,000,000	19,976,900	19,976,200	1.35%
STARBIRD FUNDING CORP	discount	08/04/04	20,000,000	19,976,389	19,975,700	1.35%
MANHATTAN ASSET FUNDING	discount	08/05/04	20,000,000	19,975,500	19,974,800	1.35%
ADVANTAGE ASSET SECURITIES CORP	discount	08/06/04	15,033,000	15,014,359	15,013,848	1.01%
NEWBURY FUNDING	discount	08/09/04	18,500,000	18,474,347	18,473,693	1.25%
MPF TWO LTD	discount	08/10/04	14,000,000	13,979,778	13,979,266	0.94%
STARBIRD FUNDING CORP	discount	08/10/04	15,000,000	14,978,333	14,977,785	1.01%
LOCKHART FUNDING LLC	discount	08/11/04	20,000,000	19,971,983	19,971,300	1.35%
NEWBURY FUNDING	discount	08/11/04	11,400,000	11,382,732	11,382,307	0.77%
CHECK POINT CHARLIE, INC	discount	08/12/04	20,850,000	20,818,378	20,817,620	1.41%
DEALERS CAPITAL ACCESS TRUST INC	discount	08/13/04	20,000,000	19,968,228	19,967,480	1.35%
BLUE BELL FUNDING LTD	discount	08/16/04	20,000,000	19,964,989	19,964,220	1.35%
BEETHOVEN FUNDING CORP	discount	08/18/04	20,000,000	19,963,200	19,962,440	1.35%
AUTOBAHN FUNDING CO LLC	discount	08/20/04	19,195,000	19,157,676	19,156,936	1.29%
MICA FUNDING LLC	discount	08/23/04	20,000,000	19,958,778	19,958,000	1.35%
ARTH CAPITAL CORP	discount	08/24/04	15,426,000	15,393,605	15,393,004	1.04%
ARTH CAPITAL CORP	discount	08/25/04	11,778,000	11,752,808	11,752,348	0.79%
BLACK DIAMOND USA	discount	08/25/04	15,000,000	14,967,917	14,967,330	1.01%
STARBIRD FUNDING CORP	discount	08/25/04	20,000,000	19,957,528	19,956,760	1.35%
CHECK POINT CHARLIE, INC	discount	08/27/04	20,000,000	19,953,767	19,964,560	1.35%
CIESCO LP	discount	08/30/04	20,000,000	19,953,333	19,952,560	1.35%
STANFIELD VICTORIA FINANCE	2.350	06/30/05	40,000,000	40,000,000	40,032,560	2.71%
ASSET-BACKED SECURITIES			**941,726,000**	**940,831,210**	**940,844,477**	**63.58%**
STATE STREET REPO	1.140	07/01/04	34,000,000	34,000,000	34,000,000	2.30%
REPURCHASE AGREEMENT			**34,000,000**	**34,000,000**	**34,000,000**	**2.30%**
RATHGAR CAPITAL US CORP	1.140	07/06/04	25,000,000	25,000,000	24,999,750	1.69%
WHITE PINE FINANCE LLC	1.194	07/15/04	50,000,000	49,999,714	50,000,000	3.38%
CIT GROUP INC	1.440	08/26/04	40,000,000	40,000,000	39,987,976	2.70%
LIQUID FUNDING LTD	1.221	09/14/04	50,000,000	50,000,000	49,999,500	3.38%
GOLDMAN SACHS GROUP	1.200	02/07/05	40,000,000	40,000,000	39,921,600	2.70%
SIGMA FINANCE	1.350	03/10/05	50,000,000	49,994,822	50,067,000	3.38%
TANGO FINANCE CORP	1.373	03/11/05	50,000,000	49,996,534	49,987,500	3.38%
LINKS FINANCE LLC	1.189	03/15/05	50,000,000	49,996,479	49,992,000	3.38%
BELFORD U S CAP CO LLC	1.110	04/01/05	50,000,000	50,000,000	49,992,500	3.38%
WHISTLEJACKET CAPITAL LTD	1.470	04/15/05	50,000,000	49,994,182	49,993,000	3.38%
PARKLAND USA LLC	1.250	04/19/05	50,000,000	50,000,000	49,990,000	3.38%
VARIABLE-RATE (FLOATING RATES)			**505,000,000**	**504,981,731**	**504,930,826**	**34.12%**
TOTAL STIP			**1,480,726,000**	**1,479,812,941**	**1,479,775,303**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Domestic Equity Pool, as of June 30, 2004, and 2003, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Domestic Equity Pool, as of June 30, 2004, and 2003, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA DOMESTIC EQUITY POOL FINANCIAL STATEMENTS
STATEMENT OF NET ASSET VALUE JUNE 30, 2004 AND 2003

		MDEP 2004		MDEP (Note 1) 2003
Assets				
Cash	$		$	
Security lending cash collateral (Notes 3 and 4)		20,641,660		19,085,755
Dividend receivable		2,047,731		1,917,421
Interest receivable		26,061		10,291
Investments managed at fair value (carrying value of $2,479,060,702 in 2004 and $2,474,861,073 in 2003)(Notes 2 and 4)		2,902,284,868		2,577,470,669
Total assets	$	2,925,000,320	$	2,598,484,136
Liabilities				
Income due participants	$	2,611,096	$	2,041,555
Security lending expense payable		21,517		6,778
Administrative fee payable		0		18,034
Security lending obligations (Notes 3 and 4)		20,641,660		19,085,755
Total liabilities		23,274,273		21,152,122
Net asset value	$	2,901,726,047	$	2,577,332,014
Units Outstanding (Note2)		23,600,184		24,311,482
Unit Value (Note 2)	$	122.95	$	106.01

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net asset value, beginning of year	$	2,577,332,014	$	1,883,181,181
Value of MTCP units purchased by participants (Note 2)		0		14,398,568
Value of MTCP units sold by participants (Note 2)		0		(26,880,630)
Transfer of BGI and DFA investments to MDEP (Notes 1 and 2)		0		740,000,000
Value of MDEP units purchased by participants (Note 2)		62,463,000		25,000,000
Value of MDEP units sold by participants (Note 2)		(86,459,939)		0
Changes in fair value of investments managed (Note 2)		348,390,972		(58,367,105)
Net asset value, end of year	$	2,901,726,047	$	2,577,332,014

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Investment income (Note 2)	$	33,950,029	$	29,807,948
Security lending income		356,505		382,440
Security lending expense		(264,065)		(308,191)
Administrative expenses (Note 2)		(1,657,067)		(984,146)
Income due participants, beginning of year		2,041,555		1,478,632
Income available for distribution		34,426,957		30,376,683
Distribution (Note 2)		31,815,861		28,335,128
Income due participants, end of year	$	2,611,096	$	2,041,555

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

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA DOMESTIC EQUITY - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana Common Stock Pool (MTCP) was created by the Board to allow retirement and endowment funds, per section 17-6-201, MCA, the opportunity to participate in the equity market via a diversified pool. MTCP was created as of July 1, 1980, by the transfer of all common stock owned by the Public Employees' Retirement System, Teachers' Retirement System, and other funds into MTCP.

In March 1996, the Board approved the Investment Policy Statement to reflect the name change from the Montana Common Stock Pool to the Montana Stock Pool. The Montana Stock Pool is referred to as "Montcomp" or MTCP. This policy statement provided for the investment in common or preferred stock. The Investment Policy Statement has been subsequently revised and approved to allow investment in the following security types:

September 1996	**Securities convertible into common or preferred stocks**
June 2000	**Equity derivatives**
January 2004	**American Depositary Receipts (ADR's)**

The Board authorized creation of the Montana Domestic Equity Pool (MDEP) in April 2003. This pool combines the domestic equity investments of the Montana Stock Pool (MTCP), Barclays Global Investors (BGI) and Dimensional Fund Advisors (DFA). Effective May 1, 2003, the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all the BGI S&P 500 Equity Index Fund A and the DFA Small Cap Subtrust investments totaling $740 million, at cost, from the All Other Funds portfolio to the new pool. The pension and endowment funds also exchanged their investment in the Montana Stock Pool (MTCP) for units in the new Montana Domestic Equity Pool (MDEP).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MDEP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADR's) and equity derivatives. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR's are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options.

In June 2000, the Board approved the securitization of MTCP cash by investing in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Portfolio cash is swept daily into SPIFF maintaining 100% equity exposure through holdings of stock index futures.

The MDEP, as an internal investment pool, invested its excess cash, on creation, in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. In July 2003, the STIP account was closed and a SPIFF account was opened to securitize MDEP cash by investing in an equity derivative.

In January 2003, the Board approved a staff recommendation to hire Dimensional Fund Advisors (DFA), as an external manager, to invest in domestic small market capitalization (small cap) companies. Market capitalization refers to the value of a corporation as determined by the market price of its issued and outstanding common stock. DFA's Small Cap Subtrust targets those companies whose market capitalization comprises the smallest 8 percent of the total market universe. The total market universe is defined as the aggregate capitalization of the NYSE, AMEX and NASDAQ firms.

Investments are presented in the statement of Net Asset Value at fair value. Equity investments, on valuation date, are stated at the closing price of the security's primary exchange. Carrying value, parenthetically disclosed, represents the equity security purchase price plus a fixed commission where applicable.

Participant Units

The Public Employees' Retirement System and the Teachers' Retirement System transferred all stock owned into MTCP at the start-up date and were issued units according to the fair value of their contribution, retaining their original total cost basis. The initial unit value as of July 1, 1980, was $1,000. Unit values thereafter and until March 31, 2000 were calculated weekly and at the close of the last business day of the month, based on the fair value of MTCP equity holdings and other assets. Effective April 1, 2000, the unit values are calculated daily. Daily unit value calculations were discontinued as of January 1, 2003. Since January 2003, MTCP unit values are calculated weekly and at the close of the last business day of the month. Depending on stock market conditions and the investment officer's decision, MDEP participants may then buy or sell units on the first calendar day of each month based on the month end values.

On July 1, 1994, the initial unit value changed from $1,000 to $100. This change was required for the Board's new accounting system. On August 17, 2000, shareholders, on record, received one MTCP share for each MTCP share held as the result of a 2:1 split. The unit value on August 31, 2000, prior to the split, was $1,014 while the unit value, after the split, was $507.

On May 1, 2003, the pension funds transferred all the Barclays Global Investors (BGI) S&P 500 Equity Index Fund A and the Dimensional Fund Advisors (DFA) Small Cap Subtrust investments, at cost, to the MDEP. On the same date, the pension and endowment funds transferred their MTCP investments, at cost, to the MDEP. The pension and endowment funds were issued units according to the fair value of each participant's portfolio. The initial MDEP unit value on May 1, 2003 was $100. On conversion date, MTCP participants exchanged approximately 5.8 million MTCP units, valued at $302 per unit, for 24.1 million MDEP units, issued at $100 per unit.

As reported in the Statement of Changes in Net Asset Value, the value of MDEP units purchased by participants increased $37 million in fiscal year 2004 while the value of MDEP units sold increased by $86 million based on changes in the market. This change is based on fiscal year 2004 consisting of 12 months as compared to fiscal year 2003 consisting of two months. The value of MTCP units purchased in fiscal year 2004 decreased by $14 million to $0 due to the MDEP creation on May 1, 2003. The fiscal year 2004 and 2003 changes are the result of an asset allocation decision and do not reflect a change from the stated investment policy to increase retirement fund exposure to equity investments. MTCP participant purchases and sales from July 2002 to March 2003 were based on a MTCP per unit value ranging from $259 per unit to $308 per unit. In June 2003, the MDEP participants purchased units at $105 per unit to fund $25 million for the DFA US Small Cap Trust. In fiscal year 2004, MDEP participants bought and sold units at a price ranging from $108 to $125 per unit. The increase of $407 million in the Change in Fair Value of Investments Managed reflects the equity market appreciation since fiscal year 2003.

Broker Receivable/Payable

MDEP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MDEP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Other

Investment income reported in the Statement of Investment Income and Distribution includes dividend accruals, tax reclaim accruals, SPIFF gain/losses and miscellaneous income. MDEP dividends are recorded on the ex-dividend date.

The MDEP Income Available for Distribution is distributed as of the first calendar day of each month.
Administrative expenses incurred by the Board are charged daily to MDEP based on the Board's expenses applicable to MDEP. For fiscal year 2004, these expenses include $1,038,000 for the Board and the custodial bank contract and

$619,067 in accruals for external manager fees. For fiscal year 2003, these expenses include $966,446 for the Board and the custodial bank contract and $17,700 in accruals for external manager fees for May and June 2003.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, 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. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

As of June 30, 2004, the carrying and fair values of the underlying securities on loan for the Montana Domestic Equity Pool were $18,798,876 and $20,254,272 respectively. The collateral provided for the securities on loan totaled $20,641,660 in cash.

As of June 30, 2003, the carrying and fair values of the underlying securities on loan for the Montana Domestic Equity Pool were $19,578,118 and $18,747,547 respectively. The collateral provided for the securities on loan totaled $19,085,755 in cash.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized on the next page to give an indication of the level of risk assumed at June 30, 2004 and June 30, 2003. Category 1 includes investments that are insured or registered or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2004

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Common Stock Pool	$ 1,616,461,902	$ 0	$ 18,798,876	$ 1,635,260,778	$ 1,941,940,158
Equity Index Fund	544,162,050	0	0	544,162,050	596,835,124
DFA Small Cap Subtrust	260,000,000	0	0	260,000,000	323,104,286
SPIFF	39,637,874	0	0	39,637,874	40,405,300
STIP	0	0	0	0	0
Total Investment	$ 2,460,261,826	$ 0	$ 18,798,876	$ 2,479,060,702	$ 2,902,284,868
Securities Lending Collateral Investment Pool			$ 20,641,660	$ 20,641,660	$ 20,641,660

*** At June 30, 2004, the underlying securities with fair values of $20,254,272 were loaned for cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Common Stock Pool	$ 1,655,692,724	$ 0	$ 19,578,118	$ 1,675,270,842	$ 1,817,071,361
Equity Index Fund	710,000,000	0	0	710,000,000	661,781,844
DFA Small Cap Subtrust	55,000,000	0	0	55,000,000	62,981,234
SPIFF	34,575,711	0	0	34,575,711	35,621,710
STIP	14,520	0	0	14,520	14,520
Total Investment	$ 2,455,282,955	$ 0	$ 19,578,118	$ 2,474,861,073	$ 2,577,470,669
Securities Lending Collateral Investment Pool			$ 19,085,755	$ 19,085,755	$ 19,085,755

*** At June 30, 2003, the underlying securities with fair values of $18,747,547 were loaned for cash collateral under a security lending agreement with the state's agent.**

5. OWENS-CORNING COMPLAINT

On October 11, 2002, the Board received a summons and complaint regarding the bankruptcy of Owens-Corning. The company seeks a determination that the dividend payments paid from October 1996 through July 2000 represent "fraudulent transfers under Chapter 11 Bankruptcy provisions and applicable state law, and are, therefore, voidable". The complaint states the Montana Board of Investments was the "recipient of dividends in the amount of $357,099 for the relevant period". The Board has prepared a response to the complaint.

6. YEAREND PORTFOLIO

The June 30, 2004 MDEP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Shares	Carrying Value	Fair Value	% of Total
GENERAL ELECTRIC CO	2,576,200	55,496,833	83,468,880	2.88%
MICROSOFT CORP	2,721,000	96,323,133	77,711,760	2.68%
PFIZER INC	2,078,260	80,487,746	71,242,753	2.45%
CITIGROUP INC	1,461,866	24,958,920	67,976,769	2.34%
EXXON MOBIL CORP	1,439,912	38,973,263	63,946,492	2.20%
JOHNSON + JOHNSON	804,000	15,125,692	44,782,800	1.54%
AMERICAN INTERNATIONAL GROUP INC	599,750	30,545,337	42,750,180	1.47%
INTEL CORP	1,544,000	12,881,172	42,614,400	1.47%
WAL MART STORES INC	750,000	38,897,531	39,570,000	1.36%
CISCO SYSTEMS INC	1,605,000	22,120,032	38,038,500	1.31%
INTERNATIONAL BUSINESS MACHINES	408,000	18,509,180	35,965,200	1.24%
J P MORGAN CHASE + CO	875,900	30,371,102	33,958,643	1.17%
CHEVRONTEXACO CORP	333,350	21,042,296	31,371,569	1.08%
COCA COLA CO	605,000	30,989,290	30,540,400	1.05%
WELLS FARGO + CO	533,000	9,121,533	30,503,590	1.05%
VIACOM INC	818,000	32,793,750	29,218,960	1.01%
TEXAS INSTRUMENTS INC	1,059,000	43,837,687	25,606,620	0.88%
MERCK + CO INC	539,000	11,770,324	25,602,500	0.88%
ABBOTT LABS	615,000	5,371,910	25,067,400	0.86%
DISNEY WALT CO	970,000	28,515,583	24,725,300	0.85%
VERIZON COMMUNICATIONS	674,308	19,918,151	24,403,207	0.84%
DELL INC	681,000	24,867,930	24,393,420	0.84%
ALTRIA GROUP INC	480,000	20,193,362	24,024,000	0.83%
UNITED TECHNOLOGIES CORP	258,000	8,737,819	23,601,840	0.81%
BANK AMERICA CORP	275,000	20,087,258	23,270,500	0.80%
BANK NEW YORK INC	705,000	31,181,709	20,783,400	0.72%
TYCO INTERNATIONAL LTD	580,000	7,400,829	19,221,200	0.66%
AMGEN INC	351,000	18,361,169	19,154,070	0.66%
HEWLETT PACKARD CO	890,000	17,866,843	18,779,000	0.65%
3M CO	207,600	11,112,412	18,686,076	0.64%
UNITED PARCEL SERVICE INC	246,000	15,853,714	18,491,820	0.64%
QUALCOMM INC	250,000	16,765,376	18,245,000	0.63%
AMERICAN EXPRESS CO	355,000	5,836,063	18,239,900	0.63%
ORACLE CORP	1,497,000	21,403,572	17,859,210	0.62%
MORGAN STANLEY	331,000	16,321,232	17,466,870	0.60%
PROCTER + GAMBLE CO	320,000	13,413,874	17,420,800	0.60%
EMERSON ELECTRIC CO	273,000	9,794,277	17,349,150	0.60%
GOLDMAN SACHS GROUP INC	180,000	15,936,058	16,948,800	0.58%
OMNICOM GROUP	219,000	14,504,141	16,619,910	0.57%
HOME DEPOT INC	470,000	17,018,481	16,544,000	0.57%
MEDTRONIC INC	338,000	15,353,608	16,467,360	0.57%
COMCAST CORP	570,000	14,407,610	15,977,100	0.55%
MELLON FINANCIAL CORP	540,000	24,343,674	15,838,200	0.55%
ANHEUSER BUSCH COS INC	290,000	14,996,064	15,660,000	0.54%
COSTCO WHOLESALE CORP	380,000	13,464,237	15,606,600	0.54%
UNITEDHEALTH GROUP INC	250,000	15,863,603	15,562,500	0.54%
DU PONT E I DE NEMOURS + CO	336,000	13,084,038	14,925,120	0.51%
CONOCOPHILLIPS	187,080	11,179,840	14,272,333	0.49%
FEDERAL NATIONAL MTG ASSN	200,000	12,946,028	14,272,000	0.49%
WYETH	393,000	22,115,523	14,210,880	0.49%
FIRST DATA CORP	316,000	11,457,313	14,068,320	0.48%
INTUIT	363,000	16,414,231	14,004,540	0.48%
FEDERAL HOME LN MTG CORP	220,000	11,809,904	13,926,000	0.48%

Security Name	Shares	Carrying Value	Fair Value	% of Total
BEST BUY CO INC	271,000	9,790,297	13,750,540	0.47%
SCHLUMBERGER LTD	200,000	11,028,293	12,702,000	0.44%
BRISTOL MYERS SQUIBB CO	509,000	20,882,003	12,470,500	0.43%
MERRILL LYNCH + CO INC	230,000	13,182,101	12,415,400	0.43%
EMC CORP	1,083,000	17,819,020	12,346,200	0.43%
NEXTEL COMMUNICATIONS INC	455,000	11,971,451	12,130,300	0.42%
HONEYWELL INTERNATIONAL INC	320,000	10,161,627	11,721,600	0.40%
BOSTON SCIENTIFIC CORP	270,000	8,206,093	11,556,000	0.40%
TIME WARNER INC	652,500	23,791,010	11,470,950	0.40%
LILLY ELI + CO	160,000	9,970,910	11,185,600	0.39%
COLGATE PALMOLIVE CO	190,000	9,896,352	11,105,500	0.38%
INTERNATIONAL PAPER CO	245,000	9,031,924	10,951,500	0.38%
WALGREEN CO	300,000	8,915,910	10,863,000	0.37%
AUTOMATIC DATA PROCESSING INC	248,600	7,255,669	10,411,368	0.36%
MARSH + MCLENNAN COS INC	226,400	9,220,651	10,274,032	0.35%
PEPSICO INC	180,000	8,239,207	9,698,400	0.33%
CATERPILLAR INC	121,000	5,777,158	9,612,240	0.33%
US BANCORP	340,000	9,618,844	9,370,400	0.32%
ALCOA INC	273,600	9,131,115	9,037,008	0.31%
MBNA CORP	350,000	6,538,820	9,026,500	0.31%
WACHOVIA CORP	200,000	7,308,200	8,900,000	0.31%
BED BATH + BEYOND INC	228,000	9,420,336	8,766,600	0.30%
LEXMARK INTERNATIONAL INC	89,800	5,501,094	8,668,394	0.30%
UNION PACIFIC CORP	143,800	6,340,672	8,548,910	0.29%
TERADYNE INC	352,000	8,803,320	7,990,400	0.28%
ECOLAB INC	250,000	6,311,180	7,925,000	0.27%
EXPRESS SCRIPTS INC	100,000	7,602,348	7,923,000	0.27%
AIR PRODS + CHEMS INC	150,000	7,393,593	7,867,500	0.27%
COMPUTER SCIENCES CORP	166,600	8,323,714	7,735,238	0.27%
BIOMET INC	168,900	4,684,533	7,505,916	0.26%
INGERSOLL RAND COMPANY LIMITED	109,000	4,392,684	7,445,790	0.26%
AMBAC FINANCIAL GROUP INC	100,600	5,231,081	7,388,064	0.25%
FOREST LABS INC	130,000	8,249,369	7,361,900	0.25%
ANADARKO PETE CORP	125,000	5,618,263	7,325,000	0.25%
SAP AKTIENGESELLSCHAFT	174,000	5,812,429	7,274,940	0.25%
FISERV INC	180,000	6,590,097	7,000,200	0.24%
ALLTEL CORP	135,100	8,322,032	6,838,762	0.24%
MARRIOTT INTERNATIONAL INC	136,600	5,444,794	6,813,608	0.23%
FORTUNE BRANDS INC	90,000	3,907,110	6,788,700	0.23%
PAYCHEX INC	200,000	7,587,740	6,776,000	0.23%
GILEAD SCIENCES INC	100,000	5,422,980	6,700,000	0.23%
HALLIBURTON CO	220,000	6,168,468	6,657,200	0.23%
CLEAR CHANNEL COMMUNICATIONS	180,000	7,647,976	6,651,000	0.23%
CLOROX CO	120,200	5,125,881	6,464,356	0.22%
CARDINAL HEALTH INC	80,000	4,852,311	5,604,000	0.19%
TRIBUNE CO	120,000	5,888,912	5,464,800	0.19%
NABORS INDUSTRIES LTD	120,000	4,948,176	5,426,400	0.19%
PNC FINANCIAL SERVICES GROUP INC	100,000	5,464,460	5,308,000	0.18%
CITRIX SYSTEMS INC	250,000	5,358,705	5,090,000	0.18%
MYLAN LABS INC	250,000	5,696,850	5,062,500	0.17%
FRANKLIN RESOURCES INC	100,000	3,812,542	5,008,000	0.17%
WASHINGTON MUTUAL INC	125,000	5,233,863	4,830,000	0.17%
MCCORMICK + CO INC	140,000	3,586,193	4,760,000	0.16%
KNIGHT RIDDER INC	65,000	4,444,304	4,680,000	0.16%
SIEBEL SYSTEMS INC	400,000	4,458,280	4,272,000	0.15%
TARGET CORP	100,000	2,117,264	4,247,000	0.15%
XILINX INC	127,100	2,744,852	4,233,701	0.15%
MOTOROLA INC	220,000	4,261,598	4,015,000	0.14%

Security Name	Shares	Carrying Value	Fair Value	% of Total
SUNTRUST BANKS INC	60,000	4,221,450	3,899,400	0.13%
FIFTH THIRD BANCORP	70,000	4,021,598	3,764,600	0.13%
VISHAY INTERTECHNOLOGY INC	200,000	4,030,265	3,716,000	0.13%
KINDER MORGAN INC	60,000	3,541,578	3,557,400	0.12%
COMPASS BANCSHARES INC	80,000	3,117,868	3,440,000	0.12%
FLEXTRONICS INTERNATIONAL LTD	200,000	3,679,105	3,190,000	0.11%
COMMON STOCK POOL TOTAL	**49,304,026**	**1,635,260,778**	**1,941,940,158**	**66.91%**
BGI S & P 500 INDEX FUND A	1,956,193	544,162,011	596,835,085	20.56%
BGI MONEY MARKET FUND	38	38	38	0.00%
BGI CASH	1	1	1	0.00%
BGI EQUITY INDEX FUND	**1,956,232**	**544,162,050**	**596,835,124**	**20.56%**
DIMENSIONAL FUND ADVISORS INC	386,262	260,000,000	323,104,286	11.13%
DFA SMALL CAP SUBTRUST	**386,262**	**260,000,000**	**323,104,286**	**11.13%**
STATE STREET SPIFF	233,071	33,509,500	34,236,062	1.18%
STATE STREET SPIFF	41,999	6,128,374	6,169,238	0.21%
TOTAL EQUITY FUTURES	**275,070**	**39,637,874**	**40,405,300**	**1.39%**
MDEP TOTAL	**51,921,590**	**2,479,060,702**	**2,902,284,868**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana International Equity Pool, as of June 30, 2004, and 2003, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana International Equity Pool, as of June 30, 2004, and 2003, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA INTERNATIONAL EQUITY POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2004 AND 2003

		2004		2003
Assets				
Cash	$	1,803,332	$	868,216
Security lending cash collateral (Notes 3 and 4)		43,804,312		78,496,331
Broker receivable for securities sold but not settled (Note 2)		6,267,489		953,991
Dividend and interest receivable		1,057,520		1,018,759
Investments managed at fair value (cost of $786,482,403 in 2004 and $489,383,398 in 2003) (Notes 2 and 4)		853,937,359		470,729,781
Total assets	$	906,870,012	$	552,067,078
Liabilities				
Income due participants	$	926,817	$	771,639
Broker payable for securities purchased but not settled (Note 2)		3,743,798		25,723,955
Security lending obligations (Note 3)		43,804,312		78,496,331
Security lending expense payable		37,056		52,149
Due to other funds		0		35,604
Unrealized foreign exchange market gain (loss)		29,336		(16,024)
Administrative fee payable		413,882		335,584
Total liabilities		48,955,201		105,399,238
Net asset value	$	857,914,811	$	446,667,840
Units Outstanding (Note 2)		7,966,121		5,356,076
Unit Value (Note 2)	$	107.70	$	83.39

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net asset value, beginning of year	$	446,667,840	$	429,150,556
Value of units purchased by participants (Note 2)		253,000,000		51,046,000
Value of units sold by participants		0		(53,957)
Changes in current value of investments managed		158,246,971		(33,474,759)
Net asset value, end of year	$	857,914,811	$	446,667,840

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Investment income (Note 2)	$	9,158,659	$	9,960,157
Security lending income		716,276		1,042,890
Security lending expense		(447,343)		(671,198)
Administrative expenses (Note 2)		(2,280,171)		(1,785,948)
Income due participants, beginning of year		771,639		864,830
Income available for distribution		7,919,060		9,410,731
Distribution (Note 2)		6,992,243		8,639,092
Income due participants, end of year	$	926,817	$	771,639

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

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA INTERNATIONAL EQUITY POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 and 2003

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana International Equity Pool (MTIP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, the opportunity to participate in the international equity market via a diversified pool. MTIP, approved by the Board in June 1996, consists of one pool investing in one or more separate funds. On January 3, 1997, the MTIP was funded by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds. Currently, the MTIP has investments with four externally managed funds, Pyrford International, Schroder Investment Management NA, Nomura Asset Management U.S.A. Inc. and Barclays Global Investors.

In fiscal year 2003, the Board funded external managers, Pyrford International, $27 million, and Schroder Investment Management NA, $9 million, for a total active investment funding of $36 million. In May 2003, the Board funded the Barclays Global Investors (BGI) MSCI Europe Index Fund with an initial $15 million investment.

On July 1, 2003, the Board funded MTIP with a $35 million purchase in the State Street Stock Performance Index Futures Fund (SPIFF). SPIFF shares were subsequently sold to fund $25 million to the BGI MSCI Europe Index Fund on July 3, 2003.

In August 2003, the Board invested in the BGI All Country Pacific Index Strategy Fund with an initial funding of $15 million.

On October 30, 2003, the Board voted to retain Schroder Investment Management NA, hire Nomura Asset Management U.S.A, Inc. and terminate SG Yamaichi Asset Management, Co. as active managers for the Board's Pacific Basin equity mandate. Schroder Investment Management NA was originally selected by the Board in October 1996.

SG Yamaichi Asset Management, Co. ceased equity trading in the Pacific Basin on October 31, 2003. The MTIP investment in SG Yamaichi Asset Management, Co. of $105 million was transferred to Nomura Asset Management U.S.A, Inc. Upon transition, Nomura Asset Management U.S.A, Inc. began equity trading in the Pacific Basin on December 1, 2003.

The internally managed fund, BOI Internal International, was closed in January 2004. The BOI Internal International assets were sold and restructured by Barclays Global Investors for an investment of $190.4 million in the BGI MSCI Europe Index Fund. The sale and restructure of the BOI Internal International fund generated a gain of $25.7 million.

In fiscal year 2004, the Board funded $15 million to BOI Internal International, $170 million to the Barclays Global Investors (BGI) MSCI Europe Index Fund, $40 million to the BGI All Country Pacific Index Strategy Fund and $28 million to the State Street SPIFF account.

Schroder Investment Management NA, Nomura Asset Management U.S.A, Inc. from December 2003, SG Yamaichi Asset Management Co. through October 2003, and the BGI All Country Pacific Index Strategy Fund are authorized to invest in 12 Pacific Basin countries. These countries are listed as follows:

Pacific Basin Countries

Australia	**Indonesia**	**Malaysia**	**Singapore**
China	**Japan**	**New Zealand**	**Taiwan**
Hong Kong	**Korea**	**Philippines**	**Thailand**

As approved by the Board, the BOI Internal International fund, Pyrford International and the BGI MSCI Europe Index Fund may invest in 16 European countries. These countries are listed as follows:

European Countries

Austria	**France**	**Italy**	**Spain**
Belgium	**Germany**	**Netherlands**	**Sweden**
Denmark	**Greece**	**Norway**	**Switzerland**
Finland	**Ireland**	**Portugal**	**United Kingdom**

In March 2003, the Board voted to liquidate all BOI Internal International holdings in France. On October 30, 2003, the Board voted to add France to the list of approved countries for the BOI Internal International portfolio.

In December 2003, the Board voted to retain Pyrford International, as an external investment manager for Europe. Pyrford International was originally selected by the Board in August 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MTIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MTIP portfolio includes equity investments in six funds - BOI Internal International through January 2004, Pyrford International, Schroder Investment Management NA, Nomura Asset Management U.S.A, Inc. from December 2003, SG Yamaichi Asset Management Co. through October 2003, the BGI MSCI Europe Index Fund and the BGI All Country Pacific Index Strategy Fund. The six funds may invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, convertible securities, American Depositary Receipts (ADR's), Global Depositary Receipts (GDR's), and other global securities, as appropriate.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Preferred stock pays a stipulated dividend and has a claim prior to that of common stock upon the earnings of a corporation. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. ADR's are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. GDR's are receipts issued by non-US bank depositaries, which represent shares of a foreign stock or bonds.

Broker Receivable/Payable

MTIP security transactions are recorded as of the trade date rather than settlement date. Because of this generally accepted practice, the MTIP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Valuation and Foreign Currency

Investments are presented in the statement of Net Asset Value at current US dollar value. The MTIP's fair value is derived from the Net Asset Value per Share, as separately calculated, for four funds - BOI Internal International through January 2004, Pyrford International, Schroder Investment Management NA, Nomura

Asset Management U.S.A, Inc. from December 2003, and SG Yamaichi Asset Management Co. through October 2003. Each fund's Net Asset Value per Share represents the per unit ownership of the fund's Net Assets. The Net Assets are the excess of the valued securities, cash, receivables and other assets over the fund's liabilities. Each fund's Net Assets are reported at current US dollar value after conversion, by the custodial bank, State Street Bank and Trust, from the foreign currency amounts. The MTIP's fair value also includes the per share fair value of the BGI MSCI Europe Index Fund, the BGI All Country Pacific Index Strategy Fund and the State Street Bank SPIFF account.

State Street Bank, as custodian, is responsible for reporting the foreign currency transactions in both the local and base or functional (US dollar) currency. The four funds' cash, receivables, fair value of investment securities, other assets and liabilities are translated into US dollars at the Interactive Data Control (IDC) 11:00 a.m. Eastern Standard Time (EST) exchange rate as of the balance sheet date. Purchases and sales of investment securities, income and expenses are converted into US dollars using the Reuters noon EST exchange rate on the transaction date.

Currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the US dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the US dollar value of investments, is not authorized.

Fair values for the funds holding the publicly traded securities are determined by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank, their primary pricing service, IDC and Barclays Global Investors. Equity investments, traded on a national security exchange, are stated at the last reported sales price on valuation day, while equity securities traded in the over-the-counter market are stated at the last quoted bid price.

Participant Units

The Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds sold units in the Short Term Investment Pool at the start up date and were issued units in MTIP at an initial unit value of $100. Unit values thereafter are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Based on the investment officers' decision, participants may then buy or sell units on the first business day of each month. All participant buys or sells occur after distribution of accumulated income.

Investment Income and Distribution

Investment Income represents the monthly income distributions to the MTIP from the investment manager funds. The funds' income distributions include dividends accrued as of the ex-dividend date, interest, tax refunds and securities lending income, and related income currency gains/losses. Income currency gains/losses result from the difference between the amount of dividend, interest and foreign withholding taxes accrued for the fund in US dollars and the amount received or paid in equivalent US dollars.

Realized gains/losses from the sale of securities and related foreign exchange transactions are retained by each fund. Realized foreign exchange gains/losses arise from sales and maturities of portfolio securities, sales of foreign currencies, and currency gains/losses realized between the trade and settlement dates.

The fiscal year 2004 administrative expense of $2,280,171 represents $1,762,323 in quarterly fees accrued and paid to the external managers per their contracts and $517,848 in monthly charges accrued and paid to the Board of Investments.

The fiscal year 2003 administrative expense of $1,785,948 represents $1,358,700 in quarterly fees accrued and paid to the external managers per their contracts, and $427,248 in monthly charges accrued and paid to the Board of Investments.

As described above, the Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MTIP based on the Board's expenses applicable to MTIP.

The MTIP Income Available for Distribution is distributed at least monthly to the retirement fund participants, net of external manager fees and administrative expenses, on the first business day of the following month.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, 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. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 105 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar and foreign currency cash, US government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

As of June 30, 2004, the carrying and fair values of the underlying securities on loan for MTIP were $33,107,687 and $41,747,542, respectively. The collateral provided for the securities on loan totaled $43,804,312 in cash collateral.

As of June 30, 2003, the carrying and fair values of the underlying securities on loan for MTIP were $75,267,314 and $74,813,847, respectively. The collateral provided for the securities on loan totaled $78,496,331 in cash collateral.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 2004 and June 30, 2003. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2004

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
BGI MSCI Europe Index	$ 375,433,656	$ 0	$ 0	$ 375,433,656	$ 389,187,569
BOI MSCI Pacific Index	40,005,322	0	0	40,005,322	46,167,852
BGI Cash and Money Market	781	0	0	781	781
SPIFF	31,374,029	0	0	31,374,029	31,685,217
Schroder Investment Mgmt.	118,527,086	0	13,211,062	131,738,148	150,236,944
Pyford International	100,537,724	0	19,179,273	119,716,997	133,028,120
Nomura	87,496,118	0	717,352	88,213,470	103,630,876
Total Investment	$ 753,374,716	$ 0	$ 33,107,687	$ 786,482,403	$ 853,937,359
Securities Lending Collateral Investment Pool			43,804,312	43,804,312	43,804,312

* At June 30, 2004, the underlying securities with fair values of $41,747,542 were loaned for cash collateral under a securities lending agreement with the state's agent.

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
BGI MSCI Europe Index	$ 40,000,000	$ 0	$ 0	$ 40,000,000	$ 41,094,723
BOI Internal International	114,468,681	0	18,460,365	132,929,046	132,270,563
Pyford International	107,654,491	0	15,172,082	122,826,573	109,475,945
Schroder Investment Mgmt.	98,495,947	0	21,876,365	120,372,312	113,041,041
SG Yamaichi Asset Mgmt.	53,496,965	0	19,758,502	73,255,467	74,847,509
Total Investment	$ 414,116,084	$ 0	$ 75,267,314	$ 489,383,398	$ 470,729,781
Securities Lending Collateral Investment Pool			78,496,331	78,496,331	78,496,331

* At June 30, 2003, the underlying securities with fair values of $74,813,847 were loaned for cash collateral under a securities lending agreement with the state's agent.

The MTIP, through the above funds, has significant investments in 20 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the above funds in which MTIP is invested.

5. SUBSEQUENT EVENT

On October 21, 2004, the Board authorized the investment in the Dimensional Fund Advisors International Small Companies portfolio. On November 1, 2004, the Board made an initial investment of $10 million in this fund.

6. YEAR END PORTFOLIO

The combined investment portfolios for the five funds, as of June 30, 2004 are listed below by country. The

percent is based on the total fair value of each security/country to the combined total portfolio fair value.

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
AUSTRALIA	ALUMINA LIMITED	98,899	401,269	362,972	0.04%
AUSTRALIA	AMCOR LIMITED	169,567	699,197	822,968	0.10%
AUSTRALIA	AUSTRALIA / NEW ZEALAND BANK GRP	70,797	787,862	899,577	0.11%
AUSTRALIA	AUSTRALIA GAS + LIGHT	33,535	255,663	282,752	0.03%
AUSTRALIA	BHP BILLITON LTD	467,510	2,471,293	4,077,377	0.48%
AUSTRALIA	BRAMBLES INDUSTRIES LTD	230,070	1,183,916	961,601	0.11%
AUSTRALIA	COCA COLA AMATIL	103,100	311,625	497,709	0.06%
AUSTRALIA	COMMONWEALTH BK OF AUSTRALIA	94,431	1,507,522	2,142,487	0.25%
AUSTRALIA	CSL LIMITED	15,725	182,854	244,275	0.03%
AUSTRALIA	FOODLAND ASSOC	30,786	421,713	385,188	0.05%
AUSTRALIA	FOSTERS GROUP	343,735	1,109,536	1,129,521	0.13%
AUSTRALIA	INSURANCE AUSTRALIA GROUP	145,301	455,415	504,994	0.06%
AUSTRALIA	LEND LEASE CORP	104,693	723,430	748,985	0.09%
AUSTRALIA	MACQUARIE INFRASTRUCTURE GRP	317,100	701,000	728,943	0.09%
AUSTRALIA	MAYNE GROUP LTD	90,051	228,098	213,447	0.02%
AUSTRALIA	NATIONAL AUSTRALIA BANK	120,746	2,547,062	2,508,480	0.29%
AUSTRALIA	NEWS CORPORATION	122,906	871,713	1,003,825	0.12%
AUSTRALIA	NEWS CORPORATION	197,500	1,660,489	1,744,495	0.20%
AUSTRALIA	PUBLISHING + BROADCASTING LTD	80,000	697,210	716,105	0.08%
AUSTRALIA	RINKER GROUP	116,507	510,749	651,921	0.08%
AUSTRALIA	RIO TINTO LIMITED	87,219	1,802,774	2,182,543	0.26%
AUSTRALIA	TABCORP HOLDINGS LTD	43,701	360,966	432,562	0.05%
AUSTRALIA	TELSTRA CORP	99,394	287,308	347,516	0.04%
AUSTRALIA	WESTFIELD TRUST	5,700	15,241	17,314	0.00%
AUSTRALIA	WESTFIELD TRUST	157,104	387,904	481,585	0.06%
AUSTRALIA	WESTPAC BANKING CORP	263,690	2,430,119	3,230,126	0.38%
AUSTRALIA	WOODSIDE PETROLEUM	82,040	678,569	951,866	0.11%
AUSTRALIA	WOOLWORTHS LTD	122,100	986,940	969,625	0.11%
AUSTRALIA 28 ISSUE(S)		**3,813,907**	**24,677,440**	**29,240,763**	**3.42%**
BELGIUM	DEXIA	203,340	2,495,673	3,364,553	0.39%
BELGIUM	DEXIA STRIPS	129,140	0	1,571	0.00%
BELGIUM 2 ISSUE(S)		**332,480**	**2,495,673**	**3,366,124**	**0.39%**
CHINA	AVICHINA INDUSTRY	1,300,000	266,635	151,673	0.02%
CHINA	CHINA OILFIELD SER	2,560,000	635,153	730,275	0.09%
CHINA	CHINA TELECOM CORP	2,962,000	902,722	1,034,828	0.12%
CHINA	FUJIAN ZIJIN MININ	906,000	324,299	307,820	0.04%
CHINA	HUANENG POWER INTL	282,000	200,120	251,279	0.03%
CHINA	PING AN INSURANCE	168,500	225,434	228,993	0.03%
CHINA	PING AN INSURANCE	349,500	467,319	474,974	0.06%
CHINA	ZHEJIANG EXPRESSWAY	582,000	217,274	414,126	0.05%
CHINA 8 ISSUE(S)		**9,110,000**	**3,238,955**	**3,593,967**	**0.42%**
FRANCE	AIR LIQUIDE(L)	3,363	451,101	556,048	0.07%
FRANCE	CNP ASSURANCES	41,300	1,633,955	2,396,310	0.28%
FRANCE	TOTAL SA	24,900	3,538,744	4,747,162	0.56%
FRANCE	VALEO	83,700	3,274,886	3,487,801	0.41%
FRANCE	VEOLIA ENVIRONNEMENT	87,900	1,752,729	2,480,021	0.29%
FRANCE 5 SSUE(S)		**241,163**	**10,651,415**	**13,667,342**	**1.60%**
GERMANY	HENKEL KGAA	6,900	396,625	589,153	0.07%
GERMANY	SCHERING AG	38,600	1,798,483	2,274,403	0.27%
GERMANY 2 ISSUE(S)		**45,500**	**2,195,108**	**2,863,556**	**0.34%**
HONG KONG	CATHAY PACIFIC AIR	53,808	92,859	101,411	0.01%
HONG KONG	CHEUNG KONG HOLDINGS	70,000	480,655	516,045	0.06%
HONG KONG	CHINA MERCHANTS HOLDINGS INTL	524,000	533,998	705,405	0.08%
HONG KONG	CHINA MOBILE	226,500	629,370	685,334	0.08%
HONG KONG	CHINA PETROLEUM + CHEMICAL	1,100,000	327,813	401,939	0.05%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
HONG KONG	CLP HOLDINGS	152,736	706,442	836,164	0.10%
HONG KONG	CNOOC LTD	2,346,000	743,747	992,569	0.12%
HONG KONG	DENWAY MOTORS LTD	462,352	126,360	167,461	0.02%
HONG KONG	HANG SENG BANK	22,598	287,057	289,729	0.03%
HONG KONG	HENDERSON LAND DEVELOPMENT	218,000	913,169	939,101	0.11%
HONG KONG	HOPEWELL HIGHWAY	160,000	87,514	94,875	0.01%
HONG KONG	HUTCHISON WHAMPOA	101,112	805,167	690,306	0.08%
HONG KONG	JOHNSON ELECTRIC HOLDINGS	717,000	710,841	730,807	0.09%
HONG KONG	LI + FUNG	432,000	701,965	631,401	0.07%
HONG KONG	MOULIN INTERNATIONAL HOLDING	568,000	412,074	347,727	0.04%
HONG KONG	SUN HUNG KAI PROPS	206,520	1,601,357	1,694,574	0.20%
HONG KONG	SWIRE PACIFIC	203,500	1,020,457	1,317,569	0.15%
HONG KONG	TEXWINCA HOLDINGS	666,000	500,898	525,129	0.06%
HONG KONG	WHARF HOLDINGS	324,000	786,562	930,485	0.11%
HONG KONG	WING LUNG BANK	16,000	109,730	109,748	0.01%
HONG KONG 20 ISSUE(S)		**8,570,126**	**11,578,034**	**12,707,779**	**1.49%**
INDONESIA	BANK CENTRAL ASIA	1,513,000	353,420	301,715	0.04%
INDONESIA	TELEKOMUNIKASI IND	636,500	335,946	500,941	0.06%
INDONESIA 2 ISSUE(S)		**2,149,500**	**689,366**	**802,656**	**0.09%**
IRELAND	BANK OF IRELAND	273,400	3,305,418	3,652,301	0.43%
IRELAND 1 SUE(S)		**273,400**	**3,305,418**	**3,652,301**	**0.43%**
JAPAN	AISIN SEIKI CO	56,600	813,611	1,177,603	0.14%
JAPAN	AJINOMOTO CO INC	123,000	1,283,980	1,481,208	0.17%
JAPAN	ALPS ELECTRIC CO	36,000	480,252	510,970	0.06%
JAPAN	ASAHI GLASS CO	73,000	479,600	757,739	0.09%
JAPAN	ASAHI KASEI CORP	200,000	943,225	1,033,426	0.12%
JAPAN	BANK OF YOKOHAMA	182,000	785,634	1,137,552	0.13%
JAPAN	BRIDGESTONE CORP	207,000	2,785,497	3,887,910	0.46%
JAPAN	BROTHER INDUSTRIES	25,000	213,185	241,666	0.03%
JAPAN	C+S CO LTD	34,000	556,649	897,069	0.11%
JAPAN	CANON INC	37,000	1,848,864	1,949,778	0.23%
JAPAN	CANON SALES CO INC	26,000	202,301	359,998	0.04%
JAPAN	CENTRAL GLASS CO	76,000	446,881	642,224	0.08%
JAPAN	CITIZEN WATCH CO	51,000	370,744	576,487	0.07%
JAPAN	CREDIT SAISON CO	30,000	585,916	899,904	0.11%
JAPAN	DAI DAN CO	28,000	245,157	142,932	0.02%
JAPAN	DAICEL CHEM INDS	27,000	138,627	141,488	0.02%
JAPAN	DAIDO STEEL CO	189,000	310,343	509,900	0.06%
JAPAN	DAIICHI PHARM CO	21,200	320,027	377,895	0.04%
JAPAN	DAIKIN INDUSTRIES	42,000	877,132	1,125,429	0.13%
JAPAN	DAINIPPON SCREEN	33,000	128,816	194,357	0.02%
JAPAN	DAIWA SECURITIES GROUP INC	109,000	649,662	781,526	0.09%
JAPAN	DENKI KAGAKU KOGYO	220,000	656,793	778,636	0.09%
JAPAN	DOWA MINING CO	192,000	905,409	1,136,074	0.13%
JAPAN	EAST JAPAN RAILWAY	1,054	5,148,069	5,910,183	0.69%
JAPAN	FAST RETAILING CO	13,000	717,434	1,049,797	0.12%
JAPAN	FUJI HEAVY INDUSTRIES	204,000	887,293	1,141,781	0.13%
JAPAN	FUJI PHOTO FILM CO	141,000	4,222,513	4,414,100	0.52%
JAPAN	FUNAI ELECTRIC CO	9,200	1,128,316	1,384,739	0.16%
JAPAN	GLORY	7,000	76,276	103,670	0.01%
JAPAN	HISAMITSU PHARMACEUTICAL CO	9,000	103,814	166,263	0.02%
JAPAN	HITACHI METALS	37,000	145,301	201,335	0.02%
JAPAN	HITACHI TRANSPORT SYSTEM	135,000	759,476	1,073,913	0.13%
JAPAN	HONDA MOTOR CO	118,100	4,653,737	5,686,530	0.67%
JAPAN	ITO YOKADO CO	43,000	1,389,281	1,838,822	0.22%
JAPAN	ITOCHU CORP	229,000	565,836	1,026,201	0.12%
JAPAN	ITOCHU TECHNOLOGY SCIENCE	6,800	184,999	289,176	0.03%
JAPAN	JAPAN AIRPORT TERM	103,000	791,446	1,094,992	0.13%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
JAPAN	JFE HOLDING INC	79,300	1,352,558	1,939,984	0.23%
JAPAN	KAMIGUMI CO	111,000	747,109	805,003	0.09%
JAPAN	KANEKA CORP	93,000	697,885	880,438	0.10%
JAPAN	KDDI CORP	269	1,555,579	1,537,041	0.18%
JAPAN	KEIHIN CORP	51,200	487,279	660,222	0.08%
JAPAN	KEYENCE CORP	2,000	424,491	455,256	0.05%
JAPAN	KONICA MINOLTA HOLDINGS INC	50,500	526,990	695,532	0.08%
JAPAN	KURARAY CO	137,000	1,058,874	1,121,212	0.13%
JAPAN	KYORIN PHARMACEUTICALS	31,000	400,039	452,760	0.05%
JAPAN	MABUCHI MOTOR CO	15,200	1,166,318	1,126,303	0.13%
JAPAN	MARUI CO	77,100	1,176,934	1,038,693	0.12%
JAPAN	MATSUSHITA ELCTRIC IND	115,000	1,725,591	1,632,544	0.19%
JAPAN	MILLEA HOLDINGS INC	129	1,246,962	1,915,227	0.22%
JAPAN	MITSUBISHI CORP	122,000	1,141,212	1,185,172	0.14%
JAPAN	MITSUBISHI ELECTRIC CP	612,000	2,355,847	3,002,525	0.35%
JAPAN	MITSUBISHI ESTATE	61,000	645,515	756,945	0.09%
JAPAN	MITSUBISHI TOKYO FIN	330	3,137,414	3,048,150	0.36%
JAPAN	MITSUI + CO	517,000	3,118,881	3,871,044	0.45%
JAPAN	MITSUI FUDOSAN CO	90,000	763,490	1,076,592	0.13%
JAPAN	MITSUI SUMITOMO INSURANCE CO	89,000	498,854	834,286	0.10%
JAPAN	MITSUKOSHI LTD	47,000	239,225	260,478	0.03%
JAPAN	MURATA MFG CO	53,200	2,837,293	3,032,617	0.36%
JAPAN	NAMCO	14,400	375,419	402,981	0.05%
JAPAN	NEC SYS INT+CONST	15,000	109,160	148,978	0.02%
JAPAN	NGK SPARK PLUG CO	143,000	1,115,588	1,372,139	0.16%
JAPAN	NICHICON CORP	18,400	1,108,388	248,205	0.03%
JAPAN	NINTENDO CO	8,000	671,005	925,511	0.11%
JAPAN	NIPPON CABLE SYS	16,000	142,971	229,043	0.03%
JAPAN	NIPPON ELEC GLASS	51,000	908,142	1,068,087	0.13%
JAPAN	NIPPON OIL CORP	179,000	894,444	1,124,633	0.13%
JAPAN	NIPPON SUISAN	59,000	118,217	156,477	0.02%
JAPAN	NIPPON TEL+TEL CP	635	4,285,776	3,389,908	0.40%
JAPAN	NIPPON TV NETWORK	6,750	1,297,009	1,107,318	0.13%
JAPAN	NIPPON UNIPAC HOLD	434	2,183,831	2,271,127	0.27%
JAPAN	NIPPON YUSEN KK	108,000	391,720	496,813	0.06%
JAPAN	NIPPON ZEON CO	41,000	320,274	296,593	0.03%
JAPAN	NISSAN MOTOR CO	282,000	2,986,822	3,128,319	0.37%
JAPAN	NISSIN CO LTD	50,200	148,262	206,135	0.02%
JAPAN	NITORI CO	1,000	54,757	62,554	0.01%
JAPAN	NITTO DENKO CORP	18,600	939,508	951,180	0.11%
JAPAN	NOMURA HOLDINGS	139,000	1,920,476	2,057,325	0.24%
JAPAN	NTN CORP	99,000	421,349	499,776	0.06%
JAPAN	NTT DOCOMO	560	1,382,919	1,000,779	0.12%
JAPAN	OMRON CORP	76,100	1,283,834	1,781,932	0.21%
JAPAN	ONO PHARMACEUTICAL	10,900	401,901	511,381	0.06%
JAPAN	ORIX CORP	11,000	667,464	1,257,488	0.15%
JAPAN	PARIS MIKI INC	9,000	141,089	202,067	0.02%
JAPAN	PROMISE CO	36,200	1,923,630	2,415,213	0.28%
JAPAN	RICOH CO	166,000	2,926,408	3,529,487	0.41%
JAPAN	ROHM CO	37,600	4,909,328	4,496,602	0.53%
JAPAN	SANKEN ELECTRIC CO	22,000	164,792	286,506	0.03%
JAPAN	SANKYO CO	36,000	629,237	778,636	0.09%
JAPAN	SANKYO CO	23,100	762,364	942,079	0.11%
JAPAN	SANKYO TATETAMA HO	87,000	288,308	265,746	0.03%
JAPAN	SANYO CHEMICAL IND	47,000	309,450	348,467	0.04%
JAPAN	SANYO SHOKAI	55,000	357,116	357,127	0.04%
JAPAN	SEIKO CORPORATION	19,000	90,125	153,258	0.02%
JAPAN	SHIMACHU CO	12,500	292,539	338,950	0.04%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
JAPAN	SHIMADZU CORP	59,000	295,747	301,084	0.04%
JAPAN	SHIMANO INC	25,100	484,440	596,827	0.07%
JAPAN	SHIN ETSU CHEM CO	41,400	1,509,917	1,479,723	0.17%
JAPAN	SHOWA DENKO KK	338,000	697,275	843,879	0.10%
JAPAN	SHOWA SHELL SEKIYU	163,100	1,066,058	1,466,353	0.17%
JAPAN	SMC CORP	11,400	1,094,886	1,232,828	0.14%
JAPAN	SOHGO SECURITY SER	30,200	379,469	394,399	0.05%
JAPAN	SOMPO JAPAN INS	237,000	1,348,775	2,421,803	0.28%
JAPAN	SQUARE ENIX CO LTD	17,200	385,535	470,328	0.06%
JAPAN	STANLEY ELECTRIC	17,000	328,122	283,580	0.03%
JAPAN	SUMITOMO BAKELITE	89,000	498,910	623,159	0.07%
JAPAN	SUMITOMO ELEC INDS	328,000	2,790,541	3,344,093	0.39%
JAPAN	SUMITOMO MITSUI GR	197	1,332,409	1,347,624	0.16%
JAPAN	SUMITOMO TRUST+BKG	154,000	855,957	1,094,316	0.13%
JAPAN	TAIYO YUDEN CO	13,000	142,360	182,734	0.02%
JAPAN	TAKASHIMAYA CO	77,000	515,927	890,565	0.10%
JAPAN	TAKEDA PHARMACEUTICAL CO LTD	124,900	4,996,213	5,481,158	0.64%
JAPAN	TANABE SEIYAKU CO	28,000	230,812	249,925	0.03%
JAPAN	TDK CORP	7,300	457,081	552,782	0.06%
JAPAN	TEIJIN	94,000	345,992	351,482	0.04%
JAPAN	THK CO	11,700	226,992	220,957	0.03%
JAPAN	TIS INC	8,400	253,317	358,754	0.04%
JAPAN	TOHO CO	82,900	721,827	1,204,962	0.14%
JAPAN	TOKAI RUBBER INDS	3,000	39,343	39,920	0.00%
JAPAN	TOKYO ELECTRIC POWER	62,300	1,370,731	1,413,119	0.17%
JAPAN	TOKYO GAS CO	193,000	672,251	683,077	0.08%
JAPAN	TOKYO SEIMITSU CO	26,000	769,341	891,673	0.10%
JAPAN	TOSTEM INAX HOLDING	41,000	653,954	883,031	0.10%
JAPAN	TOYO SEIKAN KAISHA	17,000	188,170	291,353	0.03%
JAPAN	TOYO SUISAN KAISHA	39,000	402,797	511,820	0.06%
JAPAN	TOYOTA INDUSTRIES	39,200	732,205	941,245	0.11%
JAPAN	TOYOTA MOTOR CORP	173,500	4,893,257	7,028,090	0.82%
JAPAN	TOYS R US	9,000	154,576	218,117	0.03%
JAPAN	UNITED ARROWS LTD	10,000	195,374	242,809	0.03%
JAPAN	USHIO INC	8,000	136,548	143,985	0.02%
JAPAN	VICTOR CO OF JAPAN	73,000	628,087	825,168	0.10%
JAPAN	YAMAHA CORP	64,000	1,097,348	1,047,693	0.12%
JAPAN	YAMANOUCHI PHARMACEUTICAL	100,300	3,300,918	3,373,514	0.40%
JAPAN	YAMATO TRANSPORT	97,000	1,100,163	1,581,849	0.19%
JAPAN	YORK BENIMARU CO	21,600	498,263	641,378	0.08%
JAPAN 135 ISSUE(S)		**10,262,258**	**138,821,945**	**162,411,275**	**19.02%**
KOREA	CHEIL COMMUNICATION	1,700	266,761	230,982	0.03%
KOREA	HYUNDAI DEPARTMENT STORE	31,400	709,211	778,546	0.09%
KOREA	HYUNDAI MOTOR CO	25,449	888,709	978,977	0.11%
KOREA	KANGWON LAND INC	38,701	389,308	428,709	0.05%
KOREA	KOOKMIN BANK	28,460	859,362	884,218	0.10%
KOREA	KT + G CORPORATION	19,862	338,308	458,949	0.05%
KOREA	KT CORPORATION	4,069	160,486	136,103	0.02%
KOREA	LG CHEMICAL	18,650	835,300	631,082	0.07%
KOREA	POSCO	6,261	642,908	807,347	0.09%
KOREA	SAMSUNG ELECTRONIC	15,533	2,957,380	6,412,151	0.75%
KOREA	SAMSUNG FIRE + MAR	6,100	388,669	390,125	0.05%
KOREA	SEOUL SECURITIES	178,170	617,673	430,198	0.05%
KOREA	SHINHAN FINANCIAL	71,186	1,211,255	1,034,985	0.12%
KOREA	SHINSEGAE CO LTD	2,180	293,856	524,483	0.06%
KOREA	SK TELECOM	5,053	932,209	830,870	0.10%
KOREA 15 SSUE(S)		**452,774**	**11,491,394**	**14,957,725**	**1.75%**
MALAYSIA	BRITISH AMERICAN TOBACCO	8,482	82,114	112,721	0.01%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
MALAYSIA	COMMERCE ASSET HOLDINGS	703,700	948,448	899,995	0.11%
MALAYSIA	GENTING BERHAD	174,922	768,525	704,291	0.08%
MALAYSIA	IOI CORP	332,100	628,842	712,267	0.08%
MALAYSIA	LAFARGE MALAYAN CEMENT BHD	1,975,400	497,505	423,671	0.05%
MALAYSIA	MALAYAN BK BHD	404,500	984,856	1,075,118	0.13%
MALAYSIA	MALAYSIA INT SHIP	60,200	184,089	190,105	0.02%
MALAYSIA	MAXIS COMMUN BHD	74,900	143,693	173,453	0.02%
MALAYSIA	PLUS EXPRESSWAYS B	220,000	148,127	130,263	0.02%
MALAYSIA	PUBLIC BK BHD	135,900	209,673	236,037	0.03%
MALAYSIA	TANJONG	100,800	286,033	331,579	0.04%
MALAYSIA	TELEKOM MALAYSIA	255,000	689,505	691,184	0.08%
MALAYSIA 12 ISSUE(S)		**4,445,904**	**5,571,410**	**5,680,686**	**0.67%**
NETHERLANDS	AEGON NV	197,523	3,188,777	2,381,535	0.28%
NETHERLANDS	REED ELSEVIER NV	80,400	998,530	1,128,827	0.13%
NETHERLANDS	ROYAL DUTCH PETROLEUM CO	105,900	5,151,755	5,434,608	0.64%
NETHERLANDS	TPG NV	102,900	1,851,548	2,351,130	0.28%
NETHERLANDS	WOLTERS KLUWER	68,804	1,514,082	1,248,959	0.15%
NETHERLANDS 5 ISSUE(S)		**555,527**	**12,704,693**	**12,545,059**	**1.47%**
NEW ZEALAND	CARTER HOLT HARVEY	217,958	263,655	285,367	0.03%
NEW ZEALAND	FLETCHER BUILDING	60,000	169,714	172,672	0.02%
NEW ZEALAND	TELECOM CORP OF NEW ZEALAND	188,700	494,021	704,624	0.08%
NEW ZEALAND 3 ISSUE(S)		**466,658**	**927,390**	**1,162,663**	**0.14%**
PHILIPPINES	BANK OF PHILIPPINES ISLANDS	240,000	176,212	183,957	0.02%
PHILIPPINES 1 ISSUE(S)		**240,000**	**176,212**	**183,957**	**0.02%**
SINGAPORE	CITY DEVELOPMENTS	38,000	122,086	119,212	0.01%
SINGAPORE	DBS GROUP HOLDINGS	206,266	1,626,318	1,724,609	0.20%
SINGAPORE	KEPPEL LAND LTD	134,000	129,157	125,336	0.01%
SINGAPORE	MOBILEONE	692,000	523,148	602,630	0.07%
SINGAPORE	OVERSEAS CHINESE BANK	28,000	188,157	196,828	0.02%
SINGAPORE	SEMBCORP INDUSTRIES	717,000	566,412	557,798	0.07%
SINGAPORE	SINGAPORE AIRLINES	33,000	225,923	214,721	0.03%
SINGAPORE	SINGAPORE LAND	2,000	4,881	5,136	0.00%
SINGAPORE	SINGAPORE PRESS HD	86,768	216,479	209,699	0.02%
SINGAPORE	SINGAPORE TECH ENG	99,000	114,232	119,631	0.01%
SINGAPORE	SINGAPORE TELECOMM	133,000	139,418	173,851	0.02%
SINGAPORE	UNITED OVERSEAS BANK	213,576	1,477,988	1,661,896	0.19%
SINGAPORE	VENTURE CORP LTD	20,888	189,824	218,430	0.03%
SINGAPORE 13 ISSUE(S)		**2,403,498**	**5,524,022**	**5,929,777**	**0.69%**
SPAIN	BBVA (BILB VIZ ARG)	343,700	3,639,249	4,591,426	0.54%
SPAIN	ENAGAS SA	142,200	1,186,527	1,541,498	0.18%
SPAIN	ENDESA SA	260,800	3,416,584	5,026,069	0.59%
SPAIN	TELEFONICA SA	476,259	5,570,854	7,040,203	0.82%
SPAIN 4 ISSUE(S)		**1,222,959**	**13,813,214**	**18,199,196**	**2.13%**
SWITZERLAND	NESTLE SA	24,330	5,321,294	6,488,518	0.76%
SWITZERLAND	NOVARTIS AG	185,600	7,185,530	8,187,799	0.96%
SWITZERLAND	ROCHE HOLDINGS AG	43,110	3,669,393	4,268,317	0.50%
SWITZERLAND	SWATCH GROUP	7,000	744,771	911,051	0.11%
SWITZERLAND	SWISS REINSURANCE	96,600	7,250,055	6,274,681	0.73%
SWITZERLAND	SWISSCOM AG	1,700	529,272	561,961	0.07%
SWITZERLAND	ZURICH FINANCIAL SERVICES GROUP	16,790	4,152,014	2,651,088	0.31%
SWITZERLAND 7 ISSUE(S)		**375,130**	**28,852,328**	**29,343,415**	**3.44%**
TAIWAN	ACER INC	115,613	843,512	812,759	0.10%
TAIWAN	ADVANTECH	60,000	136,341	122,249	0.01%
TAIWAN	CATHAY FINANCIAL HOLDINGS LTD	90,000	152,868	161,861	0.02%
TAIWAN	CATHAY FINANCIAL HOLDINGS LTD	83,280	1,248,790	1,497,708	0.18%
TAIWAN	CHINA STEEL	4,000	46,749	75,000	0.01%
TAIWAN	CHINA STEEL	34,128	398,862	639,900	0.07%
TAIWAN	CHINA TRUST FINANCE	972,000	1,156,678	1,083,744	0.13%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
TAIWAN	COMPAL ELECTRONIC	30,876	185,370	168,274	0.02%
TAIWAN	DELTA ELECTRONICS	147,000	183,106	184,515	0.02%
TAIWAN	FORMOSA PLASTIC	812,500	1,267,965	1,147,562	0.13%
TAIWAN	FUBON FINANCIAL HOLDING CO LTD	41,200	414,060	358,852	0.04%
TAIWAN	HON HAI PRECISION	67,000	298,885	248,960	0.03%
TAIWAN	HON HAI PRECISION IND LTD	179,035	1,409,821	1,342,763	0.16%
TAIWAN	MEDIA TEK INCORP	87,000	831,438	693,103	0.08%
TAIWAN	MERRY ELECTRONICS	97,000	236,006	222,159	0.03%
TAIWAN	QUANTA COMPUTER INC	47,300	560,505	496,650	0.06%
TAIWAN	TAIWAN SECOM CO	280,000	280,109	280,666	0.03%
TAIWAN	TAIWAN SEMICON MAN	1,154,556	1,872,093	1,661,537	0.19%
TAIWAN	UNITED MICROELECTRONICS CORP	78,158	265,112	336,861	0.04%
TAIWAN 19 ISSUE(S)		**4,380,646**	**11,788,270**	**11,535,123**	**1.35%**
THAILAND	BANGKOK BANK	97,600	198,245	224,368	0.03%
THAILAND	BANGKOK BANK	449,100	1,208,165	1,081,970	0.13%
THAILAND	KASIKORNBANK PCL	253,100	253,804	312,584	0.04%
THAILAND	LAND + HOUSES	2,736,600	827,860	652,607	0.08%
THAILAND	PTT EXPLORATION + PRD	65,800	305,832	431,264	0.05%
THAILAND	SIAM CEMENT CO	79,900	381,947	453,333	0.05%
THAILAND	TRUE CORP PUBLIC CO LTD RIGHTS	130,895	0	0	0.00%
THAILAND 7 ISSUE(S)		**3,812,995**	**3,175,853**	**3,156,126**	**0.37%**
UNITED KINGDOM	BOOTS GROUP	78,000	836,223	973,196	0.11%
UNITED KINGDOM	BP PLC	423,000	3,176,480	3,735,828	0.44%
UNITED KINGDOM	BRITISH SKY BROADCAST	242,600	3,100,552	2,736,520	0.32%
UNITED KINGDOM	COMPASS GROUP	628,000	3,942,074	3,832,324	0.45%
UNITED KINGDOM	EXEL	163,000	1,810,588	2,267,255	0.27%
UNITED KINGDOM	GALLAHER GROUP	364,900	3,410,070	4,410,537	0.52%
UNITED KINGDOM	GLAXOSMITHKLINE	211,000	4,754,206	4,270,357	0.50%
UNITED KINGDOM	HSBC HOLDINGS	98,800	1,274,380	1,488,376	0.17%
UNITED KINGDOM	LEGAL + GENERAL GP	3,038,240	5,375,177	5,234,355	0.61%
UNITED KINGDOM	RENTOKIL INITIAL	441,300	1,347,659	1,156,430	0.14%
UNITED KINGDOM	SCOTTISH + SOUTHERN ENERGY	259,000	2,469,196	3,200,981	0.37%
UNITED KINGDOM	SYNTHES INC	7,890	456,113	899,311	0.11%
UNITED KINGDOM	TIBBETT + BRITTEN	94,700	887,865	1,159,234	0.14%
UNITED KINGDOM	TOMKINS	357,837	1,364,947	1,781,333	0.21%
UNITED KINGDOM	UNILEVER	131,064	1,139,300	1,285,873	0.15%
UNITED KINGDOM	UNITED UTILITIES	425,000	3,785,883	3,996,273	0.47%
UNITED KINGDOM	VODAFONE GROUP	2,219,544	4,251,857	4,860,359	0.57%
UNITED KINGDOM 17 ISSUE(S)		**9,183,875**	**43,382,569**	**47,288,544**	**5.54%**
UNITED STATES	BGI CASH	1	1	1	0.00%
UNITED STATES	BGI MSCI EQUITY INDEX FUND EUROPE	44,873,947	375,433,656	389,187,569	45.58%
UNITED STATES	BGI PACIFIC INDEX STRATEGY FUND	3,578,423	40,005,322	46,167,852	5.41%
UNITED STATES	BGI MONEY MARKET FUND	780	780	780	0.00%
UNITED STATES 4 ISSUE(S)		48,453,151	415,439,759	435,356,202	50.98%
EQUITIES TOTAL 310 ISSUE(S)		110,791,451	750,500,468	817,644,235	95.74%
UNITED STATES	STATE STREET SPIFF	215,706	31,374,029	31,685,217	3.71%
EQUITY FUTURES TOTAL 1 ISSUE(S)		215,706	31,374,029	31,685,217	3.71%
UNITED STATES	STATE STREET BANK + TRUST CO	4,607,906	4,607,906	4,607,906	0.54%
CASH TOTAL 1 ISSUE(S)		**4,607,906**	**4,607,906**	**4,607,906**	**0.54%**
MTIP GRAND TOTAL 312 ISSUES		**115,615,062**	**786,482,403**	**853,937,359**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Private Equity Pool, as of June 30, 2004, and 2003, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Private Equity Pool, as of June 30, 2004, and 2003, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA PRIVATE EQUITY POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2004 AND 2003

		2004		2003
Assets				
Cash	$	0	$	0
Dividend receivable		1,172,950		199,575
Investments managed at fair value (carrying value of $236,711,043 in 2004 and $278,790,323 in 2003)(Notes 2 and 4)		258,478,490		305,349,864
Total assets	$	259,651,440	$	305,549,439
Liabilities				
Income due participants	$	5,273,616	$	7,361,863
Total liabilities		5,273,616		7,361,863
Net asset value	$	254,377,824	$	298,187,576
Units Outstanding (Note 2)		2,562,719		2,915,343
Unit Value (Note 2)	$	99.26	$	102.28

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net asset value, beginning of year	$	298,187,576	$	188,041,797
Value of units purchased by participants (Notes 1 and 2)		0		121,828,726
Value of units sold by participants		(33,130,061)		(22,752,654)
Changes in fair value of investments managed		(10,679,691)		11,069,707
Net asset value, end of year	$	254,377,824	$	298,187,576

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Net realized gains (Note 2)	$	76,554,966	$	4,309,426
Dividend/interest income		5,260,917		614,849
Administrative expenses		(2,681,882)		(3,056,068)
Income due participants, beginning of year		7,361,863		9,309,822
Income available for distribution		86,495,864		11,178,029
Distribution (Note 2)		81,222,248		3,816,166
Income due participants, end of year	$	5,273,616	$	7,361,863

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA PRIVATE EQUITY POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana Private Equity Pool (MPEP) was established by the Board to allow retirement funds, per section 17-6-201, MCA, the opportunity to participate in the venture capital and leveraged buyout markets and other private equity investments via a diversified pool. The Board approved creation of the MPEP in April 2002. Effective May 1, 2002, the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all their venture capital and leveraged buyout investments, at cost, totaling $159,799,310, and cash of $15,000,000 to the new pool. These investments were previously recorded in the All Other Funds financial statements for fiscal year 2001.

Given the complexity and specialization of private equity investment, the Board contracts with seven private equity managers to invest in venture capital, leveraged buyout and other private equity investments. The retained private equity managers include Adams Street Partners, formerly Brinson Partners; Kohlberg, Kravis, Roberts and Company, (KKR); Welsh Carson Anderson and Stowe; Madison Dearborn Partners; Lexington Partners; Oaktree Capital Management and ArcLight Energy Partners. According to Board policy, the external managers may not invest more than 30% of total private equity invested capital in non-US company partnerships unless the fund is a designated non-US fund. Total non-US exposure in MPEP is limited to 25% of total invested capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Montana Private Equity Pool investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBO's) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations. This debt is attractive to investors, not for repayment of interest and principal, which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors. Without undue principal risk, distressed debt investment managers seek capital appreciation through the sale of restructured debt obligations or newly issued securities. Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely illiquid.

In creating the pool, the Board chose to securitize MPEP cash by investing in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Portfolio cash is swept daily into SPIFF maintaining 100% equity exposure through holdings of stock index futures.

Investments are presented in the Statement of Net Asset Value at fair value. Because no recognized market exists for private equity investment, the MPEP investments, on valuation date, are stated at the fair value reported in the most recent external managers' valuation reports. Carrying value, parenthetically disclosed, represents the private equity security purchase price.

Broker Receivable/Payable

MPEP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MPEP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Participant Units

The pension funds transferred all their venture capital and leveraged buyout investments, at cost, into the MPEP at the start-up date and were issued units according to the fair value of each participant's portfolio and cash contribution. The initial unit value as of May 1, 2002 was $100. Although unit values are calculated at month end, the pool portfolio will be priced at least quarterly at the fair value reported in the external managers' valuation reports. Given the quarterly portfolio valuations, pool participant transactions will most likely occur on a quarterly basis. Based on the Investment Officer's decision, participants may buy, reinvest or sell units on the first business day of each month. All participant buys, reinvestments or sells occur after distribution of accumulated income.

Investment Income and Distribution

The Statement of Investment Income and Distribution reports cash dividends, interest, net realized gains and losses, and miscellaneous income. The fiscal year 2004 net realized gains of $76.6 million, as compared to fiscal year 2003 net realized gains of $4.3 million, were generated from external investment manager decisions. These net realized gains were distributed to the MPEP participants. MPEP dividends are recorded on the ex-dividend date.

The MPEP Income Available for Distribution is distributed or reinvested, on behalf of the nine retirement fund participants, at least quarterly or as determined by the Investment Officer. Any cash distributions or reinvestments will occur on the first business day of the following month. The Income Available for Distribution is net of MPEP external manager fees and administrative expenses.

The fiscal year 2004 administrative expense of $2,681,882 represents fees paid to the external managers of $2,485,166 per their contracts and $196,716 paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MPEP based on the Board's expenses applicable to MPEP.

The fiscal year 2003 administrative expense of $3,056,068 represents fees paid to the external managers of $2,816,202 per their contracts and $239,866 paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MPEP based on the Board's expenses applicable to MPEP.

Security Lending

Because there is no active security lending market for this asset class, MPEP does not participate in security lending.

3. COMMITMENTS

Private equity investments, typically, represent a seven to ten year commitment characterized by capital calls occurring during the first five years with distributions to the investor over the remaining term of the investment. The original and remaining commitments and their respective carrying and fair values, as of June 30, 2004, are listed on the next page.

Commitments as of June 30, 2004

Security Investment	Original Commitment Date	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
Separate Account Partnerships	Jan 1988/Apr 1990	$ 14,000,000	$ 438,015	$ 2,453,700	$ 1,061,060
Venture Partnership Acquisition Fund II	April 1990	4,000,000	0	190,080	106,140
Brinson Venture Capital Fund III	March 1992	10,000,000	0	6,047,799	3,431,750
Brinson Venture Capital Fund IV	May 1999	15,000,000	891,667	14,108,333	9,500,241
Brinson Non-US Partnership Trust	January 1999	10,000,000	5,135,843	4,475,554	5,055,644
Brinson Partnership Trust 1996-2003	March 1996	103,940,867	47,646,861	48,680,492	43,212,407
Adams Street Partnership Trust 2002	August 2001	40,000,000	33,328,000	6,672,000	6,892,646
Adams Street Partnership Fund 2003	January 2003	20,000,000	18,100,000	1,900,000	1,808,400
Adams Street Partnership Fund 2004	October 2003	20,000,000	19,375,000	625,000	609,763
Adams Street Partners Fund V	August 2001	40,000,000	32,000,000	8,000,000	7,421,640
Adams Street Global Opportunities	September 2003	25,000,000	23,687,500	1,312,500	1,389,141
Adams Street Total		301,940,867	180,602,886	94,465,458	80,488,832
ArcLight Energy Partners Fund II	April 2004	25,000,000	22,923,700	2,076,300	2,076,300
ArcLight Total		25,000,000	22,923,700	2,076,300	2,076,300
KKR 1986, 1987 Fund	August 1987	25,300,000	0	13,562,439	4,941,054
KKR 1993 Fund	December 1990	25,000,000	0	4,006,575	3,835,923
KKR 1996 Fund	July 1996	100,000,000	0	50,311,901	55,540,666
KKR European Fund	August 1999	25,000,000	7,092,346	16,893,417	15,776,593
KKR Total		175,300,000	7,092,346	84,774,332	80,094,236
Lexington Capital Partners Fund V	May 2001	50,000,000	31,831,220	12,855,368	17,820,972
Lexington Capital Partners Total		50,000,000	31,831,220	12,855,368	17,820,972
Madison Dearborn Partners Fund IV	January 2001	22,509,475	14,297,794	6,005,793	5,595,706
Madison Dearborn Global Fund IV	September 2002	2,490,525	0	2,478,137	2,956,219
Madison Dearborn Total		25,000,000	14,297,794	8,483,930	8,551,924
Oaktree Capital Fund IVB	September 2002	75,000,000	0	1	32,498,809
Oaktree Total		75,000,000	0	1	32,498,809
Welsh Carson Anderson & Stowe Fund IX	September 2000	25,000,000	9,250,000	10,107,970	12,717,565
WCAS Capital Partners Fund IV	June 2004	25,000,000	25,000,000	0	0
Welsh Carson Total		50,000,000	34,250,000	10,107,970	12,717,565
Total Private Equity Commitments		$ 702,240,867	$ 290,997,946	$ 212,763,359	$ 234,248,639

4. INVESTMENT RISK

Private equity investments are recognized as investments with a higher degree of risk with a higher return potential than traditional equity investments. Portfolio diversification of risk is to be achieved through multiple partnership relationships and investments diversified by time, financing stage, industry sector, investment size and geographical region. Private equity investments typically have a low correlation relative to other investment asset classes and should contribute to the reduction of portfolio risk and the enhancement of expected returns on a total investment portfolio basis.

5. NOTICE OF LIABILITY

The Montana Board of Investments is a limited partner in the private equity partnership of O'Donnell & Masur L.P. O'Donnell & Masur L.P. invested in Gardiner Communications, Inc. All partners of O'Donnell & Masur L.P. received a Notice of Liability from the Internal Revenue Service claiming unpaid federal corporate taxes for Gardiner Communications, Inc. As a recipient of the distributions on the sale and dissolution of Gardiner Communications, Inc., the Board faces potential liability. O'Donnell & Masur L.P. has retained legal counsel to represent all partners receiving a Notice of Liability. On September 5, 2003, legal counsel filed a petition on the Montana Board of Investment's behalf in U.S. Tax Court to perfect the Board's right to contest this matter. On February 9, 2004, all partners of O'Donnell & Masur L.P. were informed that the Internal Revenue Service Appeals Officer had completed his review of the Gardiner Communications, Inc. matter. The Officer concluded "no additional taxes are due from Gardiner Communications, Inc. and thus, no transferee liability to the partners of O'Donnell & Masur, L.P."

6. YEAR END PORTFOLIO

The June 30, 2004 MPEP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Par	Book Value	Fair Value	% of Total
ALTA SUB DEBT PARTNERS III	96,605	96,605	139,533	0.05%
AUSTIN VENTURES III	249,043	249,043	129,656	0.05%
CAPITAL PARTNERS HOLDINGS II A	30,530	30,530	261,899	0.10%
GATEWAY VENTURE PARTNERS III	284,596	284,596	64,553	0.02%
INTERWEST PARTNERS IV	275,177	275,177	7,945	0.00%
MATRIX PARTNERS III L P	68,064	68,064	15,836	0.01%
NEW ENTERPRISE ASSOC V LP	253,338	253,338	54,329	0.02%
O DONNELL + MASUR L P	352,319	352,319	206,531	0.08%
SPROUT CAPITAL VI	275,956	275,956	32,170	0.01%
SUMMIT VENTURE II	128,881	128,881	3,199	0.00%
WCAS CAPITAL PARTNERS II	285,716	285,716	145,135	0.06%
WILLIAM BLAIR PARTNERS III LP	153,476	153,476	274	0.00%
SEPARATE ACCOUNT PARTNERSHIPS	**2,453,700**	**2,453,700**	**1,061,060**	**0.41%**
VENTURE PARTNERSHIP ACQUISTION II	190,080	190,080	106,140	0.04%
VENTURE PARTNER ACQUISITION II	**190,080**	**190,080**	**106,140**	**0.04%**
BRINSON VENTURE CAPITAL III SECONDARY	635,144	635,144	393,584	0.15%
BRINSON VENTURE PARTNERS III SECONDARY	2,629,109	2,629,109	1,322,495	0.51%
BRINSON VENTURE CAPITAL FUND III	555,556	555,556	393,584	0.15%
BRINSON VENTURE PARTNER FUND III	2,227,990	2,227,990	1,322,087	0.51%
INSTITUTIONAL VENTURE CAPITAL FUND III	**6,047,799**	**6,047,799**	**3,431,750**	**1.33%**
BRINSON VENTURE CAPITAL FUND IV	14,108,333	14,108,333	9,500,241	3.68%
BRINSON VENTURE CAPITAL FUND IV	**14,108,333**	**14,108,333**	**9,500,241**	**3.68%**
BRINSON NON US PARTNERSHIP FUND	4,475,554	4,475,554	5,055,644	1.96%
BRINSON PARTNERSHIP FUND TRUST	48,680,492	48,680,492	43,212,407	16.72%
BRINSON PARTNERSHIP TRUST	**53,156,046**	**53,156,046**	**48,268,051**	**18.67%**
ADAMS NON US PARTNERSHIP FUND	1,645,000	1,645,000	1,733,290	0.67%
ADAMS STREET PARTNERSHIP FUND	7,552,000	7,552,000	7,577,518	2.93%
ADAMS STREET PARTNERS TRUST	**9,197,000**	**9,197,000**	**9,310,809**	**3.60%**
ADAMS STREET FUND V	8,000,000	8,000,000	7,421,640	2.87%
ADAMS STREET FUND V	**8,000,000**	**8,000,000**	**7,421,640**	**2.87%**
ADAMS STREET GLOBAL OPPORTUNITES	1,312,500	1,312,500	1,389,141	0.54%
ADAMS STREET GLOBAL OPPORTUNITES	**1,312,500**	**1,312,500**	**1,389,141**	**0.54%**
ADAMS STREET TOTAL	**94,465,458**	**94,465,458**	**80,488,832**	**31.14%**
ARCLIGHT ENERGY PARTNERS FUND II	2,076,300	2,076,300	2,076,300	0.80%
ARCLIGHT CAPITAL TOTAL	**2,076,300**	**2,076,300**	**2,076,300**	**0.80%**
KKR 1986 1987	13,562,439	13,562,439	4,941,054	1.91%
KKR 1993	4,006,575	4,006,575	3,835,923	1.48%
KKR 1996	50,311,901	50,311,901	55,540,666	21.49%
KKR EUROPEAN FUND	16,893,417	16,893,417	15,776,593	6.10%
KKR TOTAL	**84,774,332**	**84,774,332**	**80,094,236**	**30.99%**
LEXINGTON CAPITAL PARTNERSHIP V LP	12,855,368	12,855,368	17,820,972	6.89%
LEXINGTON CAPITAL TOTAL	**12,855,368**	**12,855,368**	**17,820,972**	**6.89%**
MADISON DEARBORN CAPITAL PARTNERSHIP IV	6,005,793	6,005,793	5,595,706	2.16%
MDP IV GLOBAL INVESTMENTS LP	2,478,137	2,478,137	2,956,219	1.14%
MADISON DEARBORN TOTAL	**8,483,930**	**8,483,930**	**8,551,924**	**3.31%**

Security Name	Par	Book Value	Fair Value	% of Total
OAKTREE CAPITAL OPPORTUNITIES FUND IVB LP	1	1	32,498,809	12.57%
OAKTREE CAPITAL TOTAL	**1**	**1**	**32,498,809**	**12.57%**
WELSH CARSON ANDERSON STOWE IX	10,107,970	10,107,970	12,717,565	4.92%
WELSH CARSON ANDERSON STOWE TOTAL	**10,107,970**	**10,107,970**	**12,717,565**	**4.92%**
TOTAL PRIVATE EQUITIES	**212,763,359**	**212,763,359**	**234,248,639**	**90.63%**
STATE STREET SPIFF	164,951	23,947,684	24,229,851	9.37%
TOTAL EQUITY FUTURES	**164,951**	**23,947,684**	**24,229,851**	**9.37%**
MPEP TOTAL	**212,928,310**	**236,711,043**	**258,478,490**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Investments Managed for the state of Montana Board of Investments, All Other Funds, as of June 30, 2004, and 2003, and the related Statement of Net Investment Income and Statement of Changes in Net Investments Managed for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investments managed by the Montana Board of Investments, All Other Funds, as of June 30, 2004, and 2003, and its net investment income and changes in its net investments managed for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS FINANCIAL STATEMENTS

STATEMENT OF NET INVESTMENTS MANAGED, JUNE 30, 2004 AND 2003

	2004	2003
Assets		
Investments managed at fair value (amortized cost of $1,324,087,590 in 2004 and $1,360,107,546 in 2003) (Notes 2 and 10)	$ 1,341,236,868	$ 1,403,338,502
Security lending cash collateral (Notes 3 and 6)	226,699,848	56,643,400
Interest receivable	13,924,158	12,921,901
Broker receivable for securities sold but not settled (Note 2)	384,976	1,276,972
Total assets	$ 1,582,245,850	$ 1,474,180,775
Liabilities		
Unrealized gain (loss)	$ 17,149,278	$ 43,230,956
Security lending obligations	226,699,848	56,643,400
Security lending expense payable	186,928	66,939
Broker payable for securities purchased but not settled (Note 2)	0	1,592,849
Accounts payable	10,287	9,430
Total liabilities	$ 244,046,341	$ 101,543,574
Net investments managed	$ 1,338,199,509	$ 1,372,637,201

STATEMENT OF NET INVESTMENT INCOME
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Income		
Investment income (Note 2)	$ 65,361,798	$ 77,235,644
Realized gain on sales (Note 2)	76,319,791	33,141,817
Amortization/accretion	(458,413)	330,020
Security lending income	1,593,123	1,568,875
Total income	$ 142,816,299	$ 112,276,356
Expenses		
Administrative expenses	1,303,746	1,287,070
Security lending expense	1,410,223	1,379,262
Total expenses	$ 2,713,969	$ 2,666,332
Net investment income	$ 140,102,330	$ 109,610,024

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

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN NET INVESTMENTS MANAGED
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Total net investments managed, beginning of year	$ 1,372,637,201	$ 1,810,978,391
Net investment income	140,102,330	109,610,024
Income remitted to agencies	141,104,587	(108,145,767)
Increase (decrease) in interest receivable	1,002,257	(1,464,257)
Increase (decrease) in broker receivable (Note 2)	(891,995)	1,089,011
Increase (decrease) in security lending cash collateral (Notes 3 and 6)	170,056,448	(53,316,831)
Investments purchased	1,172,224,997	1,322,395,416
Transfer of BGI and DFA investments to MDEP (Note 2)	0	(740,000,000)
Investments sold, matured and called (Note 10)	(1,207,786,541)	(1,044,202,693)
Increase (decrease) in book value of investments	(35,561,544)	(461,807,277)
Increase (decrease) in book value of investments due to net amortization of discounts and premiums	(458,413)	330,020
(Increase) decrease in broker payable (Note 2)	1,592,849	23,407,151
(Increase) decrease in accounts payable	(857)	1,668
(Increase) decrease in security lending obligations (Notes 3 and 6)	(170,056,448)	53,316,831
(Increase) decrease in security lending expense payable	(119,989)	102,494
Net investments managed, end of year	$ 1,338,199,509	$ 1,372,637,201

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

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis per section 17-6-201, MCA. The All Other Funds (AOF) investments and income are owned by various State of Montana agencies and managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

The AOF investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle" and applicable investment restrictions of the participants. The AOF portfolio includes securities classified as corporate asset-backed, other corporate, US government mortgage-backed, US government, Yankee bonds, equity index, real estate, mortgages and loans. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. US government mortgage-backed securities reflect participation in a pool of residential mortgages. US government securities include direct obligations of the US Treasury and indirect obligations of the US government. Yankee bonds are US dollar denominated bonds issued by foreign corporations and governments and US companies issuing debt in foreign markets. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite.

The AOF portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 6 on Investment Risk Categories and Note 10 for the Year End Portfolio.)

AOF fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The AOF variable-rate securities float with LIBOR (London Interbank Offered Rate) or the weighted average of the net mortgage interest rates for the mortgage loan group. The one variable-rate security, with an amortized cost of $15,585,949 and $17,889,456 as of June 30, 2004 and 2003, respectively, is identified and reported as a government mortgage-backed security in the investment risk and portfolio disclosures. (See Note 6 on Investment Risk Categories and Note 10 for the Year End Portfolio.)

Effective May 1, 2003, all the Barclays Global Investors (BGI) S&P 500 Equity Index Fund A and the Dimensional Fund Advisors (DFA) US Small Cap Trust investments totaling $740 million, at cost, were transferred from the All Other Funds portfolio to the new Montana Domestic Equity Pool (MDEP). These investments were held by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds.

Investments are presented in the Statement of Net Investments Managed at fair value. Fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank and Trust. The real estate investments and residential and multi-family mortgages are valued based on a discounted cash flow. The commercial in-state coal tax loans and the nonparticipating repurchase agreements are reported at amortized cost. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Broker Receivable/Payable

All Other Funds security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the AOF portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Montana Mortgages and Loans Receivable

The Montana mortgages and loans receivable, included in the Net Investments Managed at Fair Value, represent residential mortgages and multifamily commercial loans funded by the Public Employees' and Teachers' pension funds and other loans funded by the Coal Severance Tax Trust fund. The Coal Severance Tax Trust loan portfolio includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and by law, the MSTA portfolio was assigned to the Board of Investments (BOI). (See Note 7 for the Montana mortgages and loans portfolio.)

As of June 30, 2004 and 2003, there were no uncollectible account balances for Montana mortgages and loans receivable.

Investment Income

Investment income reported in the Statement of Net Investment Income includes fixed income and mortgage interest earnings, real estate income, commercial loan interest earnings and commitment fees. For fiscal year 2004, the decrease in interest income of $11.9 million is attributed, primarily, to a decrease in the commercial loan and mortgage interest earnings.

Realized Gain on Sales

Realized gain on sales reported in the Statement of Net Investment Income represents the net gain/loss resulting from the sale of fixed income, private equity and pool investments. The sale of pool units in fiscal year 2004 from the Montana Domestic Equity Pool (MDEP), Montana Private Equity Pool (MPEP), Retirement Funds Bond Pool (RFBP) and Trust Funds Bond Pool (TFBP) resulted in a net gain to participants of $73,214,644. In fiscal year 2003, the sale of pool units from the Montana Private Equity Pool (MPEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP) and the Montana Stock Pool (MTCP) generated a net gain to participants of $41,475,231.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, 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. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street Bank loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

As of June 30, 2004, the carrying and fair value of the underlying securities on loan for the All Other Funds was $219,045,397 and $222,235,651, respectively. The collateral provided for the securities on loan totaled $228,078,235 representing $226,699,848 in cash and $ 1,378,387 in securities collateral.

As of June 30, 2003, the carrying and fair value of the underlying securities on loan for the All Other Funds was $49,363,730 and $55,128,809, respectively. The collateral provided for the securities on loan totaled $56,643,400 in cash collateral.

4. COAL TAX LOAN AND MORTGAGE COMMITMENTS

The Board makes firm commitments to fund loans from the Coal Severance Tax Trust fund. These commitments have expiration dates and may be extended according to the Board's policies. As of June 30, 2004, the Board had committed but not yet purchased $69,281,764 in loans from Montana lenders, compared to $57,672,181 as of June 30, 2003. In addition to the above commitments, lenders had reserved $12,021,150 for loans as of June 30, 2004, compared to $41,421,046 on the same date in 2003.

The Board makes firm commitments to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2004 and 2003, the Board had committed but not yet purchased from Montana lenders mortgages totaling $124,550 and $392,275, respectively. Lenders had reserved no funding for mortgages as of June 30, 2004 and as of June 30, 2003.

5. PENSION FUND REAL ESTATE INVESTMENTS

100 North Park Building

In January 1996, the Board, on behalf of the Public Employees' and Teachers' Retirement funds, purchased the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of $4,864,326, the building carries a fair value of $5,795,000 as of June 30, 2004. During fiscal year 2004, building improvements for lighting, fire alarms, sprinkler systems, hallway remodeling and leasing fees totaling $453,209 were added to the cost of the building. Building improvements and leasing fees totaling $129,465 were added to the cost of the building in fiscal year 2003. The three-story building provides office space for approximately eight to ten tenants.

2401 Colonial Drive Building

In August 1997, the Board authorized the construction of an office building, as a real estate investment owned equally by the Public Employees' and Teachers' Retirement funds. Construction costs, including interest capitalization, totaled $6,481,741 as of June 30, 2000. In fiscal year 2004, office remodeling payments and leasing fees of $54,517 were added to the building cost. For fiscal year 2003, $155,800 was expended on building landscaping, leasing fees, lighting and construction. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2004, the building carries a cost and fair value of $7,041,755 and $7,581,000, respectively.

2273 Boot Hill Court Building

In August 1999, the Board authorized the purchase of a new office building in Bozeman, Montana. Upon construction completion, the Public Employees' and Teachers' Retirement funds purchased the building, in March 2004, as a real estate investment with equal ownership, for $2,051,032. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2004, the building carries a fair value of $2,082,014.

1712 Ninth Avenue Building

In November 2000, the Board reviewed the transfer of the Public Employees' Retirement Administration (PERA) office building, located at 1712 Ninth Avenue, Helena, to the Board of Investments. By issuance of a corrective deed, the Board of Investments was named owner and building manager for the use and benefit of the PERA. During fiscal years 2004 and 2003, parking lot improvements, architect fees, and remodeling construction totaling $9,525 and $160,480, respectively, were added to the building cost for a year end book value of $498,712. As of June 30, 2004, the building is valued at $576,369.

The schedule below details the minimum future rentals for the above buildings with non-cancelable operating leases as of June 30, 2004 and 2003:

Minimum future rentals for the year ending June 30, 2004:

2005	2006	2007	2008	2009	2010+	Total
$773,141	$497,523	$442,228	$308,401	$243,861	$980,388	$3,245,543

Minimum future rentals for the year ending June 30, 2003:

2004	2005	2006	2007	2008	2009+	Total
$241,763	$181,792	$164,149	$155,328	$129,439	$0	$872,471

California Street Property

In December 1998, the Board acquired a parcel of land adjacent to the Colonial Drive building to provide for additional parking. This land was purchased for $204,835. As of June 30, 2004 the property carries a fair value of $207,667.

6. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below and on the next page to give an indication of the level of risk assumed at June 30, 2004 and June 30, 2003. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral. Long-term investments are carried at amortized cost and short-term investments are carried at original cost.

Risk as of June 30, 2004

Long-Term Investments
Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 40,247,993	$ 0	$ 0	$ 40,247,993	$ 39,703,357
Corporate Other	256,849,605	0	31,745,041	288,594,646	296,528,381
US Govt Direct/Indirect	272,487,502	1,365,535	185,934,821	459,787,858	464,052,287
US Govt Mortgage-Backed	57,688,739	0	0	57,688,739	58,528,244
Yankee Bonds	9,940,133	0	0	9,940,133	10,714,069
Total	$ 637,213,972	$ 1,365,535	$ 217,679,862	$ 856,259,369	$ 869,526,338
Direct Investments					
Equity Index Fund				68,406,676	72,138,374
Equity Other				15	23
Real Estate				16,092,940	16,242,050
MT Mortgages and Loans				345,481,014	345,482,507
Total Long-Term				1,286,240,014	1,303,389,292
Short-Term Investments					
Municipal Investor Account				37,847,576	37,847,576
US Bank Sweep				0	0
Total Short-Term				37,847,576	37,847,576
TOTAL INVESTMENTS				$ 1,324,087,590	$ 1,341,236,868
Securities Lending Collateral Investment Pool			$ 226,699,848	$ 226,699,848	$ 226,699,848

***At June 30, 2004, these underlying securities, with fair values of $1,328,020 and $220,907,631, respectively, were loaned for securities and cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2003

Long-Term Investments
Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 27,192,828	$ 0	$ 0	$ 27,192,828	$ 28,069,081
Corporate Other	238,439,395	0	3,986,781	242,426,176	262,880,396
US Govt Direct/Indirect	262,143,080	0	44,897,100	307,040,180	330,784,346
US Govt Mortgage-Backed	89,289,805	0	0	89,289,805	92,741,823
Yankee Bonds	18,479,589	0	479,849	18,959,438	20,603,889
Total	$ 635,544,697	$ 0	$ 49,363,730	$ 684,908,427	$ 735,079,535
Direct Investments					
Equity Index Fund				79,000,000	69,958,153
Equity Other				15	17
Real Estate				13,512,086	13,927,253
MT Mortgages and Loans				442,681,780	444,368,306
Total Long-Term				1,220,102,308	1,263,333,264
Short-Term Investments					
Municipal Investor Account				138,412,389	138,412,389
US Bank Sweep				1,592,849	1,592,849
Total Short-Term				140,005,238	140,005,238
TOTAL INVESTMENTS				$ 1,360,107,546	$ 1,403,338,502
Securities Lending Collateral Investment Pool		$	56,643,400	$ 56,643,400	$ 56,643,400

*At June 30, 2003, these underlying securities, with a fair value of $55,128,809 were loaned for cash collateral under a security lending agreement with the state's agent.

With the exception of the US government securities, the fixed income instruments have credit risk as measured by major credit rating services. Credit risk is defined as the risk that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and Standard & Poor's (S&P) rating services. The US government securities are guaranteed directly or indirectly by the US government.

Market risk for the above securities is caused by changes in the price or principal value of the security due to changes in interest rates and market liquidity.

As reported in the U.S. government mortgage-backed category, the AOF portfolio holds a REMIC with an amortized cost of $15,585,949 and $17,889,456 as of June 30, 2004 and 2003. The REMIC securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages. When underlying mortgages are prepaid, the interest cash flows are reduced while principal cash flows are increased. If homeowners pay on mortgages longer than anticipated, the cash flow effect would be the opposite.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets. Market risk is also less because principal is paid back prior to the maturity date of the securities.

7. MONTANA MORTGAGES AND LOANS

The Montana mortgages and loans portfolio is shown below.

Montana Mortgages and Loans	2004 Book Value	2003 Book Value
Multifamily Commercial Loans	$ 4,105,800	$ 10,173,421
Residential Mortgages	119,513,572	195,687,788
Science and Technology Alliance [1]	13,959,035	14,287,541
Department of Natural Resources [2]	44,546,088	46,366,904
Department of Justice	2,037,000	1,902,000
Montana Facility Finance	943,904	1,543,021
Local Government Infrastructure	8,298,805	9,050,975
Value-added Loans	9,202,821	6,854,640
Department of Revenue [3]	5,698,442	0
Commercial Loans	137,175,547	156,815,490
Permanent Coal Trust Loans	221,861,642	236,820,571
Total Montana Mortgages and Loans	$ 345,481,014	$ 442,681,780

(1) The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans.

(2) In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of $46,366,904, to the Department of Natural Resources, Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund. On June 30, 2004, the Trust and Legacy Fund paid $1,820,816 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 464,613 with a corresponding book value of $44,546,088.

(3) On August 26, 2004, the Board voted to increase the Department of Revenue loan commitment to $17 million. This loan provides funding for the Department of Revenue's POINTS Computer System replacement project, IRIS.

8. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $2 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $215,453 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $2,273,230 in principal and interest plus $60,000 as a consent fee. As of November 15, 2004, this matter is still pending.

9. LOAN GUARANTEES

As of June 30, 2004, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority, totaled $126,787,072. Board of Investment exposure to bond issues of the Enterprise Fund was $92,052,796 while exposure to bond issues and surety bonds of the Facility Finance Authority was $34,734,276.

As of June 30, 2003, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total $110,596,691. Board of Investment exposure to bond issues of the Enterprise Fund is $74,478,374 while exposure to bond issues and surety bonds of the Facility Finance Authority is $36,118,317.

10. YEAR END PORTFOLIO

The June 30, 2004 All Other Funds portfolio is listed below. The security type percentage is based on the fair value ratio of the specific category of securities to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AA / FT WORTH HQ FINANCIAL TRUST	5.500	10/05/10	12,134,884	12,134,884	12,098,237	0.90%
J P MORGAN CHASE COMMERCIAL MORTGAGE TR	4.200	07/12/35	23,078,351	23,188,171	22,822,359	1.70%
J P MORGAN CHASE COMMERCIAL MORTGAGE TR	3.053	01/15/38	4,903,231	4,924,938	4,782,761	0.36%
CORPORATE ASSET-BACKED			**40,116,466**	**40,247,993**	**39,703,357**	**2.96%**
ABBOTT LABS	3.500	02/17/09	10,000,000	9,951,145	9,742,007	0.73%
AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	3,832,898	3,822,785	3,401,697	0.25%
AMERICAN TRANS AIR EQUIPMENT TRUST	8.039	07/15/17	4,312,092	4,312,092	4,373,947	0.33%
ASHLAND INC	7.830	08/15/05	10,000,000	10,000,000	10,507,598	0.78%
BANK OF AMERICA	7.875	05/16/05	5,000,000	5,078,668	5,239,577	0.39%
BANK AMERICA CORP	3.375	02/17/09	5,000,000	4,975,940	4,811,657	0.36%
BANK AMERICA CORP	5.375	06/15/14	5,000,000	4,954,438	4,959,675	0.37%
BANK ONE	6.250	02/15/08	2,000,000	1,940,772	2,154,044	0.16%
BANKBOSTON NA	6.375	03/25/08	2,000,000	1,943,988	2,161,875	0.16%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	4,000,000	4,034,911	4,307,633	0.32%
BURLINGTON NORTHERN RR CO	6.940	01/02/14	3,414,052	3,414,052	3,761,450	0.28%
BURLINGTON NORTHERN SANTA FE RY	7.160	01/02/20	4,530,651	4,530,651	5,004,991	0.37%
CIT GROUP EQUIPMENT TRUST	6.490	01/05/21	7,758,301	7,758,301	8,154,767	0.61%
CIT GROUP INC	5.750	09/25/07	5,000,000	5,138,182	5,270,901	0.39%
CSX CORP	7.450	05/01/07	5,000,000	4,997,859	5,479,353	0.41%
CENTEX CORP	5.700	05/15/14	3,000,000	2,995,924	2,940,331	0.22%
CITIGROUP INC	5.750	05/10/06	1,000,000	999,967	1,047,166	0.08%
CITIGROUP INC	6.000	02/21/12	5,000,000	4,998,586	5,317,109	0.40%
CITIGROUP INC	3.625	02/09/09	5,000,000	4,988,939	4,863,684	0.36%
CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	10,000,000	9,998,872	10,135,728	0.76%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.563	08/15/13	5,000,000	5,021,539	5,200,027	0.39%
COUNTRYWIDE HOME LOANS INC	2.875	02/15/07	8,000,000	7,990,236	7,826,680	0.58%
DELTA AIR LINES INC	6.417	07/02/12	10,000,000	9,964,203	10,343,739	0.77%
DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,942,565	4,997,813	0.37%
DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,800,701	4,768,987	0.36%
FIRST BANK NA	8.350	11/01/04	5,000,000	4,999,832	5,102,634	0.38%
FIRST CHICAGO CORP	6.375	01/30/09	2,000,000	1,911,654	2,160,882	0.16%
FIRST UNION CORP	7.050	08/01/05	5,000,000	4,993,465	5,245,041	0.39%
FIRST UNION CORP	7.100	08/15/04	1,000,000	999,937	1,006,735	0.08%
FORD MOTOR CREDIT CO	6.700	07/16/04	10,000,000	10,001,085	10,019,171	0.75%
GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	10,000,000	10,172,561	10,484,486	0.78%
GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	9,000,000	8,998,226	9,417,677	0.70%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,005,784	5,216,097	0.39%
GOLDMAN SACHS GROUP INC	3.875	01/15/09	5,000,000	5,051,456	4,887,348	0.36%
J P MORGAN CHASE + CO	5.350	03/01/07	5,000,000	4,986,642	5,227,520	0.39%
J P MORGAN CHASE + CO	3.500	03/15/09	10,000,000	9,944,109	9,603,677	0.72%
KCT INTERMODAL EQUIPMENT TRUST	6.884	08/01/18	3,617,867	3,617,867	3,898,528	0.29%
K N ENERGY INC	6.650	03/01/05	7,000,000	7,017,659	7,190,981	0.54%
KEYCORP	7.500	06/15/06	5,000,000	4,998,087	5,400,278	0.40%
MARSH AND MCLENNAN COS INC	7.125	06/15/09	3,000,000	2,996,314	3,360,438	0.25%
MERRILL LYNCH AND CO INC	4.125	01/15/09	5,000,000	4,997,337	4,960,459	0.37%
METLIFE INC	5.000	11/24/13	5,000,000	4,954,844	4,848,260	0.36%
NATIONWIDE FINANCIAL SERVICES INC	6.250	11/15/11	5,000,000	5,302,878	5,181,947	0.39%
NORFOLK SOUTHERN CORP	7.350	05/15/07	3,500,000	3,499,306	3,833,843	0.29%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	02/01/20	4,284,297	4,225,694	4,134,346	0.31%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	3,000,000	2,999,520	3,278,814	0.24%
PPL MONTANA LLC	8.903	07/02/20	4,367,175	4,367,175	5,125,953	0.38%
PRINCIPAL LIFE GLOBAL FDG	5.125	10/15/13	5,000,000	4,993,173	4,905,588	0.37%
SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,995,953	4,431,728	0.33%
UNION PACIFIC CORP	6.400	02/01/06	5,000,000	4,993,824	5,265,305	0.39%
UNION PACIFIC RESOURCES GROUP INC	7.000	10/15/06	5,000,000	4,993,270	5,375,164	0.40%
UNION TANK CAR CO	7.125	02/01/07	2,000,000	1,999,447	2,175,447	0.16%
WACHOVIA CORP	4.950	11/01/06	3,000,000	2,996,929	3,110,970	0.23%
WAL MART STORES INC PASS THRU TRUST	8.450	07/01/04	274,484	274,484	274,535	0.02%
WELLS FARGO + CO	5.900	05/21/06	1,000,000	999,535	1,052,144	0.08%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
WELLS FARGO + CO	4.625	04/15/14	5,000,000	4,789,281	4,710,174	0.35%
WESTERN PROPERTIES REIT	7.200	09/15/08	1,000,000	975,124	1,096,345	0.08%
WYETH	5.500	02/01/14	5,000,000	4,990,724	4,807,679	0.36%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,996,155	2,965,755	0.22%
CORPORATE OTHER			**288,891,816**	**288,594,646**	**296,528,381**	**22.11%**
ENSCO OFFSHORE CO USGG XI	6.360	12/01/15	11,500,184	11,500,184	12,418,359	0.93%
FEDERAL HOME LOAN MORTGAGE CORP	4.750	10/11/12	20,000,000	20,037,951	19,423,310	1.45%
FEDERAL HOME LOAN MORTGAGE CORP	5.125	05/13/13	20,000,000	20,000,000	19,840,656	1.48%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	07/18/18	5,000,000	5,000,000	4,609,041	0.34%
FREDDIE MAC	4.100	01/28/14	15,000,000	15,000,000	14,396,730	1.07%
FEDERAL HOME LOAN MORTGAGE CORP	2.850	02/23/07	20,000,000	19,974,766	19,764,254	1.47%
FEDERAL AGRICULTURE MORTGAGE CORP	5.300	04/24/06	20,000,000	20,975,239	20,840,620	1.55%
FEDERAL HOME LOAN BANKS	4.875	11/15/06	5,000,000	4,966,278	5,187,639	0.39%
FEDERAL HOME LOAN BANKS	4.875	02/15/07	5,000,000	4,999,422	5,185,206	0.39%
FEDERAL HOME LOAN BANKS	3.500	08/15/06	10,000,000	10,240,813	10,072,788	0.75%
FEDERAL HOME LOAN BANKS	2.500	12/15/05	10,000,000	10,028,046	9,981,572	0.74%
FEDERAL HOME LOAN BANKS	2.500	03/15/06	10,000,000	10,038,663	9,941,230	0.74%
FEDERAL HOME LOAN BANKS	2.375	02/15/06	15,000,000	15,004,226	14,899,853	1.11%
FEDERAL HOME LOAN BANKS	2.250	05/15/06	10,000,000	9,979,216	9,878,765	0.74%
FEDERAL HOME LOAN BANKS	3.625	11/14/08	10,000,000	9,979,795	9,821,302	0.73%
FEDERAL HOME LOAN BANKS	2.750	11/15/06	10,000,000	10,060,220	9,894,365	0.74%
FEDERAL HOME LOAN MORTGAGE CORP	5.625	03/15/11	10,000,000	10,062,385	10,534,100	0.79%
FEDERAL HOME LOAN MORTGAGE CORP	6.000	06/15/11	15,000,000	14,990,754	16,119,744	1.20%
FEDERAL HOME LOAN MORTGAGE CORP	2.875	09/15/05	10,000,000	10,091,192	10,053,498	0.75%
FEDERAL HOME LOAN MORTGAGE CORP	1.500	08/15/05	10,000,000	9,932,996	9,906,536	0.74%
FEDERAL HOME LOAN MORTGAGE CORP	2.125	11/15/05	22,000,000	21,989,821	21,871,901	1.63%
FEDERAL HOME LOAN MORTGAGE CORP	3.375	04/15/09	2,000,000	1,965,654	1,928,726	0.14%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.750	02/15/08	5,000,000	5,479,673	5,329,132	0.40%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.000	05/15/08	5,000,000	4,915,765	5,383,304	0.40%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	0.000	06/01/17	14,600,000	6,373,004	7,000,960	0.52%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	7.250	01/15/10	8,000,000	8,319,494	9,107,509	0.68%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	7.000	07/15/05	22,000,000	22,953,514	23,062,596	1.72%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.625	10/15/07	15,000,000	15,913,761	16,386,693	1.22%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.625	11/15/10	10,000,000	10,277,099	11,104,473	0.83%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.000	12/15/05	2,000,000	2,010,386	2,096,194	0.16%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.250	06/15/06	5,000,000	5,020,710	5,215,611	0.39%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.375	07/17/13	20,000,000	19,289,755	18,746,594	1.40%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.125	04/15/14	10,000,000	9,367,083	9,206,043	0.69%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.010	06/02/06	15,000,000	14,993,248	14,971,751	1.12%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.875	02/14/06	5,000,000	4,953,813	5,247,225	0.39%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.250	05/11/07	15,000,000	14,986,592	14,875,874	1.11%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	4,200,000	4,200,000	4,200,000	0.31%
MAYBANK NAVIGATION CO LLC USGG XI	7.620	07/25/20	4,125,000	4,125,000	3,980,625	0.30%
NORTH AMERICAN SHIP BUILDING USGG XI	5.840	02/15/06	1,282,000	1,282,000	1,282,000	0.10%
PERFORADORA CENT S A DE C V USGG XI	5.630	07/15/11	14,689,000	14,679,341	15,387,315	1.15%
ROWAN COS INC USGG XI	5.880	03/15/12	18,179,000	18,179,000	19,247,198	1.44%
TRICO MARINE INTERNATIONAL USGG XI	6.080	09/01/06	3,125,000	3,125,000	3,125,000	0.23%
MAY BANK NAVIGATION CO LLC USGG XI	5.900	09/16/13	2,526,000	2,526,000	2,526,000	0.19%
GOVERNMENT DIRECT-INDIRECT			**465,226,184**	**459,787,858**	**464,052,287**	**34.60%**
FEDERAL HOME LOAN POOL G10814	5.500	05/01/13	3,685,977	3,683,526	3,791,516	0.28%
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	407,263	406,228	425,638	0.03%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	328,741	325,339	337,821	0.03%
FEDERAL HOME LOAN POOL E00540	6.000	03/01/13	2,356,614	2,350,018	2,465,883	0.18%
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	2,410,541	2,408,865	2,520,804	0.19%
FNMA POOL 190985	7.500	08/01/09	963,936	963,922	1,031,675	0.08%
FNMA POOL 254140	5.500	01/01/17	12,071,064	12,025,785	12,388,402	0.92%
FNMA POOL 254233	5.000	03/01/17	8,473,828	8,211,424	8,518,514	0.64%
FNMA POOL 254631	5.000	02/01/18	6,902,863	6,993,043	6,934,304	0.52%
FNMA POOL 303590	7.000	11/01/10	1,174,205	1,174,205	1,251,675	0.09%
FNMA POOL 313999	6.000	02/01/13	1,274,260	1,268,793	1,333,742	0.10%
FNMA POOL 572220	6.000	03/01/16	830,185	828,060	866,344	0.06%
FNMA POOL 592327	5.500	06/01/16	1,494,873	1,463,583	1,536,040	0.11%
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	VAR	04/16/20	15,636,229	15,585,949	15,125,886	1.13%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
GOVERNMENT-MORTGAGE BACKED			**58,010,579**	**57,688,739**	**58,528,244**	**4.36%**
HOUSEHOLD FINANCE CORP	6.875	03/01/07	3,000,000	2,972,119	3,244,281	0.24%
HOUSEHOLD FINANCE CORP	4.750	05/15/09	1,000,000	999,157	1,006,708	0.08%
IBP FINANCIAL CO	7.450	06/01/07	4,000,000	3,999,195	4,283,080	0.32%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	2,000,000	1,969,662	2,180,000	0.16%
YANKEE BONDS			**10,000,000**	**9,940,133**	**10,714,069**	**0.80%**
BGI S & P 500 INDEX FUND B	NA	NA	480,587	68,406,676	72,138,374	5.38%
EQUITY INDEX FUND			**480,587**	**68,406,676**	**72,138,374**	**5.38%**
MONOGENESIS CORP	NA	NA	1	0	0	0.00%
OCEAN WEST HOLDING CORP	NA	NA	100	15	23	0.00%
EQUITY OTHER			**101**	**15**	**23**	**0.00%**
CALIFORNIA STREET, HELENA, MONTANA	NA	NA	204,835	204,835	207,667	0.02%
2401 COLONIAL DRIVE, HELENA, MONTANA	NA	NA	7,041,755	7,041,755	7,581,000	0.57%
1712 NINTH AVENUE, HELENA, MONTANA	NA	NA	498,712	498,712	576,369	0.04%
100 NORTH PARK AVENUE, HELENA, MONTANA	NA	NA	6,284,034	6,284,034	5,795,000	0.43%
2273 BOOT HILL COURT, BOZEMAN, MONTANA	NA	NA	2,063,604	2,063,604	2,082,014	0.16%
EQUITY REAL ESTATE			**16,092,940**	**16,092,940**	**16,242,050**	**1.21%**
MONTANA RESIDENTIAL MORTGAGES	NA	NA	119,513,572	119,513,572	119,542,865	8.91%
MONTANA MULTI FAMILY/COMMERCIAL LOANS	NA	NA	4,105,800	4,105,800	4,078,000	0.30%
MONTANA PERMANENT COAL TAX TRUST LOANS	NA	NA	221,861,642	221,861,642	221,861,642	16.54%
MORTGAGES/LOANS			**345,481,014**	**345,481,014**	**345,482,507**	**25.76%**
USB MUNICIPAL INVESTOR ACCOUNT	1.250	NA	37,847,576	37,847,576	37,847,576	2.82%
CASH EQUIVALENTS			**37,847,576**	**37,847,576**	**37,847,576**	**2.82%**
TOTAL ALL OTHER FUNDS			**1,262,147,263**	**1,324,087,590**	**1,341,236,868**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Montana Board of Investments:

We have audited the accompanying Statement of Net Assets of the Enterprise Fund of the state of Montana Board of Investments as of June 30, 2004, and 2003, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets and Statement of Cash Flows for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Enterprise Fund of the Montana Board of Investments and are not intended to present fairly the financial position of the state of Montana as of June 30, 2004, and 2003, and the results of the operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana Board of Investments' Enterprise Fund as of June 30, 2004, and 2003, and the results of its operations and cash flows of its Enterprise Fund for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 15, 2004

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STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF NET ASSETS AS OF JUNE 30, 2004 AND 2003

		2004		2003
Assets				
Current assets:				
Cash and cash equivalents (Notes 1 and 9)	$	7,534,708	$	10,817,077
Interest receivable (Note 9)		735,782		900,532
Notes/loans receivable (Notes 1 and 9)		9,176,128		11,067,695
Interfund notes/loans receivable (Notes 1 and 9)		3,141,523		2,485,075
Component Unit notes/loans receivable (Notes 1 and 9)		1,195,650		1,284,431
Short-term investments (Note 2)		23,243,262		8,954,343
Prepaid expenses		18		36
Total current assets (Note 9)		45,027,071		35,509,189
Noncurrent assets:				
Restricted Investments (Note 2)		4,394,269		3,496,317
Notes/loans receivable (Notes 1and 9)		36,174,241		36,520,323
Interfund notes/loans receivable (Notes 1 and 9)		9,181,931		5,822,017
Component Unit notes/loans receivable (Notes 1 and 9)		6,262,003		4,687,291
Investments (Note 2)		236,974		175,000
Capitalized cost of issue (Note 1)		1,506,489		1,220,532
Equipment		12,240		12,239
Accumulated depreciation		(8,078)		(6,120)
Total noncurrent assets (Note 9)		57,760,069		51,927,599
Total assets	$	102,787,140	$	87,436,788
Liabilities				
Current liabilities:				
Advances	$	98,687	$	101,272
Due to other funds		6,084		7,259
Accrued expenses		14,694		11,018
Accrued interest payable		612,771		649,706
Deferred cost of issue recovery		17,785		17,785
Arbitrage rebate tax payable		83,819		73,344
Compensated absences		11,343		12,040
Current bonds/notes payable (Note 4)		92,227,028		74,266,636
Total current liabilities		93,072,211		75,139,060
Noncurrent liabilities				
Bonds/notes payable (Note 4)		4,615,051		7,188,600
Compensated absences		13,609		18,929
Deferred cost of issue recovery		0		17,785
Arbitrage rebate tax payable		55,716		97,294
Total noncurrent liabilities		4,684,376		7,322,608
Total liabilities	$	97,756,587	$	82,461,668
Net Assets				
Invested in capital assets, net of related debt	$	4,162	$	6,119
Restricted (Note 1)		2,763,134		2,852,753
Unrestricted		2,263,257		2,116,248
Total net assets (Note 8)	$	5,030,553	$	4,975,120
Total liabilities and net assets	$	102,787,140	$	87,436,788

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

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Operating revenue		
Reimbursements	$ 7,939	$ 20,403
Investment income	82,642	339,106
Security lending income	0	0
Financing income	2,161,416	2,595,717
Total operating revenue	2,251,997	2,955,226
Operating expenses		
Personal services	186,075	198,973
Contracted services	33,431	38,174
Supplies and materials	6,602	4,382
Communications	6,344	7,051
Travel	3,988	3,906
Rent	39,231	38,749
Repair and maintenance	655	499
Indirect and other costs	26,591	35,662
Depreciation expense	1,958	1,958
Arbitrage rebate tax expense	40,127	81,862
Security lending expense	0	0
Debt service		
Interest expense	1,519,894	1,675,336
Trustee fee expense	49,849	40,541
Bond issuance cost amortization expense	131,473	142,349
Other debt service expense	150,346	156,915
Total operating expenses	2,196,564	2,426,357
Operating income	55,433	528,869
Nonoperating (expense):		
Transfers out (Note 6)	0	(297,266)
Change in net assets	55,433	231,603
Beginning net assets	4,975,120	4,743,517
Ending net assets (Note 8)	$ 5,030,553	$ 4,975,120

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

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

		2004		2003
Cash flows from operating activities:				
Receipts for sales and services	$	7,939	$	20,403
Payments to suppliers for goods and services		(117,308)		(126,042)
Payments to employees		(188,127)		(193,186)
Net cash (used for) operating activities		(297,496)		(298,825)
Cash flows from non-capital financing activities:				
Payment of principal and interest on bonds and notes		(4,987,227)		(5,128,094)
Proceeds from issuance of bonds and notes		18,600,621		15,476,643
Payment of bond issue costs		(401,007)		(335,330)
Transfers to other funds (Note 6)		0		(297,266)
Net cash provided by non-capital financing activities		13,212,387		9,715,953
Cash flows from capital and related financing activities:				
Acquisition of fixed assets		0		0
Net cash (used for) capital and related financing activities		0		0
Cash flows from investing activities:				
Collections for principal and interest on loans		28,978,347		25,059,876
Cash payments for loans		(29,923,593)		(24,688,342)
Purchase of investments		(28,131,728)		(11,979,150)
Proceeds from security lending		0		0
Security lending costs		0		0
Proceeds from sales or maturities of investments		12,577,928		4,914,061
Interest on investments		373,014		366,287
Payments for arbitrage rebate tax		(71,229)		(83,279)
Net cash (used for) investing activities		(16,197,261)		(6,410,547)
Net increase (decrease) in cash and cash equivalents		(3,282,369)		3,006,581
Cash and cash equivalents, July 1		10,817,077		7,810,496
Cash and cash equivalents, June 30		7,534,708		10,817,077
Reconciliation of net income to net cash (used for) operating activities:				
Net income		55,433		528,869
Adjustments to reconcile net income to net cash (used for) operating activities				
Depreciation		1,958		1,958
Interest on investments		(82,642)		(339,106)
Financing income		(2,161,416)		(2,595,717)
Interest expense		1,851,563		2,015,141
Security lending income		0		0
Security lending expense		0		0
Arbitrage rebate tax expense		40,127		81,862
Change in assets and liabilities:				
Increase/decrease in due from other funds		0		(179)
Increase/decrease in other assets		18		38
Increase/decrease in other payables		3,676		8,741
Increase/decrease in due to other funds		(196)		2,421
Increase/decrease in compensated absences payable		(6,017)		(2,853)
Total adjustments		(352,929)		(827,694)
Net cash (used for) operating activities	$	(297,496)	$	(298,825)
Schedule of noncash transactions:				
Increase/decrease in fair value of investments	$	(234,794)	$	1,303
Total noncash transactions	$	(234,794)	$	1,303

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

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. The statements include the financial activity administered by the Board in the Enterprise Fund.

b. Presentation of Programs

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

Economic Development Bond Act programs include:

- **The Industrial Development Bond Program (IDB) provides access to limited economic development projects through the issuance of conduit debt.**
- **The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.**
- **The Family Friendly Business Loan Program provides zero interest loans to qualified business owners who hire participants of the Families Achieving Independence in Montana (FAIM) employment and training component.**

Municipal Finance Consolidation Act programs include:

- **The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to ten years.**
- **The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.**
- **The School District Pooled Refunding Program provided funds for the Board to purchase the general obligation refunding bonds of participating Montana School Districts.**

c. Fixed Asset Depreciation

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis, with salvage value, in accordance with state policy.

d. Receivables

The Enterprise Fund notes/loans receivables of $64,962,608 as of June 30, 2004, and $61,717,146, previously stated as $61,771,266 as of June 30, 2003, represent loans made to Montana businesses, state and local governments. The Enterprise Fund notes/loans are classified in three categories as follows:

1) **Notes/loans receivable from local governments and Montana businesses**
2) **Interfund notes/loans receivable from state agency governments**
3) **Component Unit notes/loans receivable from certain state agencies and university units for which the State is financially accountable.**

As of June 30, 2004 and 2003, there were no uncollectible account balances. However, in November 2003, the Enterprise Fund wrote off a loan principal balance of $10,791 for the Rosebud Food and Fuel loan. The Family Friendly Business Loan Program funded $27,000 for this loan in June 1999.

The InterFund notes/loans receivable as of June 30, 2004 and 2003 includes $168,868 and $149,686, respectively, in interest accruals from state agencies and university units.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of $1,506,489 and $1,220,532 as of June 30, 2004 and June 30, 2003, respectively, represents paid bond issuance costs which have been capitalized and are being amortized, using the straight-line method, over the life of the bond.

f. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Assets, are as follows:

	June 30, 2004	June 30, 2003
Cash in Treasury	24,756	13,726
Cash with Fiscal Agent (Note 9)	2,490,280	2,297,689
Short Term Investment Pool (STIP)	186,263	142,680
First American treasury obligation class D corporate trust fund	4,833,409	8,362,981
	7,534,708	10,817,077

The Enterprise Fund invests its excess cash in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

g. Restricted Net Assets

The Statement of Net Assets for the Enterprise Fund reports restricted assets. Net assets are reported as restricted when constraints placed on net asset use are either:

a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
b. Imposed by law through constitutional provisions or enabling legislation.

The net assets of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account, MEDB Family Friendly Account and CRP are restricted under bond indentures governing the use of these funds.

2. INVESTMENTS

The deposits and investments in the Enterprise Fund are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board. The deposits and investments are combined on the Board's financial statements.

Investments are presented in the Statement of Net Assets at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities.

The Board's investments in the Enterprise Fund are classified on the next page as to credit risk by Category 1, which includes investments that are insured or registered, or securities held by the Board or its agent in the Board's name.

Investment Type	Risk as of June 30, 2004 Long-Term Investments Category 1	Carrying Value	Fair Value
Government Securities	$ 4,661,802	$ 4,661,802	$ 4,631,243
Total long-term investments	$ 4,661,802	$ 4,661,802	$ 4,631,243
	Short-Term Investments		
Government Securities	$ 23,254,675	$ 23,254,675	$ 23,243,262
Total short-term investments	$ 23,254,675	$ 23,254,675	$ 23,243,262
Securites Lending Collateral Investment Pool	$ 0	$ 0	$ 0

Investment Type	Risk as of June 30, 2003 Long-Term Investments Category 1	Carrying Value	Fair Value
Government Securities	$ 3,509,883	$ 3,509,883	$ 3,671,317
Total long-term investments	$ 3,509,883	$ 3,509,883	$ 3,671,317
	Short-Term Investments		
Government Securities	$ 8,922,955	$ 8,922,955	$ 8,954,343
Total short-term investments	$ 8,922,955	$ 8,922,955	$ 8,954,343
Securites Lending Collateral Investment Pool	$ 0	$ 0	$ 0

There were no derivative transactions during the above fiscal years for investments held by the trustee.

3. SECURITY LENDING

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP).

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's STIP securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street loaned, on behalf of the Board, certain STIP securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

4. BONDS PAYABLE

Long-Term Bonds Payable

Economic Development Bonds (EDB) and Municipal Finance Consolidation Act Bonds (MFCAB)

These bonds are issued under the Economic Development Bond Act, and the Municipal Finance Consolidation Act, for the purpose of assisting Montana's small businesses and local governments in obtaining low cost financing. Outstanding obligations are listed as follows (in thousands):

Bonds Payable as of June 30, 2004

Program	Series	Amount Issued	Interest Range %	Principal Payments FY 2005	Principal Payments @ Maturity	Balance June 30, 2004
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	4,976	6.60-7.75	325	130 (2014)	1,205
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (3)	1991	6,234	4.75-6.50	294	294 (2005)	294
Conservation Reserve Enhancement Program (CRP Bonds) (2)		4,789	6.00-8.00	1,053	377 (2009)	4,789
Total Bonds Payable		$ 15,999		$ 1,672		$ 6,288
Less Current Portion (FY2004 Principal Payments)						(1,672)
Total Long-Term Bonds Payable						$ 4,616

Bonds Payable as of June 30, 2003

Program	Series	Amount Issued	Interest Range %	Principal Payments FY 2004	Principal Payments @ Maturity	Balance June 30, 2003
Municipal Finance Consolidation Act Bonds (Irrigation) Program (1)	1988	4,976	6.60-7.75	520	130 (2014)	1,707
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (3)	1991	6,234	4.75-6.50	287	294 (2005)	581
Conservation Reserve Enhancement Program (CRP Bonds) (2)		6,977	6.00-8.00	1,270	30 (2011)	6,977
Total Bonds Payable		$ 18,187		$ 2,077		$ 9,265
Less Current Portion (FY2003 Principal Payments)						(2,077)
Total Long-Term Bonds Payable						$ 7,188

(1) The Board issued these bonds to provide funds to purchase the Refunding Bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. While the Irrigation Bonds are not obligations of the State of Montana, the bonds are limited obligations of the Board due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The Indenture does not permit the issuance of additional bonds.

(2) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

(3) The Board issued these bonds to provide funds to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. The 1991 Bonds are limited obligations of the Board, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Future debt service (principal and interest) as of June 30, 2004 is listed below (in thousands):

2005	2006	2007	2008	2009	2010+	Total
$ 2,109	$ 1,542	$ 1,410	$ 1,391	$ 536	$ 675	$ 7,663

Future debt service (principal and interest) as of June 30, 2003 is listed below (in thousands):

2004	2005	2006	2007	2008	2009+	Total
$ 2,680	$ 2,352	$ 1,785	$ 1,648	$ 1,629	$ 1,544	$ 11,638

Current Bonds Payable

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $120 million as amended by the 2003 Legislature. Previously, INTERCAP bonds may not aggregate more than $80 million through June 30, 2011 and then $75 million thereafter. The INTERCAP bonds provide funds for the Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put", but not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund.

The INTERCAP obligations at June 30, 2004 and June 30, 2003, are listed below (in thousands):

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2004	Balance June 30, 2003
1992	6,500	Variable	2005	6,055	6,075
1994	7,500	Variable	2009	6,895	6,975
1995	7,500	Variable	2010	7,080	7,115
1997	10,000	Variable	2017	9,740	9,740
1998	12,500	Variable	2018	12,285	12,285
2000	15,000	Variable	2025	15,000	15,000
2003	15,000	Variable	2028	15,000	15,000
2004	$18,500	Variable	2029	18,500	0
Total INTERCAP Debt	$92,500			90,555	72,190
Current Portion of Long-Term Bonds Payable				1,672	2,077
				92,227	74,267

5. OTHER DEBT

Conduit Debt

In this program, the Board is authorized to issue stand-alone industrial revenue bonds, under the Economic Development Act, as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

Conduit Debt

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2004	Balance June 30, 2003
MT Cenex (Farmers Union)	August 1985	09/01/10	$ 3,925	0	3,925
Colstrip	October 1989	12/30/15	60,800	55,300	57,300
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	116,945	117,345
Stillwater Mining	July 2000	07/01/20	30,000	30,000	30,000
Gainey Foundation	October 2002	09/01/14	6,000	5,570	6,000
Total conduit debt			$ 219,070	$ 207,815	$ 214,570

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

QZAB Debt

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2004	Balance June 30, 2003
Huntley Project K-12 Schools	December 2000	07/01/13	$ 750	$ 750	$ 750
Bozeman Public Schools	November 2003	11/25/12	1,586	1,586	0
Philipsburg Schools	December 2003	12/10/17	2,000	2,000	0
Total conduit debt			$ 4,336	$ 4,336	$ 750

6. TRANSFERS OUT

In fiscal year 2003, the Enterprise Fund transferred $297,266 to the Board of Investment's Investment account. No transfers were made to the Board of Investment's Investment account in fiscal year 2004.

7. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2004 and 2003, respectively, the Board committed to make loans to eligible Montana governments totaling $37,068,745 and $20,170,082.

8. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2004 and June 30, 2003 include ($41,971) and $192,823, respectively, in unrealized appreciation/depreciation in reporting the fair value of the Enterprise Fund investments.

9. RESTATEMENT

The Board implemented the provisions of the state's Management Memo 02-04-12 Accounting for INTERCAP Loans Provided to State Agencies (Including Higher Education Units) effective July 1, 2003. In implementing this Management Memo, the Notes/Loans Receivable as of June 30, 2003 were reclassified to reflect current year payments rather than note maturities. The financial statements for the year ended June 30, 2003 have been restated, for these changes, to compare with the financial statements for the year ended June 30, 2004. These restatements are described in the following paragraphs.

In the Statement of Net Assets as of June 30, 2003, the Cash and Cash Equivalents has been restated to reflect a change in Cash with Fiscal Agent. Cash with Fiscal Agent, previously reported as $2,243,569, is now presented as $2,297,689 to reflect a loan principal payment of $54,120 received as of June 30, 2003. The Cash with Fiscal Agent change results in the total Cash and Cash Equivalents, as of June 30, 2003, being restated as $10,817,077 from $10,762,957. The Interest Receivable of

$900,532 reflects the reclassification of loan interest due from state agencies and university units. Interest Receivable was previously reported as $1,050,039. The Current Assets for Notes/loans Receivable of $6,356,754 and Due From Other Funds of $179 has been restated as Notes/loans Receivable of $11,067,695 due from local governments and Montana businesses, Interfund Notes/loans Receivable of $2,485,075 due from state agencies and Component Unit Notes/Loans Receivable of $1,284,431 due from certain state agencies and university units. The Total Current Assets amount of $27,124,308, as previously reported, has been changed to $35,509,189 to address the above changes. The Noncurrent Assets Restricted for Notes/loans Receivable of $47,751,994 has been restated as Interfund Notes/loans Receivable of $5,822,017 due from state agencies and Component Unit Notes/Loans Receivable of $4,687,291 due from certain state agencies and university units. The balance of the Noncurrent Assets Restricted for Notes/loans Receivable totaling $28,857,805 due from local governments and Montana businesses was combined with the previously reported Notes/Loans Receivable amount of $7,662,518 for a restated Notes/Loans Receivable total of $36,520,323. The Total Assets Restricted amount of $51,248,311 as previously reported, has been changed to $3,496,317 to address the above changes.

In the Statement of Cash Flows for the Year Ended of June 30, 2003, Cash Flows from Investing Activities section, the Collections for Principal and Interest on Loans has been restated as $25,059,876 from $25,005,756 as previously reported to reflect a loan principal payment of $54,120 received as of June 30, 2003. This change results in the Net Cash (Used For) Investing Activities being reported as $(6,410,547) from $(6,464,667). The Net Increase (Decrease) in Cash and Cash Equivalents changed to $3,006,581 from $2,952,461 and Cash and Cash Equivalents, as of June 30, 2003, are restated as $10,817,077 from $10,762,957 as previously reported.