



*Board Of Investments*

Fiscal Year 2005 Annual Report

# MONTANA BOARD OF INVESTMENTS

## Department of Commerce

2401 Colonial Drive, 3<sup>rd</sup> Floor

PO Box 200126

Helena, MT 59620-0126

[www.investmentmt.com](http://www.investmentmt.com)

**The Honorable Brian Schweitzer, Governor**

### BOARD MEMBERS

◆ ***Terry Moore, Chairman***

Executive Vice President & Chief Financial Officer

First Interstate Bank

Billings

Term Ending 01/01/2007

◆ ***Teresa Cohea***

Vice President

D.A. Davidson & Co.

Helena

Term Ending 01/01/2009

◆ ***Elouise Cobell***

Chairperson

Blackfeet National Bank

Browning

Term Ending 01/01/2009

◆ ***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

◆ ***John Paull***

Battalion Chief

Butte-Silver Bow Fire Department

Butte

Term Ending 01/01/2009

◆ ***Jack Prothero***

Retired

Financial Representative

Great Falls

Term Ending 01/01/2009

◆ ***Jim Turcotte***

Financial Adviser

Raymond James Financial Services

Helena

Term Ending 01/01/2009

◆ ***Calvin Wilson***

County Attorney

Big Horn County

Busby

Term Ending 01/01/2007

**MONTANA BOARD OF INVESTMENTS**  
**Staff as of June 30, 2005**

- ◆ **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. Lutman**  
Network Administrator
- ◆ **Kimberly R. Dallas**  
Program Assistant/Board Secretary
- ◆ **Libby Groves**  
Administrative Assistant
- ◆ **Sara LaFontaine**  
Imaging/Scanning Assistant
- ◆ **Gayle Moon, CPA**  
Accounting Fiscal Manager
- ◆ **Mari Rohrig**  
Accountant
- ◆ **Roberta Diaz**  
Accountant
- ◆ **Marilyn Umstead**  
Accountant
- ◆ **Coralie Sciuchetti**  
Accountant
- ◆ **Mary Noack**  
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
- ◆ **Cliff Sheets, CFA**  
Chief Investment Officer – Effective Oct. 3, 2005
- ◆ **Robert Bugni, CFA**  
Chief Investment Officer - Interim
- ◆ **Richard Cooley, CFA**  
Senior Investment Officer-Fixed Income/Intl. Equities
- ◆ **Rande Muffick, CFA**  
Assistant Investment Officer-Domestic Equities
- ◆ **Edward Kelly**  
Assistant Investment Officer-Private Equity/STIP
- ◆ **Roberta Ecklund**  
Research Manager – Interim/Investment Analyst
- ◆ **Adam L. Nelson, CFA**  
Investment Analyst
- ◆ **John Romasko, CFA, CPA**  
Investment Analyst – Fixed Income
- ◆ **Steve Strong**  
Investment Analyst
- ◆ **Jon Putnam**  
Investment Analyst
- ◆ **Joseph Kennebeck**  
Trader

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## INTRODUCTION

The Montana Board of Investments (Board) is pleased to submit its Annual Report for the fiscal year ended June 30, 2005. 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 \$9.77 billion at year-end 2005 - an annual average increase of 10.9 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 463 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 2005, the Board has funded 1,172 loans totaling \$473.8 million in 43 of Montana's 56 counties. Loans funded by county are shown on Page 56.

**Mortgages** - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2005 the Board held 1,696 mortgages with total book values of \$92.9 million in 54 of Montana's 56 counties - a decrease from the mortgages valued at \$123.6 million held at year-end 2004. 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 54.

**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, \$212.35 million has been loaned to eligible governments. Additional information on the Bond Program is shown on Page 58.

**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 securities lending income of \$819,807 in 2005, compared to \$907,508 in 2004. 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 2005 were 3.9 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** – Regular Board meetings are held quarterly. Meeting dates, agenda, and minutes are posted on the Board's web page at [www.investmentmt.com](http://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 2005 and changes in investments from 2004. 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.

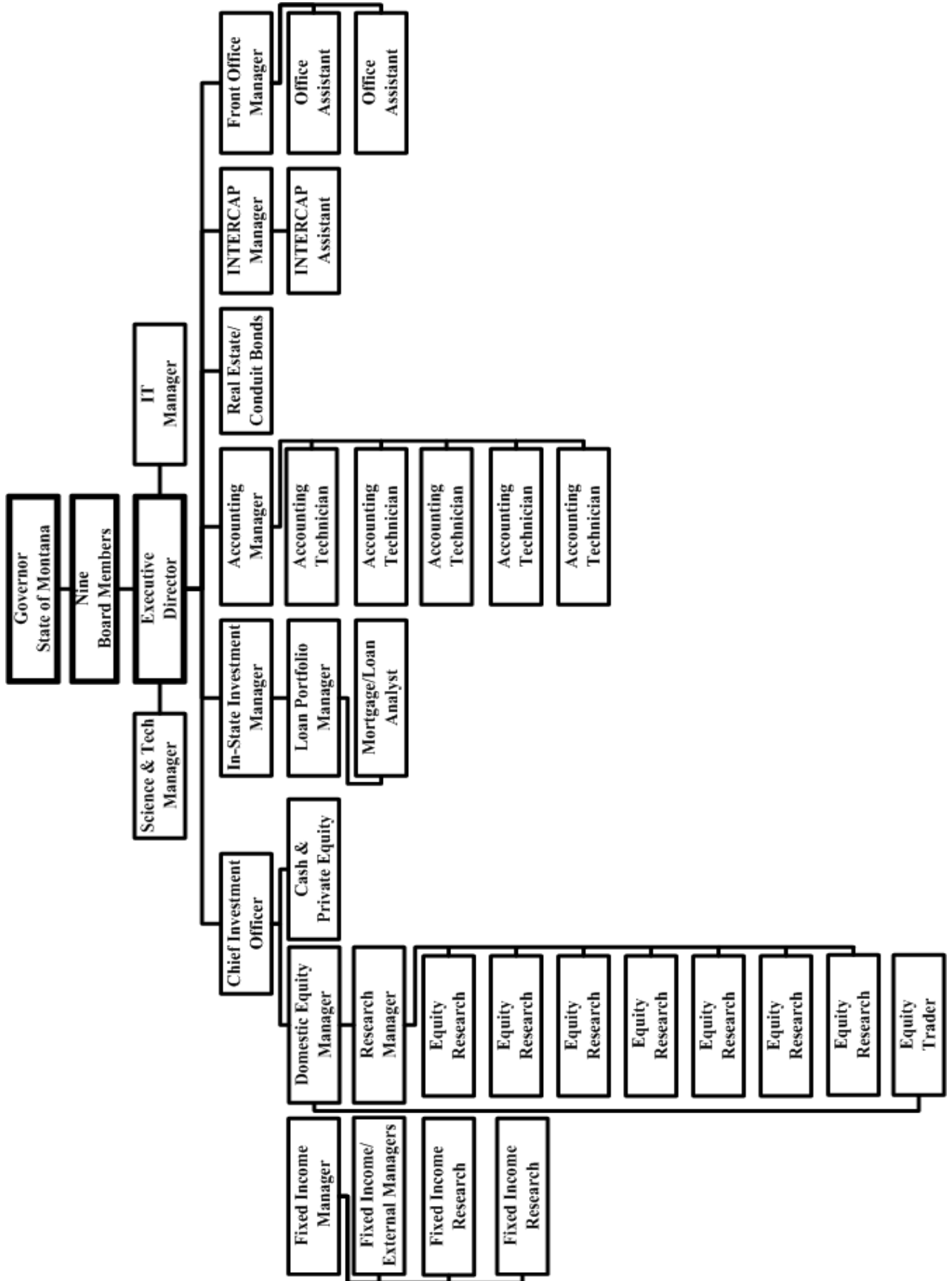
**Fair Market Values** reflect the value of securities on June 30 as priced by the Custodial Bank, or other sources.

**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, includes 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.

# FUNCTIONAL ORGANIZATIONAL CHART

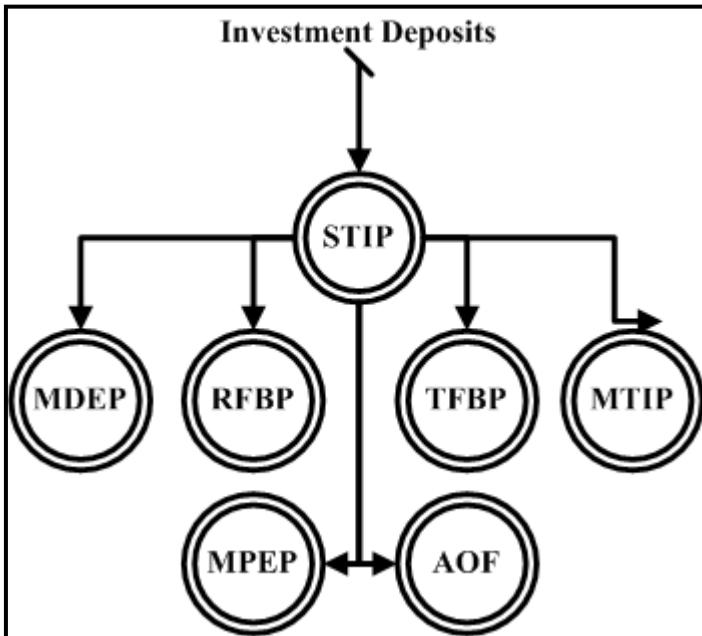




## TOTAL FUND

The Total Fund is comprised of all state and local government 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 at their discretion may invest funds with the Board.

At June 30, 2005 the fair value of the Total Fund was \$10.51 billion compared to \$9.59 billion a year earlier. 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 463 individual accounts, consisting of 286 state agency accounts and 177 local government accounts.



At year-end the Board managed 86.0 percent of the Total Fund in six investment pools, which operate similar to mutual funds. All cash is initially deposited in the Short Term Investment Pool (STIP), which operates as a money market fund. The pool has a fixed \$1.00 share value and participants may invest and withdraw funds with 24 hours notice.

Depending upon the investment parameters of individual accounts, some of the account balances may be transferred from STIP to other investment pools, which include both equity and fixed-income investments. If accounts are authorized to invest in longer-term type investments but their investment parameters do not permit investment in the pools, they may be invested in individual portfolios included in the

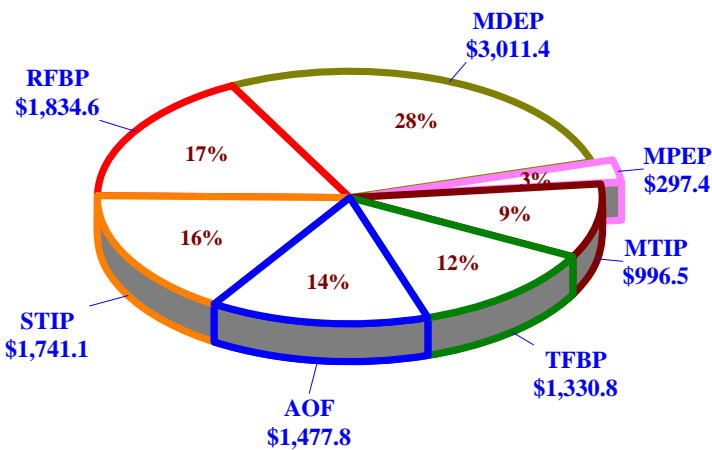
All Other Funds (AOF).

Most state agency accounts authorized by law to retain interest earning and all local government accounts are limited to STIP investments only. State agency accounts that invest in other investment pools or individual investment portfolios may maintain a minimum STIP balance for liquidity. Since the state's Trust Funds cannot be invested in equities, they are invested in the Trust Funds Bond Pool (TFBP) or individual fixed-income portfolios. Because there are no constitutional or legal restraints on the investment of state Pension Funds, they are invested in the Retirement Funds Bond Pool (RFBP) and the three equity pools – the Montana Domestic Equity Pool (MDEP), the Montana International Equity Pool (MTIP), and the Montana Private Equity Pool (MPEP).

## Investment Pools

At June 30, 2005

(In Millions)



**The Montana Domestic Equity Pool (MDEP)** comprised 28.0 percent of the Total Portfolio on June 30, 2005. Pool securities include actively-managed large and small cap domestic stock and passively-managed large and mid-cap domestic stock. The actively-managed large cap securities are managed by Board staff. All others are externally-managed. The nine pension funds comprise 99.0 percent of the pool's Net Asset Value. Dividends are distributed monthly and capital gains/losses are retained in the pool.

**The Retirement Funds Bond Pool (RFBP)**, comprising 17.0 percent of the Total Portfolio on June 30, is reserved for pension funds only and all nine funds participate. Pool securities are a mix of long-term investment grade corporate bonds and U.S. government bonds. All bonds are U.S. Dollar denominated and the pool is managed by Board staff. Income is distributed monthly and capital gains/losses are distributed periodically.

**The Short Term Investment Pool (STIP)** comprised 16.0 percent of the Total Portfolio on June 30. The pool operates as a money market fund with a constant share value of \$1.00. There were 463 participants in the pool in 2005, including 177 local governments. Pool securities consist of investment grade short term securities. The pool is managed by Board staff and income is distributed monthly.

**The Trust Funds Bond Pool (TFBP)** accounted for 12.0 percent of the Total Portfolio on June 30. The 24 participants in this pool are a mix of trust funds and university funds that may be invested long term. The pool securities are similar to RFBP securities and the pool is managed by Board staff. Income is distributed monthly and capital gains/losses are distributed periodically.

**The Montana International Equity Pool (MTIP)**, comprising 9.0 percent of the Total Portfolio on June 30, is reserved for pension funds only and all nine funds participate. Pool securities consist of both actively-managed and passively-managed Europe and Pacific Basin equity securities. The pool is managed by contracted external managers. Dividends are distributed monthly and capital gains/losses are retained in the pool.

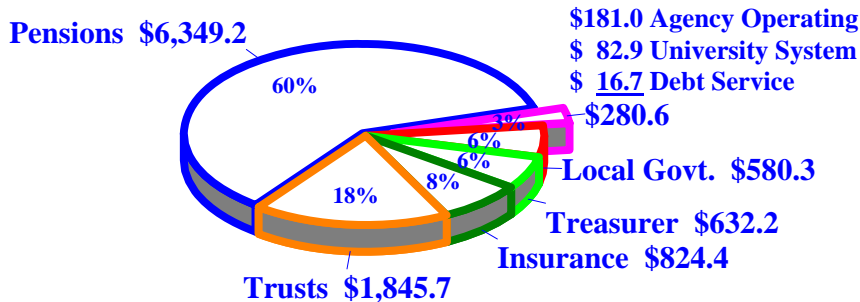
**The Montana Private Equity Pool (MPEP)**, comprising 3.0 percent of the Total Portfolio on June 30, is also reserved for pension funds only. The Board contracts with several private equity managers to invest in venture capital, leveraged buy-out, and other types of private equity investments. Income is distributed periodically and capital gains/losses are retained in the pool.

**The All Other Fund (AOF)** includes all other investments not held in the six investment pools. Securities include bonds, mortgages/loans, a passive index stock fund, and equity real estate.

# Total Funds By Source

\$10.51 Billion Fair Value At June 30, 2005

(In Millions)



The pie charts show the Total Fund by source and asset type at June 30, 2005. The nine pension funds comprised 60.0 percent of the Total Fund at fair value, while state trusts accounted for 18.0 percent.

The insurance portfolio is composed primarily of the State Fund (New Workers Compensation) and the Old Worker's Compensation Fund.

The Treasurer's Fund is essentially the state checking account that

includes all state agency accounts not authorized to retain their interest earnings and the state general fund.

Local government investments in STIP comprised 6.0 percent of the Total Fund.

Except for \$76.7 million of equity investments held by the State Fund and a handful of small trusts and endowments, the equity portfolio is held by the nine pension funds.

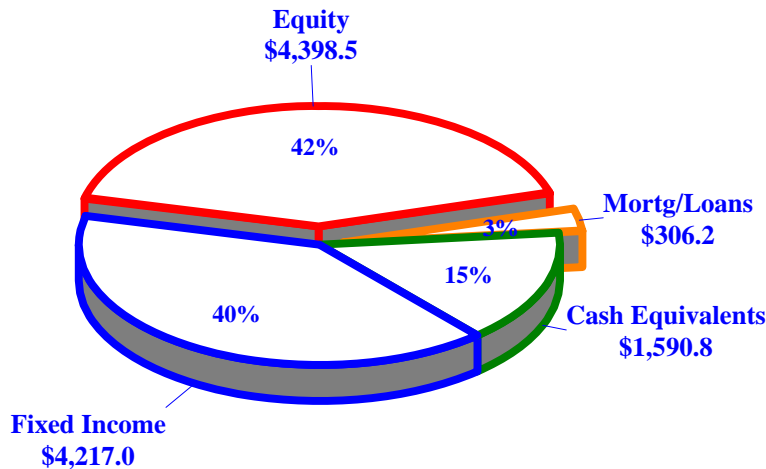
Mortgages and loans

consist of residential mortgages and commercial loans to Montana businesses.

# Total Funds By Asset

\$10.51 Billion Fair Value At June 30, 2005

(In Millions)



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 – 16 in Appendix A.

<b>Total Fund By Source And Asset Allocation At Fair Value On June 30, 2005</b>						
<b>Fund Type</b>	<b>Cash Equivalents \$</b>	<b>Domestic Stock \$</b>	<b>Fixed Income \$</b>	<b>Mortgage/ Loans</b>	<b>Other Equity (1)</b>	<b>Total</b>
Pensions	101,126,032	3,009,260,669	1,834,620,222	93,811,197	1,310,359,844	6,349,177,964
Trusts	184,027,027	1,106,234	1,448,188,877	212,353,581		1,845,675,718
Insurance	106,650,845		641,052,586		76,737,097	824,440,528
Treasurer's	364,639,526		267,577,534			632,217,060
Local Gov.	580,347,134					580,347,134
Agency Cash	171,510,575		9,475,974			180,986,549
Universities	65,799,309	1,035,109	16,057,006			82,891,423
Debt Service	<u>16,688,277</u>					<u>16,688,277</u>
<b>Total</b>	<b><u>1,590,788,725</u></b>	<b><u>3,011,402,012</u></b>	<b><u>4,216,972,198</u></b>	<b><u>306,164,777</u></b>	<b><u>1,387,096,941</u></b>	<b><u>10,512,424,653</u></b>

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

<b>Total Fund Book/Fair Values of Securities Held At June 30, 2005</b>					
<b>Investment Type</b>	<b>Book \$ Value</b>	<b>Fair \$ Value</b>	<b>Fair \$ +/- Book</b>	<b>% of Book</b>	<b>% of Fair</b>
Domestic Stocks/Indexes	2,609,202,578	3,011,913,931	402,711,352	26.7	28.6
Corporate Bonds	2,290,612,792	2,394,513,655	103,900,863	23.5	22.8
US Government-Backed Bonds	2,024,200,870	2,077,538,206	53,337,337	20.7	19.8
Commercial Paper	1,249,740,444	1,249,527,386	(213,058)	12.8	11.9
International Stocks	840,131,984	993,518,620	153,386,636	8.6	9.4
Mortgages\Loans	305,293,033	306,164,777	871,744	3.1	2.9
Private Equity	272,828,947	297,638,312	24,809,365	2.8	2.8
BGI Equity Index	68,406,676	76,737,097	8,330,421	0.7	0.7
Repurchase Agreements	62,124,221	62,124,221	0	0.6	0.6
Equity Real Estate	16,316,230	16,474,430	158,201	0.2	0.2
Foreign Government Bonds	14,886,316	15,652,500	766,184	0.2	0.1
State/Local Government Bonds	<u>12,122,489</u>	<u>12,123,270</u>	<u>781</u>	<u>0.1</u>	<u>0.1</u>
<b>Total</b>	<b><u>9,765,866,580</u></b>	<b><u>10,513,926,405</u></b>	<b><u>748,059,825</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

<b>Total Fund Annual Change At June 30 By Asset Type</b>						
<b>Investment Type</b>	<b>2005 \$ Book Value</b>	<b>% of Total</b>	<b>2004 \$ Book Value</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% of Change</b>
Domestic Stocks/Indexes	2,609,202,578	26.7	2,479,060,702	27.6	130,141,876	5.2
Corporate Bonds	2,290,612,792	23.5	2,353,186,581	26.2	(62,573,789)	(2.7)
US Government-Backed Bonds	2,024,200,870	20.7	1,695,726,968	18.9	328,473,901	19.4
Commercial Paper	1,249,740,444	12.8	900,831,210	10.0	348,909,234	38.7
International Stocks	840,131,984	8.6	786,482,403	8.8	53,649,582	6.8
Mortgages\Loans	305,293,033	3.1	345,481,014	3.8	(40,187,981)	(11.6)
Private Equity	272,828,947	2.8	236,711,058	2.6	36,117,889	15.3
BGI Equity Index	68,406,676	0.7	68,406,676	0.8	0	0.0
Repurchase Agreements	62,124,221	0.6	71,847,576	0.8	(9,723,355)	(13.5)
Equity Real Estate	16,316,230	0.2	16,092,941	0.2	223,289	1.4
Foreign Government Bonds	14,886,316	0.2	14,873,016	0.2	13,300	0.1
State/Local Government Bonds	<u>12,122,489</u>	<u>0.1</u>	<u>9,892,524</u>	<u>0.1</u>	<u>2,229,964</u>	<u>22.5</u>
<b>Total Investments</b>	<b><u>9,765,866,580</u></b>	<b><u>100.0</u></b>	<b><u>8,978,592,670</u></b>	<b><u>100.0</u></b>	<b><u>787,273,910</u></b>	<b><u>8.8</u></b>

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, 2005**

<u>Fund</u>	<u>Fair Value \$</u>	<u>Fund</u>	<u>Fair Value \$</u>
Public Employees' Retirement	3,232,788,978	Group Benefits Insurance	26,955,926
Teachers' Retirement	2,461,155,345	Other Trusts STIP	25,475,484
State Fund Insurance	685,491,597	Treasure State Water	23,128,923
Treasurer's Fund	632,217,060	Vol. Firefighters' Retirement	20,063,456
Local Government STIP	580,347,134	UM Other Funds	19,728,338
Permanent Coal Tax Trust	574,662,999	Parks Coal Trust	17,359,317
Trust & Legacy Fund	433,049,004	Debt Service STIP	16,688,277
UCFRB Restoration Fund	161,312,993	UM Designated Fund	16,140,821
Police Officers' Retirement	153,724,535	UCFRB Reserve Fund	15,743,881
St Agency Operations STIP	152,631,266	Higher Education STIP	15,230,027
Sheriffs' Retirement	151,006,508	FWP Mitigation	11,190,292
Firefighters' Retirement	146,685,522	Hail Insurance	8,909,984
Highway 93 Bond	129,567,724	Zortman/Landusky	8,587,962
Treasure State Endowment	129,403,541	Wildlife Habitat Trust	6,873,925
Resource Indemnity Trust	106,407,297	Abandoned Mines	5,435,860
Streamside Tailings	94,691,620	Cultural Coal Tax Trust	5,085,115
Highway Patrol Retirement	83,578,823	Weed Control Trust	4,828,595
Old Fund Insurance	62,952,777	FWP Real Property	4,676,689
Tobacco Trust	58,528,528	U of M Endowment	2,548,121
Game Wardens' Retirement	51,750,698	MT Tech UM Agency	2,062,932
Judges' Retirement	48,424,100	Subsequent Injury	1,768,318
Insurance STIP	38,361,926	Other Trusts MTCP	1,106,234
FWP License Account	28,355,282	Other Trusts TFBP	402,880
Montana Pole	28,156,856	Higher Education MTCP	126,374
Montana State University	27,054,811		
		<b>Total</b>	<b>10,512,424,654</b>

**Total Fund Income**

<u>Fund Type</u>	<u>2005 \$</u>	<u>% of</u>	<u>2004 \$</u>	<u>% of</u>	<u>\$</u>	<u>% of</u>
	<u>Income</u>	<u>Total</u>	<u>Income</u>	<u>Total</u>	<u>Change</u>	<u>Change</u>
Public Employees' Retirement	93,137,953	25.8	157,174,263	33.3	(64,036,310)	(40.7)
Teachers' Retirement	75,845,392	21.0	129,319,390	27.4	(53,473,998)	(41.4)
Permanent Coal Tax Trust (1)	46,169,407	12.8	44,170,843	9.3	1,998,565	4.5
State Fund Insurance	30,226,050	8.4	27,825,991	5.9	2,400,059	8.6
Trust & Legacy Fund	28,375,979	7.9	30,140,513	6.4	(1,764,534)	(5.9)
Other Retirement Systems	18,452,543	5.1	29,437,359	6.2	(10,984,816)	(37.3)
Other Managed Portfolios	16,493,466	4.6	15,238,569	3.2	1,254,897	8.2
Local Governments STIP	12,419,504	3.4	6,570,598	1.4	5,848,907	89.0
UCFRB Restoration Fund	10,956,185	3.0	11,034,724	2.3	(78,539)	(0.7)
Treasurer's Fund	10,046,532	2.8	6,392,992	1.4	3,653,539	57.1
State Agency/Higher Ed. STIP	8,719,704	2.4	3,791,337	0.8	4,928,367	130.0
Resource Indemnity Trust	6,901,925	1.9	7,380,241	1.6	(478,316)	(6.5)
Old Fund Insurance	3,184,749	0.9	4,062,134	0.9	(877,386)	(21.6)
<b>Total</b>	<b>360,929,390</b>	<b>100.0</b>	<b>472,538,954</b>	<b>100.0</b>	<b>(111,609,565)</b>	<b>(23.6)</b>

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

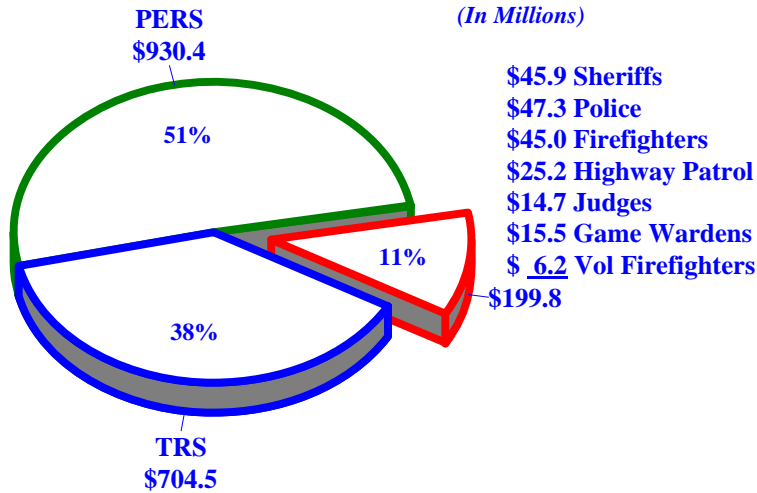
**Major Funds 2005 Total Rates Of Return Compared to Index**

<u>Fund Name</u>	<u>% Return</u>	<u>Index (1)</u>	<u>Index % Return</u>	<u>Return +/- Index</u>
Public Employees' Retirement	8.13	Composite	7.89	0.24
Teachers' Retirement	8.19	Composite	7.95	0.24
Coal Tax Permanent Fund	7.34			
State Fund Insurance	5.88	Composite	4.86	1.02
Trust & Legacy Fund	8.01			
Treasurer's Fund	2.27			
Resource Indemnity Trust	8.12			

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

# RFBP Participants

Net Asset Value Of Participant Units \$1.83 Billion  
at June 30, 2005



## 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.

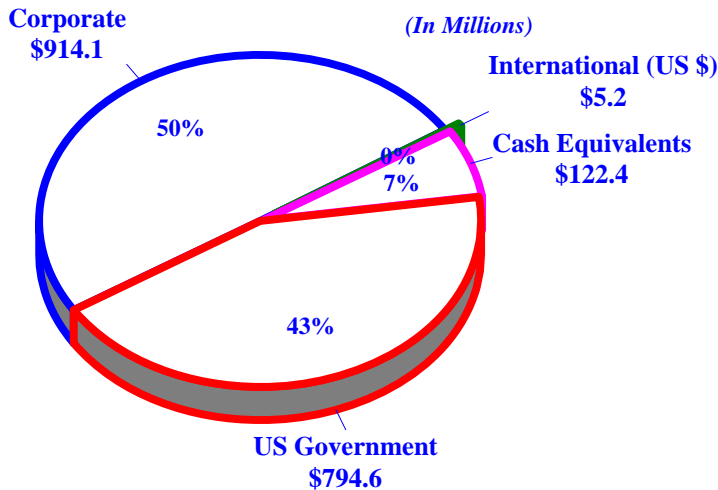
The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is the interest receivables included in the net asset value of the pool.

The RFBP distributed \$118.6 million in income to participants in 2005, compared to \$113.7 million in 2004. Income distributed includes interest accruals, and 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.

# RFBP By Investment

Fair Value Of Investments \$1.84 Billion  
at June 30, 2005



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**

<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Corporate Bonds (Rated)	838,067,187	47.8	808,842,767	52.1	29,224,421	3.6
Corporate Bonds (Unrated)	19,289,266	1.1	19,161,517	1.2	127,750	0.7
Foreign Government Bonds	4,962,105	0.3	4,957,672	0.3	4,433	0.1
U.S. Govt Direct-Backed Bonds	180,694,406	10.3	85,756,453	5.5	94,937,953	110.7
U.S. Govt Indirect-Backed	<u>587,410,682</u>	<u>33.5</u>	<u>569,896,545</u>	<u>36.7</u>	<u>17,514,137</u>	<u>3.1</u>
<b>Total Fixed Income</b>	<b><u>1,630,423,646</u></b>	<b><u>93.0</u></b>	<b><u>1,488,614,953</u></b>	<b><u>95.9</u></b>	<b><u>141,808,693</u></b>	<b><u>9.5</u></b>
Short Term Investment Pool	112,477,995	6.4	63,754,291	4.1	48,723,704	76.4
State Street Repurchase Agr.	<u>9,923,600</u>	<u>6.4</u>	<u>0</u>	<u>0.0</u>	<u>9,923,600</u>	<u>N/A</u>
<b>Total Cash Equivalents</b>	<b><u>122,401,595</u></b>	<b><u>7.0</u></b>	<b><u>63,754,291</u></b>	<b><u>4.1</u></b>	<b><u>58,647,304</u></b>	<b><u>92.0</u></b>
<b>Total</b>	<b><u>1,752,825,241</u></b>	<b><u>100.0</u></b>	<b><u>1,552,369,244</u></b>	<b><u>100.0</u></b>	<b><u>200,455,997</u></b>	<b><u>12.9</u></b>

**RFBP Book/Fair Values At June 30, 2005**

<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Corporate Bonds (Rated)	838,067,187	894,556,479	56,489,292	47.8	48.7
Corporate Bonds (Unrated)	19,289,266	19,537,653	248,386	1.1	1.1
Foreign Government Bonds	4,962,105	5,217,500	255,395	0.3	0.3
U.S. Govt Direct-Backed Bonds	180,694,406	188,790,314	8,095,908	10.3	10.3
U.S. Govt Indirect-Backed	<u>587,410,682</u>	<u>605,800,830</u>	<u>18,390,148</u>	<u>33.5</u>	<u>33.0</u>
<b>Total Fixed Income</b>	<b><u>1,630,423,646</u></b>	<b><u>1,713,902,776</u></b>	<b><u>83,479,130</u></b>	<b><u>93.0</u></b>	<b><u>93.3</u></b>
Short Term Investment Pool	112,477,995	112,477,995	0	6.4	6.1
State Street Repurchase Agr.	<u>9,923,600</u>	<u>9,923,600</u>	<u>0</u>	<u>0.6</u>	<u>0.5</u>
<b>Total Cash Equivalents</b>	<b><u>122,401,595</u></b>	<b><u>122,401,595</u></b>	<b><u>0</u></b>	<b><u>7.0</u></b>	<b><u>6.7</u></b>
<b>Total</b>	<b><u>1,752,825,241</u></b>	<b><u>1,836,304,371</u></b>	<b><u>83,479,130</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

**RFBP Total Rates of Returns Versus Benchmark**

<u>Year</u>	<u>% Return</u>	<u>Benchmark</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
2005	8.12	CitiGroup Broad Investment	7.00	1.12
3 Year Annualized Average	8.19	CitiGroup Broad Investment	5.88	2.31
5 Year Annualized Average	9.26	CitiGroup Broad Investment	7.46	1.80
10 Year Annualized Average	7.80	CitiGroup Broad Investment	6.84	0.96

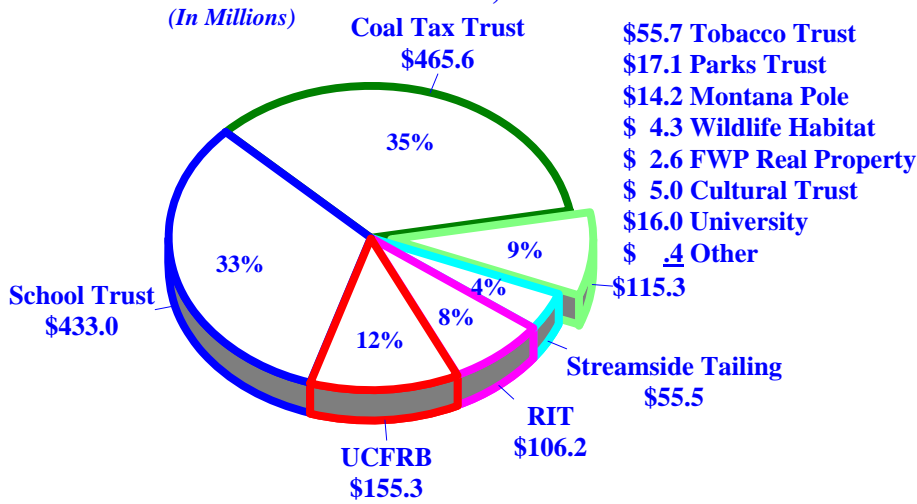
**INVESTMENT OBJECTIVE/CONSTRAINTS**

- 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.



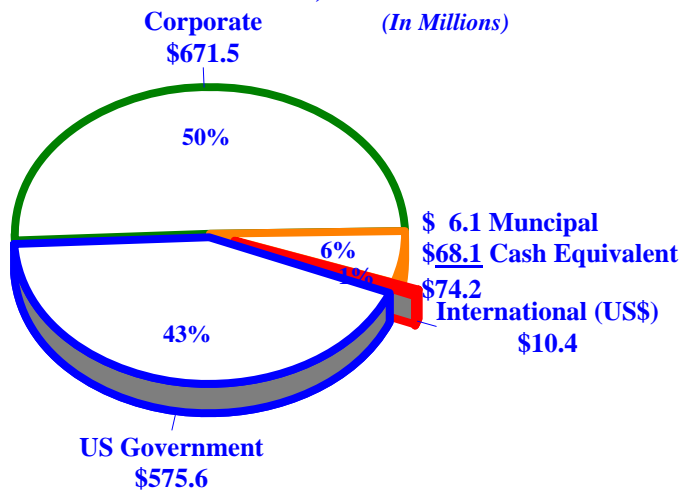
## TFBP Participants

**Net Asset Value Of Participant Units \$1.33 Billion  
at June 30, 2005**



## TFBP By Investment

**Fair Value Of Investments \$1.33 Billion  
at June 30, 2005**



## 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 \$85.3 million in income to participants in 2005, compared to \$86.8 million in 2004. 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-12 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**

<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Corporated Bonds (Rated)	624,287,960	49.1	633,550,113	51.6	(9,262,153)	(1.5)
Corporate Bonds (Unrated)	5,956,312	0.5	7,867,682	0.6	(1,911,371)	(24.3)
Foreign Government Bonds	9,924,211	0.8	9,915,344	0.8	8,866	0.1
U.S. Govt Direct-Backed Bonds	114,906,104	9.0	90,731,831	7.4	24,174,273	26.6
U.S. Govt Indirect-Backed	441,037,218	34.7	431,865,542	35.2	9,171,676	2.1
Municipal Govt Bonds (Unrated)	6,122,489	0.5	9,892,524	0.8	(3,770,036)	(38.1)
<b>Total Fixed Income</b>	<b>1,202,234,293</b>	<b>94.6</b>	<b>1,183,823,037</b>	<b>96.4</b>	<b>18,411,255</b>	<b>1.6</b>
Short Term Investment Pool	64,746,934	5.1	44,503,715	3.6	20,243,219	45.5
State Street Repurchase Agr.	3,307,867	0.3	0	0.0	3,307,867	N/A
<b>Total Cash Equivalents</b>	<b>68,054,800</b>	<b>5.4</b>	<b>44,503,715</b>	<b>3.6</b>	<b>23,551,085</b>	<b>52.9</b>
<b>Total Investments</b>	<b>1,270,289,093</b>	<b>100.0</b>	<b>1,228,326,752</b>	<b>100.0</b>	<b>41,962,341</b>	<b>3.4</b>

**TFBP Book/Fair Values At June 30, 2005**

<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Corporated Bonds (Rated)	624,287,960	665,536,568	41,248,608	49.1	50.0
Corporate Bonds (Unrated)	5,956,312	5,956,312	0	0.5	0.4
Foreign Government Bonds	9,924,211	10,435,000	510,789	0.8	0.8
U.S. Govt Direct-Backed Bonds	114,906,104	120,326,386	5,420,282	9.0	9.0
U.S. Govt Indirect-Backed	441,037,218	455,262,802	14,225,584	34.7	34.2
Municipal Govt Bonds (Unrated)	6,122,489	6,123,270	781	0.5	0.5
<b>Total Fixed Income</b>	<b>1,202,234,293</b>	<b>1,263,640,337</b>	<b>61,406,045</b>	<b>94.6</b>	<b>94.9</b>
Short Term Investment Pool	64,746,933	64,746,933	0	5.1	4.9
State Street Repurchase Agr.	3,307,867	3,307,867	0	0.3	0.2
<b>Total Cash Equivalents</b>	<b>68,054,800</b>	<b>68,054,800</b>	<b>0</b>	<b>5.4</b>	<b>5.1</b>
<b>Total Investments</b>	<b>1,270,289,093</b>	<b>1,331,695,138</b>	<b>61,406,045</b>	<b>100.0</b>	<b>100.0</b>

**TFBP Total Rates of Returns Versus Benchmark**

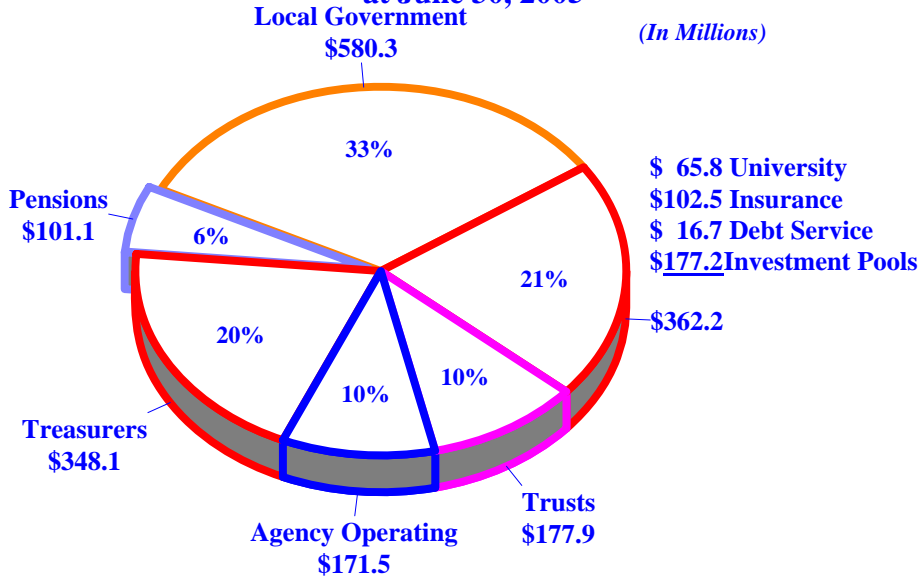
<u>Year</u>	<u>% Return</u>	<u>Benchmark</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
2005	8.18	CitiGroup Broad Investment	7.00	1.18
3 Year Annualized Average	7.93	CitiGroup Broad Investment	5.88	2.05
5 Year Annualized Average	9.04	CitiGroup Broad Investment	7.46	1.58

**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.

# STIP Participants

Net Asset Value Of Participant Units \$1.74 Billion  
at June 30, 2005



## 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.

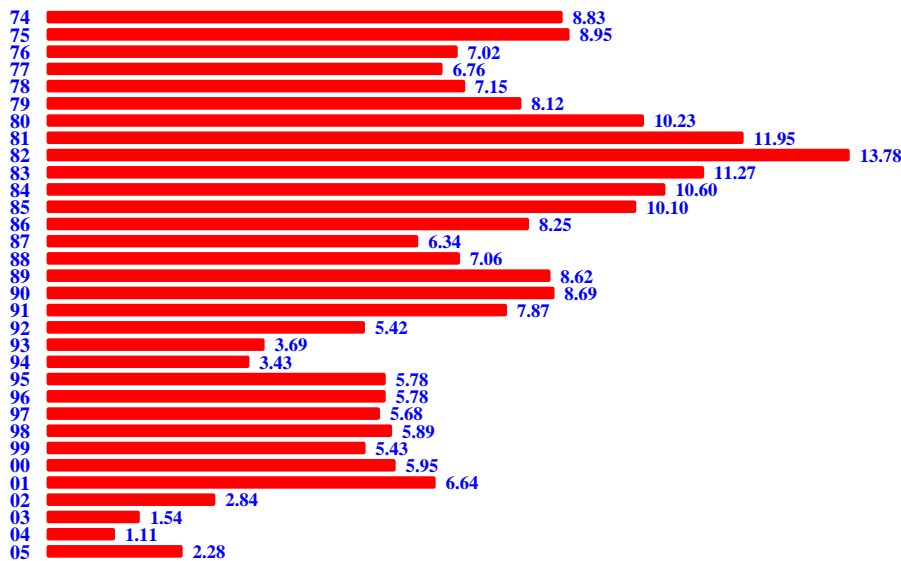
The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the historical yield to participants based on distributed income after management and custody fees are deducted.

There were 463 accounts invested in STIP during the year, consisting of 286 state accounts and 177 local government accounts. The STIP distributed \$31.6 million to participants in 2005, compared to \$15.8 million in 2004.

The STIP financial statement, which lists the individual securities in the

## Annual STIP Yields

(In % Net of Management Fees)



portfolio, is shown on Page B-24 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**

<u>Fund Type</u>	<u>2005 \$ NAV (1)</u>	<u>% of Total</u>	<u>2004 \$ NAV (1)</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Local Governments	580,347,134	33.3	601,911,349	40.7	(21,564,215)	(3.6)
Treasurer's Fund	348,097,292	20.0	221,130,581	14.9	126,966,711	57.4
Pension Funds	101,126,032	5.8	194,163,866	13.1	(93,037,834)	(47.9)
Trust Funds	177,868,468	10.2	114,899,937	7.8	62,968,531	54.8
Agency Operating	171,510,575	9.9	96,434,953	6.5	75,075,622	77.9
University System	65,799,309	3.8	62,454,638	4.2	3,344,670	5.4
Insurance Funds	102,458,885	5.9	59,339,673	4.0	43,119,211	72.7
Investment Pools	177,224,929	10.2	108,258,006	7.3	68,966,923	63.7
Debt Service Funds	16,688,277	1.0	21,623,586	1.5	(4,935,309)	(22.8)
<b>Total</b>	<b>1,741,120,900</b>	<b>100.0</b>	<b>1,480,216,590</b>	<b>100.0</b>	<b>260,904,311</b>	<b>17.6</b>

(1) Net Asset Value

**STIP Book/Fair Values At June 30, 2005**

<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Commercial Paper	1,249,740,444	1,249,527,386	(213,058)	71.7	71.7
Repurchase Agreements	22,000,000	22,000,000	0	1.3	1.3
Corporate Fixed	49,998,872	49,821,250	(177,622)	2.9	2.9
Variable-Rate (Floating-Rate)	420,996,202	420,951,800	(44,402)	24.2	24.2
<b>Total</b>	<b>1,742,735,519</b>	<b>1,742,300,436</b>	<b>(435,083)</b>	<b>100.0</b>	<b>100.0</b>

**STIP Total Rates of Returns Versus Benchmark**

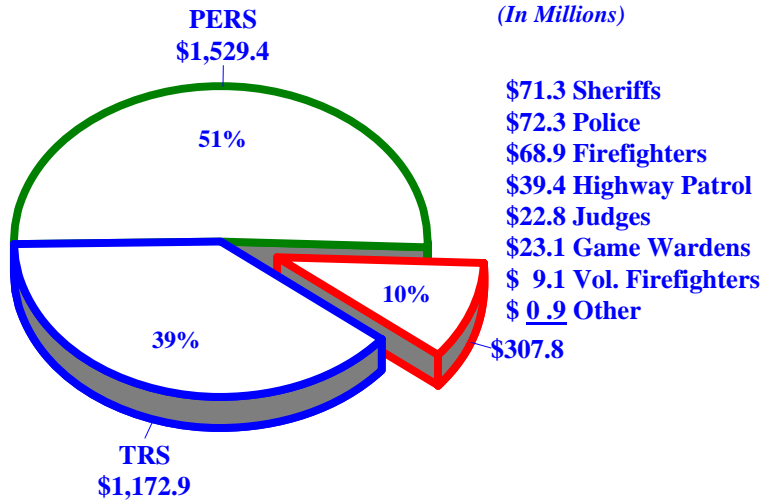
<u>Year</u>	<u>% Return</u>	<u>Benchmark</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
2005	2.30	91-Day T Bill x 105%	2.14	0.16
3 Year Annualized Average	1.66	91-Day T Bill x 105%	1.54	0.12
5 Year Annualized Average	2.88	91-Day T Bill x 105%	2.61	0.27
10 Year Annualized Average	4.32	91-Day T Bill x 105%	4.02	0.30

**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.

# MDEP Participants

Net Asset Value Of Participant Units \$3.01 Billion  
at June 30, 2005



## 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.

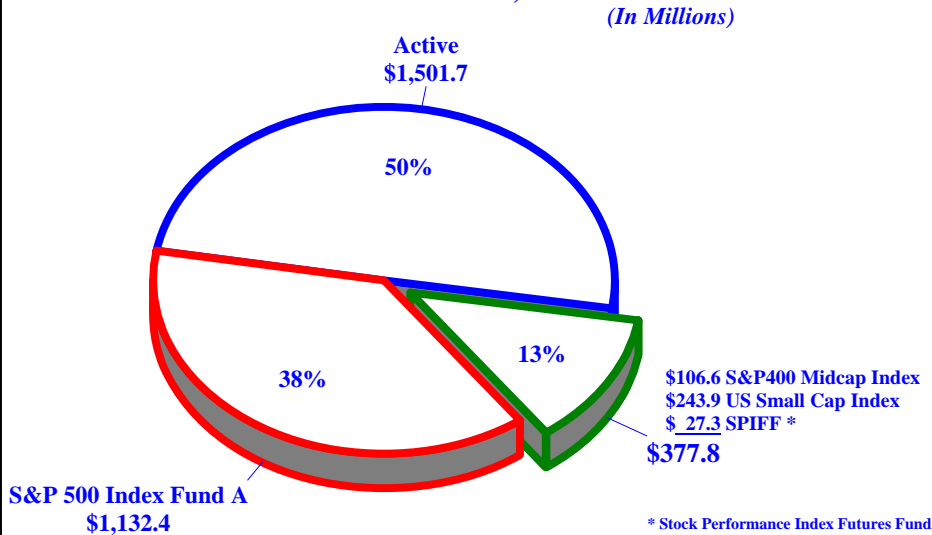
The upper graph shows the net asset of the pool at June 30. The lower graph shows the fair value of investments held by active and passive management.

The MDEP distributed \$36.6 million of income to participants in 2005, compared to \$32.4 million in 2004. 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

# MDEP By Investment

Fair Value Of Investments \$3.01 Billion  
at June 30, 2005



portfolio, is shown on Page B – 31 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, 2005**

<u>Company</u>	<u>Shares</u>	<u>Fair \$ Value</u>	<u>% of MTCP</u>
General Electric Co	2,138,200	74,088,630	4.9
Exxon Mobil Corp	1,136,612	65,321,092	4.3
Citigroup Inc	1,063,366	49,159,410	3.3
Johnson + Johnson	667,300	43,374,500	2.9
Microsoft Corp	1,680,000	41,731,200	2.8
Pfizer Inc	1,475,960	40,706,977	2.7
Bank America Corp	809,100	36,903,051	2.5
Intel Corp	1,281,500	33,395,890	2.2
Chevron Corp	594,500	33,244,440	2.2
Wal Mart Stores Inc	626,000	30,173,200	2.0
<b>Total Ten Largest Holdings</b>	<b><u>11,472,538</u></b>	<b><u>448,098,390</u></b>	<b><u>29.8</u></b>
<b>Total MTCP</b>		<b><u>1,501,726,262</u></b>	

**MDEP Sector and Active/Passive Management Change At June 30**

<u>Sector</u>	<u>2005 \$ Fair Value</u>	<u>% of Total</u>	<u>2004 \$ Fair Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
S & P 500 Index (Passive)	1,132,427,185	37.6	596,835,084	20.6	535,592,101	89.7
Financials	309,552,797	10.3	406,559,448	14.0	(97,006,651)	(23.9)
Information Technology	281,910,831	9.4	381,749,523	13.2	(99,838,692)	(26.2)
Health Care	254,596,685	8.5	299,536,679	10.3	(44,939,994)	(15.0)
US Small Cap Enhanced Index	243,808,328	8.1	323,104,286	11.1	(79,295,958)	(24.5)
Industrials	180,803,250	6.0	249,403,194	8.6	(68,599,944)	(27.5)
Energy	166,878,186	5.5	141,700,994	4.9	25,177,192	17.8
Consumer Discretionary	149,329,272	5.0	226,895,068	7.8	(77,565,796)	(34.2)
S & P 400 Midcap Index	106,616,769	3.5	0	0.0	106,616,769	N/A
Consumer Staples	105,701,233	3.5	138,459,456	4.8	(32,758,223)	(23.7)
Materials	30,960,408	1.0	50,706,128	1.7	(19,745,720)	(38.9)
SPIFF (1)	27,335,387	0.9	40,405,340	1.4	(13,069,953)	(32.3)
Telecommunication Services	21,993,600	0.7	43,372,269	1.5	(21,378,669)	(49.3)
Utilities	0	0.0	3,557,400	0.1	(3,557,400)	(100.0)
<b>Total</b>	<b><u>3,011,913,931</u></b>	<b><u>100.0</u></b>	<b><u>2,902,284,868</u></b>	<b><u>100.0</u></b>	<b><u>109,629,063</u></b>	<b><u>3.8</u></b>

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

**MDEP Book/Fair Values At June 30, 2005**

<u>Sector</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
S & P 500 Index (Passive)	1,039,695,684	1,132,427,185	92,731,501	39.8	37.6
Financials	251,265,957	309,552,797	58,286,840	9.6	10.3
Information Technology	273,970,833	281,910,831	7,939,998	10.5	9.4
Health Care	218,993,157	254,596,685	35,603,528	8.4	8.5
US Small Cap Enhanced Index	177,282,131	243,808,328	66,526,197	6.8	8.1
Industrials	125,640,699	180,803,250	55,162,551	4.8	6.0
Energy	103,602,072	166,878,186	63,276,114	4.0	5.5
Consumer Discretionary	150,802,194	149,329,272	(1,472,922)	5.8	5.0
S & P Midcap Index	100,000,000	106,616,769	6,616,769	3.8	3.5
Consumer Staples	90,886,078	105,701,233	14,815,155	3.5	3.5
Materials	29,210,235	30,960,408	1,750,173	1.1	1.0
SPIFF (1)	27,367,582	27,335,387	(32,195)	1.0	0.9
Telecommunication Services	20,485,956	21,993,600	1,507,644	0.8	0.7
<b>Total</b>	<b><u>2,609,202,578</u></b>	<b><u>3,011,913,931</u></b>	<b><u>402,711,352</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

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

**Montana Common Stock Pool Total Rates of Returns Versus Benchmark**

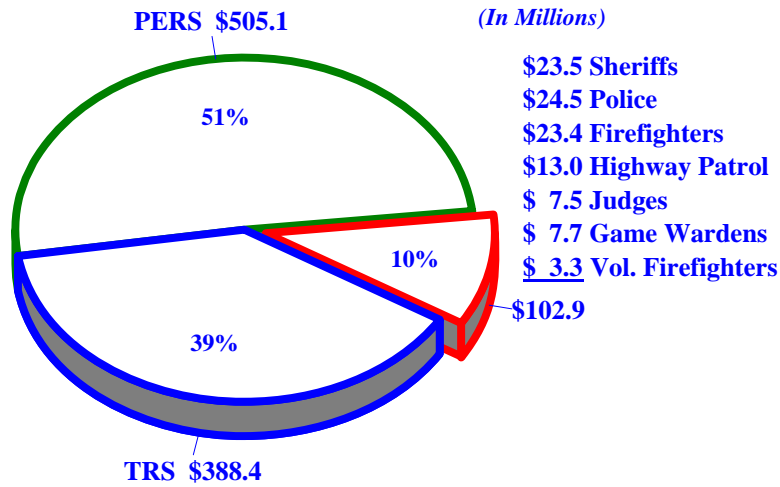
<u>Year</u>	<u>% Return</u>	<u>Benchmark</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
<b>2005</b>	<b>5.19</b>	<b>S &amp; P 500</b>	<b>6.32</b>	<b>(1.13)</b>
<b>3 Year Annualized Average</b>	<b>7.54</b>	<b>S &amp; P 500</b>	<b>8.28</b>	<b>(0.74)</b>
<b>5 Year Annualized Average</b>	<b>(3.81)</b>	<b>S &amp; P 500</b>	<b>(2.37)</b>	<b>(1.44)</b>
<b>10 Year Annualized Average</b>	<b>8.50</b>	<b>S &amp; P 500</b>	<b>9.94</b>	<b>(1.44)</b>

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

**MONTANA  
INTERNATIONAL  
STOCK POOL  
(MTIP)**

**MTIP Participants**

Net Asset Value Of Participant Units \$996.4 Million  
at June 30, 2005

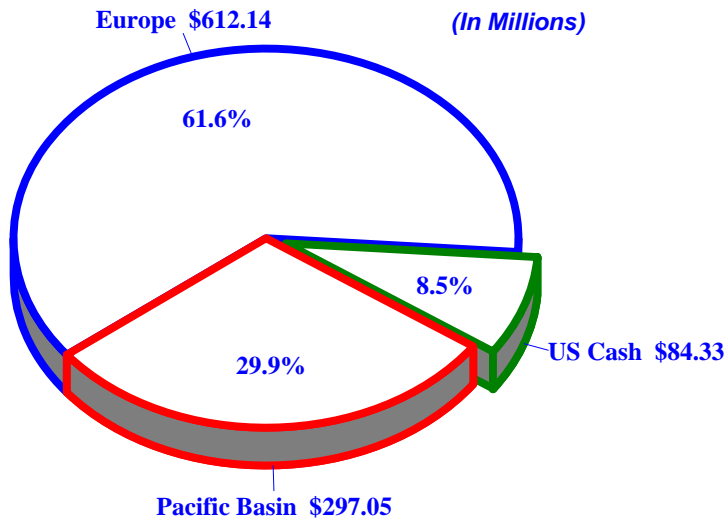


The Montana International Equity Pool (MTIP) was created during 1997 when the nine pension funds purchased pool shares to fund investments in international stock. Cash dividends, interest and related income currency gains/losses are distributed monthly.

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.

**MTIP By Investment**

Fair Value of Investments \$993.5 Million  
at June 30, 2005



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 \$8.5 million of income to participants in 2005, compared to \$7.1 million in 2004. The MTIP financial

statement, which lists the individual securities in the portfolio, is shown on Page B-40 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.



<u>Manager</u>	<u>Fair Value \$</u>
Barclay MSCI Europe Passively-Managed Equity Index	466,246,669
Pyrford Actively-Managed Europe	145,894,518
Schroder Actively-Managed Pacific Basin	135,472,671
Nomura Actively Managed Pacific Basin	110,950,385
Barclay MSCI Passively-Managed Equity Index Pacific Basin	50,628,249
Stock Performance Index Futures Fund\StateStreet Cash	84,326,128
<b>Total International Portfolios</b>	<b><u>993,518,620</u></b>

### MTIP Annual Change At June 30

<u>Country</u>	<u>2005 \$ Fair Value</u>	<u>% of Total</u>	<u>2004 \$ Fair Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
MSCI Europe Equity Index	466,246,670	46.9	389,188,268	45.6	77,058,403	19.8
Japan	143,770,620	14.5	162,411,275	19.0	(18,640,655)	(11.5)
DFA International Index	76,554,040	7.7	0	0.0	76,554,040	N/A
MSCI Pacific Basin Equity Index	50,628,249	5.1	46,167,935	5.4	4,460,314	9.7
United Kingdom	44,352,481	4.5	47,288,544	5.5	(2,936,062)	(6.2)
Switzerland	33,623,190	3.4	29,343,415	3.4	4,279,776	14.6
Australia	33,527,931	3.4	29,240,763	3.4	4,287,168	14.7
Spain	22,423,151	2.3	18,199,196	2.1	4,223,955	23.2
France	18,148,832	1.8	13,667,342	1.6	4,481,490	32.8
Taiwan	17,213,176	1.7	11,535,123	1.4	5,678,053	49.2
Netherlands	17,000,959	1.7	12,545,059	1.5	4,455,900	35.5
Hong Kong	16,060,009	1.6	16,301,745	1.9	(241,737)	(1.5)
Korea	15,967,519	1.6	14,957,725	1.8	1,009,794	6.8
Ireland	8,037,194	0.8	3,652,301	0.4	4,384,893	120.1
Singapore	7,043,624	0.7	5,929,777	0.7	1,113,847	18.8
US \$ Cash	5,660,782	0.6	4,607,906	0.5	1,052,876	22.8
Malaysia	3,932,518	0.4	5,680,686	0.7	(1,748,168)	(30.8)
Germany	3,242,393	0.3	2,863,556	0.3	378,836	13.2
Thailand	2,875,184	0.3	3,156,126	0.4	(280,943)	(8.9)
SPIFF (1)	2,111,305	0.2	31,685,217	3.7	(29,573,912)	(93.3)
Philippines	2,002,694	0.2	183,957	0.0	1,818,737	988.7
Portugal	1,311,352	0.1	0	0.0	1,311,352	N/A
Indonesia	998,207	0.1	802,656	0.1	195,551	24.4
New Zealand	786,540	0.1	1,162,663	0.1	(376,123)	(32.4)
Belgium	0	0.0	3,366,124	0.4	(3,366,124)	(100.0)
<b>Total</b>	<b><u>\$993,518,620</u></b>	<b><u>100.0</u></b>	<b><u>\$853,937,359</u></b>	<b><u>100.0</u></b>	<b><u>\$139,581,262</u></b>	<b><u>16.3</u></b>

(1) Stock Performance Index Futures Fund

**MTIP Book/Fair Values At June 30, 2005**

<u>Country</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
MSCI Europe Equity Index	384,025,081	466,246,670	82,221,589	45.7	46.9
Japan	131,598,475	143,770,620	12,172,146	15.7	14.5
DFA International Index	75,484,090	76,554,040	1,069,950	9.0	7.7
MSCI Pacific Basin Equity Index	40,005,322	50,628,249	10,622,927	4.8	5.1
United Kingdom	38,699,087	44,352,481	5,653,394	4.6	4.5
Switzerland	31,166,439	33,623,190	2,456,751	3.7	3.4
Australia	23,921,155	33,527,931	9,606,776	2.8	3.4
Spain	14,919,219	22,423,151	7,503,932	1.8	2.3
France	12,332,455	18,148,832	5,816,377	1.5	1.8
Taiwan	15,105,035	17,213,176	2,108,141	1.8	1.7
Netherlands	14,525,106	17,000,959	2,475,853	1.7	1.7
Hong Kong	13,056,195	16,060,009	3,003,813	1.6	1.6
Korea	11,249,747	15,967,519	4,717,772	1.3	1.6
Ireland	6,993,655	8,037,194	1,043,539	0.8	0.8
Singapore	6,095,494	7,043,624	948,130	0.7	0.7
US \$ Cash	5,660,782	5,660,782	0	0.7	0.6
Malaysia	3,775,289	3,932,518	157,229	0.4	0.4
Germany	2,450,982	3,242,393	791,410	0.3	0.3
Thailand	2,380,376	2,875,184	494,807	0.3	0.3
SPIFF (1)	2,123,299	2,111,305	(11,994)	0.3	0.2
Philippines	1,861,685	2,002,694	141,010	0.2	0.2
Portugal	1,327,808	1,311,352	(16,456)	0.2	0.1
Indonesia	696,380	998,207	301,827	0.1	0.1
New Zealand	678,827	786,540	107,713	0.1	0.1
<b>Total</b>	<b><u>840,131,984</u></b>	<b><u>993,518,620</u></b>	<b><u>153,386,637</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

(1) Stock Performance Index Futures Fund

**MTIP 2005 Total Rates of Returns By Active Manager Versus Benchmarks**

<u>Manager</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
Schroder Capital Management	9.19	Montana Custom Pacific	9.39	(0.20)
Nomura Asset Management	9.53	Montana Custom Pacific	9.39	0.14
Pyrford International	15.59	MSCI Europe	16.87	(1.28)
All International (1)	<u>14.33</u>	MSCI EAFE	<u>13.65</u>	<u>0.68</u>

(1) Includes Passive Management

**MTIP Annual Average Total Rates of Returns From Inception**

<u>Year</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
2005	14.33	MSCI EAFE	13.65	0.68
3 Year Annualized Average	12.61	MSCI EAFE	12.06	0.55
5 Year Annualized Average	1.64	MSCI EAFE	(0.55)	2.19

**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-54 in Appendix B.

<b>MPEP Participant Change At June 30</b>						
<b>Fund</b>	<b>2005 \$ NAV</b>	<b>% of Total</b>	<b>2004 \$ NAV</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% Change</b>
Public Employees	150,594,502	50.6	128,797,003	50.6	21,797,499	16.9
Teachers	116,621,027	39.2	99,740,950	39.2	16,880,077	16.9
Police	7,137,953	2.4	6,104,784	2.4	1,033,169	16.9
Sheriffs	6,940,554	2.3	5,935,957	2.3	1,004,597	16.9
Firefighters	6,797,319	2.3	5,813,455	2.3	983,864	16.9
Highway Patrol	3,946,191	1.3	3,375,008	1.3	571,184	16.9
Judges	2,228,865	0.7	1,906,253	0.7	322,613	16.9
Game Wardens	2,170,182	0.7	1,856,063	0.7	314,119	16.9
Vol. Firefighters	991,926	0.3	848,352	0.3	143,574	16.9
<b>Total Investments</b>	<b>297,428,519</b>	<b>100.0</b>	<b>254,377,825</b>	<b>100.0</b>	<b>43,050,695</b>	<b>16.9</b>
<b>MPEP Change At June 30 by Manager</b>						
<b>Manager/Investment Type</b>	<b>2005 \$ Fair Value</b>	<b>% of Total</b>	<b>2004 \$ Fair Value</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% Change</b>
Adams Street Partners	113,401,916	38.1	80,488,832	31.1	32,913,084	40.9
Kolberg Kravis & Roberts (KKR)	62,188,362	20.9	80,094,236	31.0	(17,905,874)	(22.4)
SPIFF (1)	32,627,325	11.0	24,229,851	9.4	8,397,474	34.7
Lexington Capital	32,388,833	10.9	17,820,972	6.9	14,567,861	81.7
Welsh Carson Anderson&Stowe	19,634,646	6.6	12,717,565	4.9	6,917,081	54.4
Oaktree Capital	16,896,984	5.7	32,498,809	12.6	(15,601,825)	(48.0)
Madison Dearborn Capital	11,569,961	3.9	8,551,924	3.3	3,018,037	35.3
Arclight Capital	4,712,780	1.6	2,076,300	0.8	2,636,480	127.0
Odyssey Partners	4,127,031	1.4	0	0.0	4,127,031	N/A
Intermountain	83,333	0.0	0	0.0	83,333	N/A
Carlyle Partners	7,000	0.0	0	0.0	7,000	N/A
<b>Total Investments</b>	<b>297,638,172</b>	<b>100.0</b>	<b>258,478,490</b>	<b>100.0</b>	<b>39,159,682</b>	<b>15.2</b>
(1) Stock Performance Index Futures Fund						
<b>MPEP Book/Fair Values At June 30, 2005 by Manager</b>						
<b>Manager/Investment Type</b>	<b>Book \$ Value</b>	<b>Fair \$ Value</b>	<b>Fair \$ +/- Book</b>	<b>% of Book</b>	<b>% of Fair</b>	
Adams Street Partners	124,366,507	113,401,916	(10,964,591)	45.6	38.1	
Kolberg Kravis & Roberts (KKR)	58,287,981	62,188,362	3,900,381	21.4	20.9	
SPIFF (1)	32,598,608	32,627,325	28,717	11.9	11.0	
Lexington Capital	21,520,090	32,388,833	10,868,743	7.9	10.9	
Welsh Carson Anderson&Stowe	15,954,898	19,634,646	3,679,748	5.8	6.6	
Oaktree Capital	1	16,896,984	16,896,983	0.0	5.7	
Madison Dearborn Capital	11,343,592	11,569,961	226,369	4.2	3.9	
Arclight Capital	4,202,766	4,712,780	510,014	1.5	1.6	
Odyssey Partners	4,464,155	4,127,031	(337,124)	1.6	1.4	
Intermountain	83,333	83,333	0	0.0	0.0	
Carlyle Partners	7,000	7,000	0	0.0	0.0	
<b>Total Investments</b>	<b>272,828,932</b>	<b>297,638,172</b>	<b>24,809,240</b>	<b>100.0</b>	<b>100.0</b>	
(1) Stock Performance Index Futures Fund						

<b>MPEP Total Rates of Returns Versus Benchmark</b>				
<b>Year</b>	<b>% Return</b>	<b>Benchmark</b>	<b>Benchmark % Return</b>	<b>Return +/- Benchmark</b>
<b>2005</b>	<b>17.89</b>	<b>S&amp;P 1500 + 4.0%</b>	<b>11.23</b>	<b>6.66</b>
<b>3 Year Annualized Average</b>	<b>16.80</b>	<b>S&amp;P 1500 + 4.0%</b>	<b>12.90</b>	<b>3.90</b>

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, 2005, ten 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.

**CSFB – Customized Fund Investment Group** – A division of Credit Suisse First Boston, one of the largest managers of private capital in the world, that provides customized private equity services to institutional clients who require tailor-made solutions to their private equity allocations.

**Odyssey Investment Partners** – A leading private equity investment firm organized in 1998 that makes majority, control investments primarily in established middle-market companies in a variety of industries.

**The Carlyle Group** – A global private investment firm, established in 1987, that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, and growth capital financings.

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.

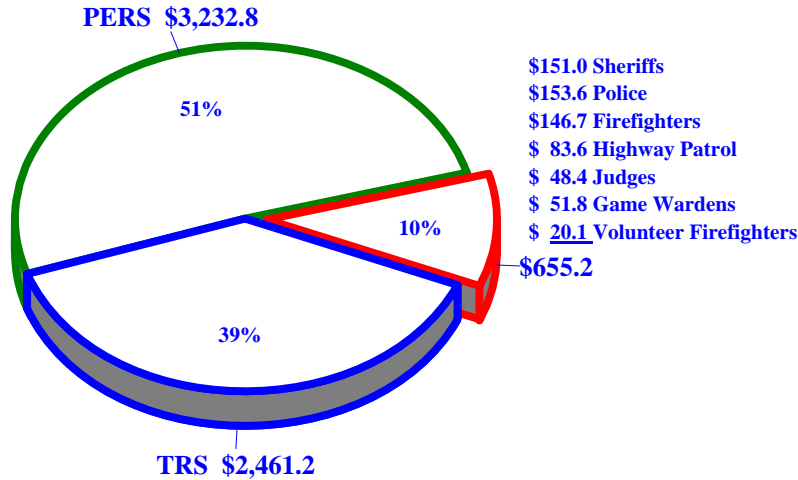
**Secondary Investments** – Investments in a previously-owned limited partnership or investment in previously owned limited partnership via a secondary fund.

**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**

**Pension Funds By Source**

**\$6.35 Billion Fair Value At June 30, 2005**  
(In Millions)

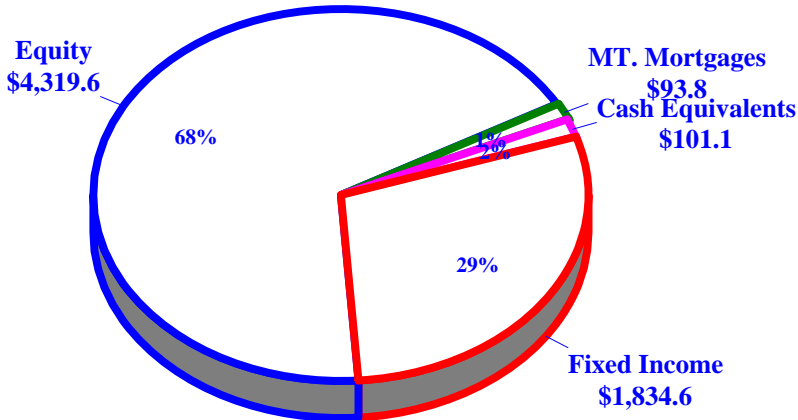


By law, all public pension funds in the state, including local governments and school districts, are managed by the state. The Board of Investments manages all pension fund investments. Pension fund operations are administered by two boards appointed by the Governor.

The 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.

**Pension Funds By Investment**

**\$6.35 Billion Fair Value At June 30, 2005**  
(In Millions)



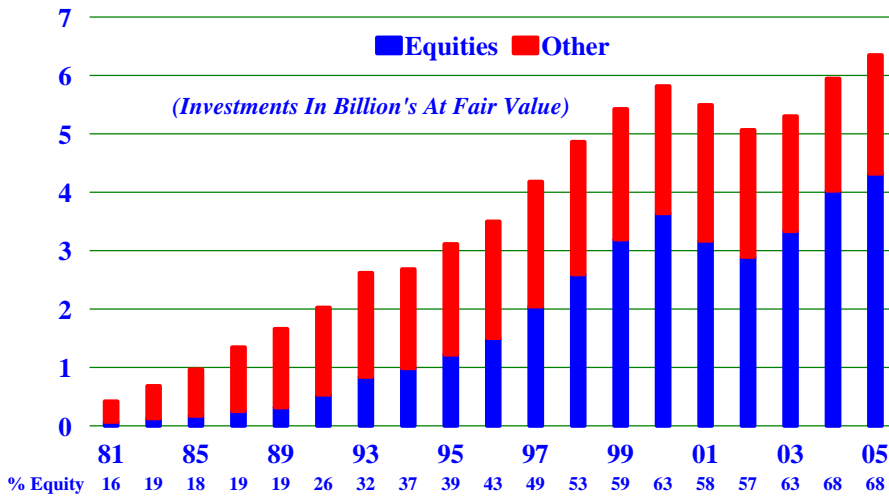
The Teachers' Retirement Board manages the Teachers' Retirement System (TRS), while the Public Employees' Retirement Board manages the other eight systems.

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 \$187.4 million on their investments in 2005, compared to \$315.9 million in 2004. The total rate of return of each fund is shown on the following pages.

## Pension Equity Investments

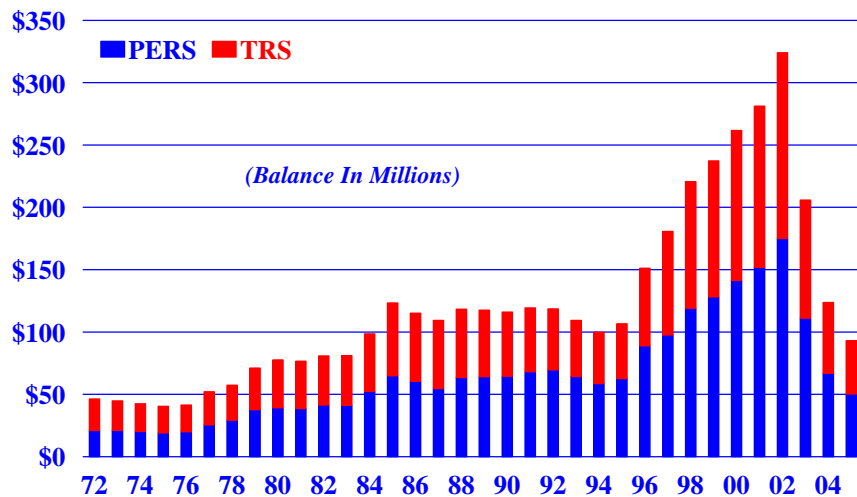


The Board has increased pension investments in equities in recent years to increase the total rate of return. The current target is 67 percent of the fair value of pension investments.

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.

## Pension Mortgages History

### Outstanding Principal At Year-End



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.

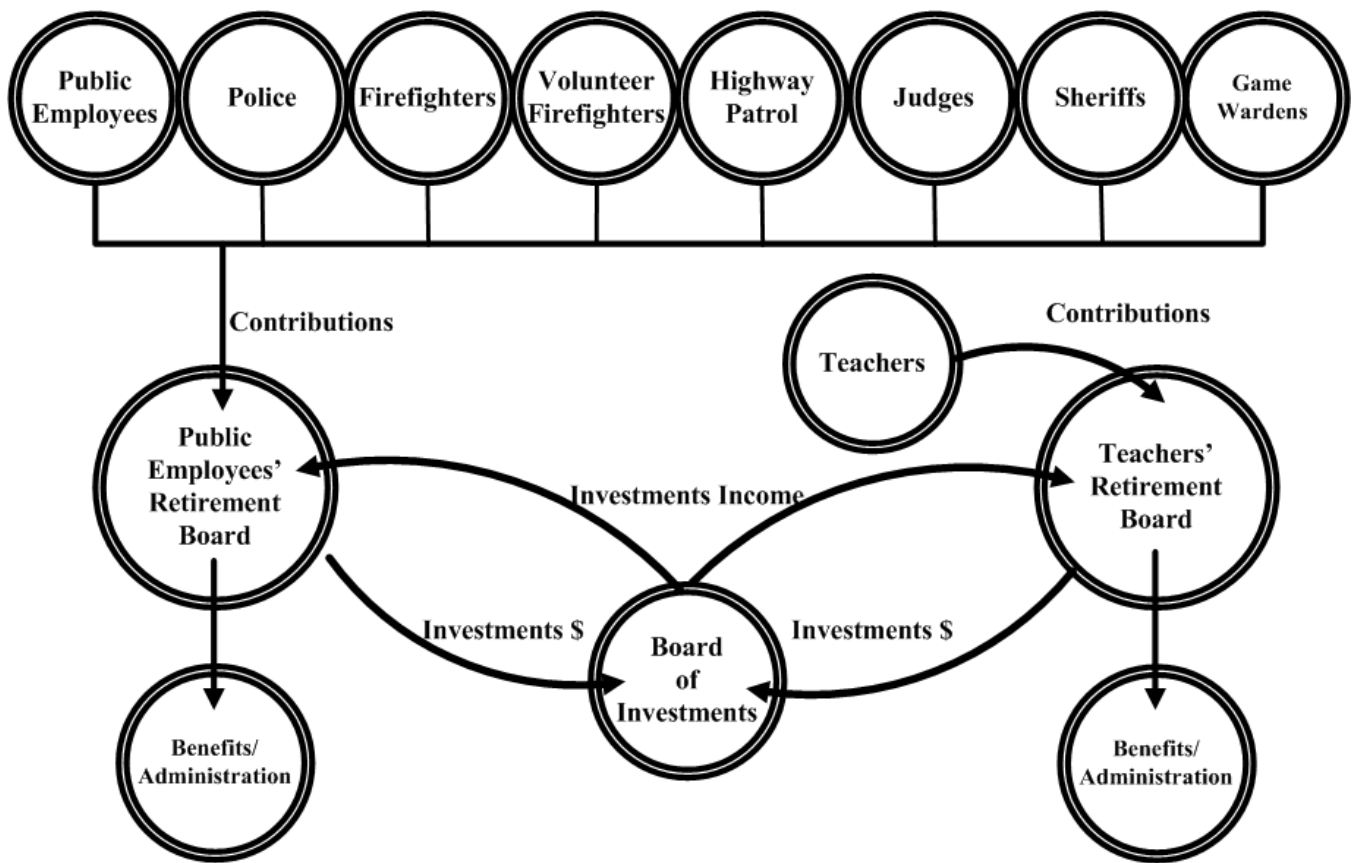
From 1994 to 2002, the Board significantly increased pension investments in Montana mortgages. Mortgages

investments peaked at \$324.0 million in 2002. From 2003 through 2005, 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 significant mortgage re-financings caused a significant drop in the pension mortgage portfolio to \$92.9 million at year-end 2005.

<b>Pension Funds Annual Book Value Change At June 30</b>						
<b>Fund</b>	<b>2005 \$ Book Value</b>	<b>% of Total</b>	<b>2004 \$ Book Value</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% of Change</b>
Public Employees	2,339,869,014	50.8	2,275,920,567	50.6	63,948,447	2.8
Teachers	1,763,665,585	38.3	1,742,566,496	38.8	21,099,089	1.2
Police	118,153,666	2.6	112,592,929	2.5	5,560,738	4.9
Sheriffs	115,023,467	2.5	111,178,424	2.5	3,845,042	3.5
Firefighters	113,713,015	2.5	108,238,534	2.4	5,474,481	5.1
Highway Patrol	61,546,174	1.3	60,068,673	1.3	1,477,500	2.5
Game Wardens	40,208,227	0.9	35,824,914	0.8	4,383,313	12.2
Judges	35,753,937	0.8	34,442,726	0.8	1,311,210	3.8
Volunteer Firefighters	16,448,235	0.4	15,836,424	0.4	611,812	3.9
<b>Total</b>	<b>4,604,381,321</b>	<b>100.0</b>	<b>4,496,669,688</b>	<b>100.0</b>	<b>107,711,633</b>	<b>2.4</b>
<b>Investment Type</b>						
Fixed Income (RFBP)	1,771,243,348	38.5	1,552,243,348	34.5	219,000,000	14.1
Equities	2,639,072,488	57.3	2,626,643,102	58.4	12,429,386	0.5
Cash Equivalents (STIP)	101,126,032	2.2	194,163,866	4.3	(93,037,834)	(47.9)
Montana Mortgages	92,939,453	2.0	123,619,372	2.7	(30,679,919)	(24.8)
<b>Total</b>	<b>4,604,381,321</b>	<b>100.0</b>	<b>4,496,669,688</b>	<b>100.0</b>	<b>107,711,633</b>	<b>2.4</b>
<b>Pension Funds Annual Fair Value Change At June 30</b>						
<b>Fund</b>	<b>2005 \$ Fair Value</b>	<b>% of Total</b>	<b>2004 \$ Fair Value</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% of Change</b>
Public Employees	3,232,788,978	50.9	3,017,022,856	50.7	215,766,122	7.2
Teachers	2,461,155,345	38.8	2,327,167,274	39.1	133,988,071	5.8
Police	153,724,535	2.4	140,725,594	2.4	12,998,941	9.2
Sheriffs	151,006,508	2.4	139,910,633	2.4	11,095,875	7.9
Firefighters	146,685,522	2.3	134,140,179	2.3	12,545,343	9.4
Highway Patrol	83,578,823	1.3	78,310,865	1.3	5,267,957	6.7
Game Wardens	51,750,698	0.8	45,057,186	0.8	6,693,511	14.9
Judges	48,424,100	0.8	44,795,416	0.8	3,628,684	8.1
Volunteer Firefighters	20,063,456	0.3	18,612,738	0.3	1,450,718	7.8
<b>Total</b>	<b>6,349,177,964</b>	<b>100.0</b>	<b>5,945,742,742</b>	<b>100.0</b>	<b>403,435,222</b>	<b>6.8</b>
<b>Investment Type</b>						
Fixed Income (RFBP)	1,834,620,222	28.9	1,599,757,615	26.9	234,862,607	14.7
Equities	4,319,620,513	68.0	4,028,200,396	67.7	291,420,117	7.2
Cash Equivalents (STIP)	101,126,032	1.6	194,163,866	3.3	(93,037,834)	(47.9)
Montana Mortgages	93,811,197	1.5	123,620,864	2.1	(29,809,668)	(24.1)
<b>Total</b>	<b>6,349,177,964</b>	<b>100.0</b>	<b>5,945,742,742</b>	<b>100.0</b>	<b>403,435,222</b>	<b>6.8</b>

The chart on the next page depicts the relationship of the two state Pension Boards to the Board of Investments in managing the state's nine pension fund assets and liabilities.





As depicted in the above chart the employee/employer contributions are collected by the two Pension Boards that administer the benefits. The actual employee/employer contribution levels and the formulas for benefits are set by law. The Pension Boards hire actuarial firms to value the nine systems and provide the assumptions used by the actuary in the valuations. The actuary determines the “soundness” of the systems based on the assumptions. Article VIII, Section 15 of the Montana State Constitution requires that the systems be “actuarially sound” as follows:

*(1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.*

*(2) The governing boards of public retirement systems shall administer the system, including actuarial determinations, as fiduciaries of system participants and their beneficiaries.*

State law defines a system as actuarially sound when its unfunded liability, if any, can be amortized in 30 years or less with the current level of contributions. As of June 30, 2005, four of the state’s nine pension funds were not actuarially sound as determined by the system’s actuaries. These systems were:

- The Public Employees’ Retirement System
- The Teachers’ Retirement System
- The Sheriffs’ Retirement System
- The Game Wardens’ and Peace Officers Retirement System

The tables on the following pages show information on the nine systems.

## Membership

<b>PERS</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	15,220	14,834
Vested Terminated	2,418	2,362
Non-vested Terminated	8,153	9,132
Active Members	<u>28,213</u>	<u>28,201</u>
<b>Total</b>	<b><u>54,004</u></b>	<b><u>54,529</u></b>

<b>Sheriffs</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	340	323
Vested Terminated	42	41
Non-vested Terminated	81	73
Active Members	<u>680</u>	<u>662</u>
<b>Total</b>	<b><u>1,143</u></b>	<b><u>1,099</u></b>

<b>Firefighters</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	504	498
Vested Terminated	13	10
Non-vested Terminated	50	48
Active Members	<u>444</u>	<u>438</u>
<b>Total</b>	<b><u>1,011</u></b>	<b><u>994</u></b>

<b>Highway Patrol</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	276	274
Vested Terminated	10	8
Non-vested Terminated	9	11
Active Members	<u>201</u>	<u>194</u>
<b>Total</b>	<b><u>496</u></b>	<b><u>487</u></b>

<b>Game Wardens</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	94	85
Vested Terminated	22	18
Non-vested Terminated	81	95
Active Members	<u>711</u>	<u>685</u>
<b>Total</b>	<b><u>908</u></b>	<b><u>883</u></b>

<b>Volunteer Firefighters</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	966	944
Vested Terminated	687	671
Active Members	<u>2,754</u>	<u>2,687</u>
<b>Total</b>	<b><u>4,407</u></b>	<b><u>4,302</u></b>

<b>Judges</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	49	50
Vested Terminated	4	4
Non-vested Terminated	-	-
Active Members	<u>50</u>	<u>50</u>
<b>Total</b>	<b><u>103</u></b>	<b><u>104</u></b>

<b>Teachers</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	10,664	10,375
Vested Terminated	1,649	1,620
Non-vested Terminated	-	-
Active Members	<u>17,542</u>	<u>17,614</u>
<b>Total</b>	<b><u>29,855</u></b>	<b><u>29,609</u></b>

<b>Police</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	575	571
Vested Terminated	26	20
Non-vested Terminated	35	38
Active Members	<u>605</u>	<u>603</u>
<b>Total</b>	<b><u>1,241</u></b>	<b><u>1,232</u></b>

<b>Total</b>	<b><u>6/30/2005</u></b>	<b><u>6/30/2004</u></b>
Retirees & Beneficiaries	28,688	27,954
Vested Terminated	4,871	4,754
Non-vested Terminated	8,409	9,397
Active Members	<u>51,200</u>	<u>51,134</u>
<b>Nine System Total</b>	<b><u>93,168</u></b>	<b><u>93,239</u></b>

**Assets and Liabilities**  
(In Thousands \$)

<b>PERS</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	3,719,998	3,514,085
Actuarial Assets	3,179,010	3,047,287
<b>Unfunded Actuarial Liability</b>	<b><u>540,988</u></b>	<b><u>466,798</u></b>
<b>Funded Ratio</b>	<b><u>85.46%</u></b>	<b><u>86.72%</u></b>

<b>Sheriffs</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	159,347	148,608
Actuarial Assets	148,458	141,022
<b>Unfunded Actuarial Liability</b>	<b><u>10,889</u></b>	<b><u>7,586</u></b>
<b>Funded Ratio</b>	<b><u>93.17%</u></b>	<b><u>94.90%</u></b>

<b>Firefighters</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	238,157	227,599
Actuarial Assets	151,393	142,109
<b>Unfunded Actuarial Liability</b>	<b><u>86,764</u></b>	<b><u>85,490</u></b>
<b>Funded Ratio</b>	<b><u>63.57%</u></b>	<b><u>62.44%</u></b>

<b>Highway Patrol</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	112,938	104,069
Actuarial Assets	82,050	79,104
<b>Unfunded Actuarial Liability</b>	<b><u>30,888</u></b>	<b><u>24,965</u></b>
<b>Funded Ratio</b>	<b><u>72.65%</u></b>	<b><u>76.01%</u></b>

<b>Game Wardens</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	56,414	50,310
Actuarial Assets	50,961	45,210
<b>Unfunded Actuarial Liability</b>	<b><u>5,453</u></b>	<b><u>5,100</u></b>
<b>Funded Ratio</b>	<b><u>90.33%</u></b>	<b><u>89.86%</u></b>

<b>Volunteer Firefighters</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	30,773	28,680
Actuarial Assets	21,311	20,058
<b>Unfunded Actuarial Liability</b>	<b><u>9,462</u></b>	<b><u>8,622</u></b>
<b>Funded Ratio</b>	<b><u>69.25%</u></b>	<b><u>69.94%</u></b>

<b>Judges</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	34,525	34,724
Actuarial Assets	47,552	45,134
<b>Unfunded Actuarial Liability</b>	<b><u>(13,027)</u></b>	<b><u>(10,410)</u></b>
<b>Funded Ratio</b>	<b><u>137.73%</u></b>	<b><u>129.98%</u></b>

<b>Teachers</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	3,527,000	3,359,200
Actuarial Assets	2,497,500	2,485,700
<b>Unfunded Actuarial Liability</b>	<b><u>1,029,500</u></b>	<b><u>873,500</u></b>
Less University Contributions	<u>126,200</u>	<u>115,700</u>
<b>TRS Actuarial Liability</b>	<b><u>903,300</u></b>	<b><u>757,800</u></b>

<b>Police</b>	<b>6/30/2005</b>	<b>6/30/2004</b>
Actuarial Liability	276,379	260,094
Actuarial Assets	159,417	149,510
<b>Unfunded Actuarial Liability</b>	<b><u>116,962</u></b>	<b><u>110,584</u></b>
<b>Funded Ratio</b>	<b><u>57.68%</u></b>	<b><u>57.48%</u></b>

**Cash Flow**  
(In Thousands \$)

<u>PERS</u>	<u>2005</u>	<u>2004</u>
Employees	66,986	62,664
Employers	60,454	58,231
State	<u>421</u>	<u>403</u>
<b>Contributions</b>	<b>127,861</b>	<b>121,298</b>
<b>Benefits/Administration</b>	<b><u>(160,109)</u></b>	<b><u>(148,303)</u></b>
<b>Cash Flow</b>	<b><u>(32,248)</u></b>	<b><u>(27,005)</u></b>

<u>Sheriffs</u>	<u>2005</u>	<u>2004</u>
Employees	2,988	2,685
Employers	<u>2,813</u>	<u>2,684</u>
<b>Contributions</b>	<b>5,801</b>	<b>5,369</b>
<b>Benefits/Administration</b>	<b><u>(6,218)</u></b>	<b><u>(5,276)</u></b>
<b>Cash Flow</b>	<b><u>(417)</u></b>	<b><u>93</u></b>

<u>Firefighters</u>	<u>2005</u>	<u>2004</u>
Employees	2,330	2,213
Employers	2,959	2,796
State	<u>6,719</u>	<u>6,533</u>
<b>Contributions</b>	<b>12,008</b>	<b>11,542</b>
<b>Benefits/Administration</b>	<b><u>(10,540)</u></b>	<b><u>(9,806)</u></b>
<b>Cash Flow</b>	<b><u>1,468</u></b>	<b><u>1,736</u></b>

<u>Highway Patrol</u>	<u>2005</u>	<u>2004</u>
Employees	862	743
Employers	3,324	2,859
Fees	<u>669</u>	<u>348</u>
<b>Contributions</b>	<b>4,855</b>	<b>3,950</b>
<b>Benefits/Administration</b>	<b><u>(6,049)</u></b>	<b><u>(5,820)</u></b>
<b>Cash Flow</b>	<b><u>(1,194)</u></b>	<b><u>(1,870)</u></b>

<u>Game Wardens</u>	<u>2005</u>	<u>2004</u>
Employees	3,023	2,714
Employers	<u>2,054</u>	<u>2,021</u>
<b>Contributions</b>	<b>5,077</b>	<b>4,735</b>
<b>Benefits/Administration</b>	<b><u>(2,194)</u></b>	<b><u>(2,006)</u></b>
<b>Cash Flow</b>	<b><u>2,883</u></b>	<b><u>2,729</u></b>

<u>Volunteer Firefighters</u>	<u>2005</u>	<u>2004</u>
State	<u>1,527</u>	<u>1,434</u>
<b>Contributions</b>	<b>1,527</b>	<b>1,434</b>
<b>Benefits/Administration</b>	<b><u>(1,575)</u></b>	<b><u>(1,531)</u></b>
<b>Cash Flow</b>	<b><u>(48)</u></b>	<b><u>(97)</u></b>

<u>Judges</u>	<u>2005</u>	<u>2004</u>
Employees	412	443
Employers	<u>1,162</u>	<u>1,136</u>
<b>Contributions</b>	<b>1,574</b>	<b>1,579</b>
<b>Benefits/Administration</b>	<b><u>(1,633)</u></b>	<b><u>(1,684)</u></b>
<b>Cash Flow</b>	<b><u>(59)</u></b>	<b><u>(105)</u></b>

<u>Teachers</u>	<u>2005</u>	<u>2004</u>
Employees	52,900	51,383
Employers	57,150	55,774
State	<u>656</u>	<u>770</u>
<b>Total Contributions</b>	<b>110,706</b>	<b>107,927</b>
<b>Benefits/Administration</b>	<b><u>(167,149)</u></b>	<b><u>(158,510)</u></b>
<b>Cash Flow</b>	<b><u>(56,442)</u></b>	<b><u>(50,583)</u></b>

<u>Police</u>	<u>2005</u>	<u>2004</u>
Employees	2,425	2,313
Employers	3,791	3,612
State	<u>7,705</u>	<u>7,208</u>
<b>Contributions</b>	<b>13,921</b>	<b>13,133</b>
<b>Benefits/Administration</b>	<b><u>(12,226)</u></b>	<b><u>(11,344)</u></b>
<b>Cash Flow</b>	<b><u>1,695</u></b>	<b><u>1,789</u></b>

<u>Total</u>	<u>2005</u>	<u>2004</u>
Members	131,926	125,158
Employers	133,707	129,113
State/Other	<u>17,697</u>	<u>16,696</u>
<b>Contributions</b>	<b>283,330</b>	<b>270,967</b>
<b>Benefits/Administration</b>	<b><u>(367,693)</u></b>	<b><u>(344,280)</u></b>
<b>Cash Flow</b>	<b><u>(84,362)</u></b>	<b><u>(73,313)</u></b>

## PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

### PERS Annual Book Value Change At June 30

<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% of Change</u>
Fixed Income (RFBP)	898,495,210	38.4	781,895,210	34.4	116,600,000	14.9
Domestic Stock Pool	795,839,836	34.0	800,450,411	35.2	(4,610,575)	(0.6)
International Stock Pool	406,553,000	17.4	393,914,000	17.3	12,639,000	3.2
Montana Private Equity Pool	122,267,864	5.2	122,267,864	5.4	0	0.0
Equity Real Estate	8,413,771	0.4	8,295,827	0.4	117,944	1.4
<b>Total Equity</b>	<b>1,333,074,470</b>	<b>57.0</b>	<b>1,324,928,102</b>	<b>58.2</b>	<b>8,146,369</b>	<b>0.6</b>
Cash Equivalents (STIP)	50,187,304	2.1	102,342,795	4.5	(52,155,490)	(51.0)
Montana Mortgages	58,112,029	2.5	66,754,461	2.9	(8,642,432)	(12.9)
<b>Total</b>	<b>2,339,869,014</b>	<b>100.0</b>	<b>2,275,920,567</b>	<b>100.0</b>	<b>63,948,447</b>	<b>2.8</b>

### PERS Annual Fair Value Change At June 30

<u>Investment Type</u>	<u>2005 \$ Fair Value</u>	<u>% of Total</u>	<u>2004 \$ Fair Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% of Change</u>
Fixed Income (RFBP)	930,369,190	28.8	805,839,505	26.7	124,529,685	15.5
Domestic Stock Pool	1,529,417,961	47.3	1,469,962,551	48.7	59,455,410	4.0
International Stock Pool	505,111,709	15.6	434,916,502	14.4	70,195,206	16.1
Montana Private Equity Pool	150,594,643	4.7	128,797,026	4.3	21,797,617	16.9
Equity Real Estate	8,525,400	0.3	8,409,210	0.3	116,190	1.4
<b>Total Equity</b>	<b>2,193,649,712</b>	<b>67.9</b>	<b>2,042,085,289</b>	<b>67.7</b>	<b>151,564,423</b>	<b>7.4</b>
Cash Equivalents (STIP)	50,658,046	1.6	102,342,795	3.4	(51,684,748)	(50.5)
Montana Mortgages	58,112,029	1.8	66,755,267	2.2	(8,643,238)	(12.9)
<b>Total</b>	<b>3,232,788,978</b>	<b>100.0</b>	<b>3,017,022,856</b>	<b>100.0</b>	<b>215,766,122</b>	<b>7.2</b>

### PERS Book/Fair Values At June 30, 2005

<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Fixed Income (RFBP)	898,495,210	930,369,190	31,873,980	38.4	28.8
Domestic Stock Pool	795,839,836	1,529,417,961	733,578,125	34.0	47.3
International Stock Pool	406,553,000	505,111,709	98,558,709	17.4	15.6
Montana Private Equity Pool	122,267,864	150,594,643	28,326,780	5.2	4.7
Equity Real Estate	8,413,771	8,525,400	111,629	0.4	0.3
<b>Total Equity</b>	<b>1,333,074,470</b>	<b>2,193,649,712</b>	<b>860,575,242</b>	<b>57.0</b>	<b>67.9</b>
Montana Mortgages	50,187,304	50,658,046	470,742	2.1	1.6
Cash Equivalents (STIP)	58,112,029	58,112,029	0	2.5	1.8
<b>Total</b>	<b>2,339,869,014</b>	<b>3,232,788,978</b>	<b>892,919,964</b>	<b>100.0</b>	<b>100.0</b>

**PERS Net Income By Source**

<u>Income Type</u>	<u>2005 \$</u> <u>Income</u>	<u>% Of</u> <u>Total</u>	<u>2004 \$</u> <u>Income</u>	<u>% Of</u> <u>Total</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Retirement Funds Bond Pool	60,109,224	61.4	57,048,864	35.4	3,060,360	5.4
Domestic Stock Pool	19,789,762	20.2	17,213,144	10.7	2,576,617	15.0
International Stock Pool	5,668,792	5.8	4,741,267	2.9	927,525	19.6
Gain on Sale of Pool Units	4,389,425	4.5	34,485,681	21.4	(30,096,255)	(87.3)
Montana Mortgages	3,684,453	3.8	5,327,515	3.3	(1,643,062)	(30.8)
Montana Private Equity Pool	1,997,076	2.0	40,833,740	25.4	(38,836,664)	NA
Short Term Investment Pool	1,612,559	1.6	797,817	0.5	814,742	102.1
Equity Real Estate	664,008	0.7	487,235	0.3	176,773	36.3
All Other Funds	729	0.0	0	0.0	729	N/A
<b>Total Gross Income</b>	<b>97,916,029</b>	<b>100.0</b>	<b>160,935,264</b>	<b>100.0</b>	<b>(63,019,236)</b>	<b>(39.2)</b>
Board Management Fees	(1,029,823)		(1,006,576)		(23,247)	2.3
Custodial Bank Fees	(288,147)		(260,801)		(27,346)	10.5
External Manager Fees	(3,460,105)		(2,493,624)		(966,481)	38.8
<b>Total Net Income</b>	<b>93,137,953</b>		<b>157,174,263</b>		<b>(64,036,310)</b>	<b>(40.7)</b>

**PERS 2005 Total Rates of Returns By Asset**

<u>Asset Class</u>	<u>% Return</u>	<u>Market Index</u>	<u>Index % Return</u>	<u>Return +/- Index</u>
Cash Equivalents (STIP)	2.30	91-Day T Bill * 1.05	2.14	0.16
Domestic Stock Pool	5.95	S&P 1500 Index	7.23	(1.28)
International Stock Pool	13.95	MSCI EAFE	13.65	0.30
Private Equity Pool	16.84	S&P 1500 Index + 4%	11.23	5.61
Fixed Income (RFBP)	8.02	CitiGroup Broad Investment	7.00	1.02
Montana Mortgages	7.60	NA	NA	NA
Equity Real Estate	7.75	NA	NA	NA
<b>All Assets</b>	<b>8.13</b>	<b>Composite (1)</b>	<b>7.89</b>	<b>0.24</b>

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

**PERS Historical Rates of Returns Versus Benchmark**

<u>Year</u>	<u>% Return</u>	<u>Benchmark (1)</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
2005	8.13	PERS Composite	7.89	0.24
3 Year Annualized Average	9.35	PERS Composite	8.69	0.66
5 Year Annualized Average	2.87	PERS Composite	3.01	(0.14)
10 Year Annualized Average	8.16	PERS Composite	8.23	(0.07)

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

PERS invested balances and income history are shown on Page A-17 in Appendix A

## TEACHERS' RETIREMENT SYSTEM FUND (TRS)

<b>TRS Annual Book Value Change At June 30</b>						
<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% of Change</u>
Fixed Income (RFBP)	678,652,977	38.5	597,952,977	34.3	80,700,000	13.5
Domestic Stock Pool	600,682,625	34.1	608,749,512	34.9	(8,066,887)	(1.3)
International Stock Pool	311,631,000	17.7	303,644,000	17.4	7,987,000	2.6
Montana Private Equity Pool	94,424,972	5.4	94,424,972	5.4	0	0.0
Equity Real Estate	7,902,459	0.4	7,797,114	0.4	105,344	1.4
<b>Total Equity</b>	<b>1,014,641,056</b>	<b>57.5</b>	<b>1,014,615,599</b>	<b>58.2</b>	<b>25,457</b>	<b>0.0</b>
Montana Mortgages	42,752,148	2.4	56,864,911	3.3	(14,112,763)	(24.8)
Cash Equivalents (STIP)	27,619,404	1.6	73,133,009	4.2	(45,513,605)	(62.2)
<b>Total</b>	<b>1,763,665,585</b>	<b>100.0</b>	<b>1,742,566,496</b>	<b>100.0</b>	<b>21,099,089</b>	<b>1.2</b>

<b>TRS Annual Fair Value Change At June 30</b>						
<u>Investment Type</u>	<u>2005 \$ Fair Value</u>	<u>% of Total</u>	<u>2004 \$ Fair Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% of Change</u>
Fixed Income (RFBP)	704,451,127	28.6	617,565,665	26.5	86,885,462	14.1
Domestic Stock Pool	1,172,930,246	47.7	1,135,892,072	48.8	37,038,174	3.3
International Stock Pool	388,431,359	15.8	336,137,139	14.4	52,294,219	15.6
Montana Private Equity Pool	116,621,027	4.7	99,740,950	4.3	16,880,077	16.9
Equity Real Estate	7,949,031	0.3	7,832,840	0.3	116,190	1.5
<b>Total Equity</b>	<b>1,685,931,663</b>	<b>68.5</b>	<b>1,579,603,002</b>	<b>67.9</b>	<b>106,328,661</b>	<b>6.7</b>
Montana Mortgages	43,153,151	1.8	56,865,598	2.4	(13,712,447)	(24.1)
Cash Equivalents (STIP)	27,619,404	1.1	73,133,009	3.1	(45,513,605)	(62.2)
<b>Total</b>	<b>2,461,155,345</b>	<b>100.0</b>	<b>2,327,167,274</b>	<b>100.0</b>	<b>133,988,071</b>	<b>5.8</b>

<b>TRS Book/Fair Values At June 30, 2005</b>					
<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Fixed Income (RFBP)	678,652,977	704,451,127	25,798,150	38.5	28.6
Domestic Stock Pool	600,682,625	1,172,930,246	572,247,621	34.1	47.7
International Stock Pool	311,631,000	388,431,359	76,800,359	17.7	15.8
Montana Private Equity Pool	94,424,972	116,621,027	22,196,055	5.4	4.7
Equity Real Estate	7,902,459	7,949,031	46,572	0.4	0.3
<b>Total Equity</b>	<b>1,014,641,056</b>	<b>1,685,931,663</b>	<b>671,290,607</b>	<b>57.5</b>	<b>68.5</b>
Montana Mortgages	42,752,148	43,153,151	401,002	2.4	1.8
Cash Equivalents (STIP)	27,619,404	27,619,404	0	1.6	1.1
<b>Total</b>	<b>1,763,665,585</b>	<b>2,461,155,345</b>	<b>697,489,759</b>	<b>100.0</b>	<b>100.0</b>

<b>TRS Net Income By Source</b>						
<u>Income Type</u>	<u>2005 \$</u> <u>Income</u>	<u>% Of</u> <u>Total</u>	<u>2004 \$</u> <u>Income</u>	<u>% Of</u> <u>Total</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Retirement Funds Bond Pool	45,690,274	57.4	43,932,669	33.2	1,757,605	4.0
Domestic Stock Pool	15,247,032	19.2	13,394,947	10.1	1,852,085	13.8
Gain on Sale of Pool Units	7,933,114	10.0	34,026,864	25.7	(26,093,750)	(76.7)
International Stock Pool	4,363,847	5.5	3,725,609	2.8	638,238	17.1
Montana Mortgages	3,138,608	3.9	4,543,342	3.4	(1,404,734)	(30.9)
Montana Private Equity Pool	1,546,544	1.9	31,657,320	23.9	(30,110,776)	(95.1)
Short Term Investment Pool	1,003,700	1.3	536,131	0.4	467,570	87.2
Equity Real Estate	622,740	0.8	451,301	0.3	171,439	38.0
All Other Funds	<u>621</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>621</u>	<u>N/A</u>
<b>Total Gross Income</b>	<b><u>79,546,482</u></b>	<b><u>100.0</u></b>	<b><u>132,268,183</u></b>	<b><u>100.0</u></b>	<b><u>(52,721,702)</u></b>	<b><u>(39.9)</u></b>
Board Management Fees	(804,871)		(799,821)		(5,050)	0.6
Custodial Bank Fees	(221,029)		(203,113)		(17,916)	8.8
External Manager Fees	<u>(2,675,189)</u>		<u>(1,945,859)</u>		<u>(729,330)</u>	<u>37.5</u>
<b>Total Net Income</b>	<b><u>75,845,392</u></b>		<b><u>129,319,390</u></b>		<b><u>(53,473,998)</u></b>	<b><u>(41.4)</u></b>

<b>TRS 2005 Total Rates of Return by Asset</b>				
<u>Asset Class</u>	<u>% Return</u>	<u>Market Index</u>	<u>Index % Return</u>	<u>Return +/- Index</u>
Cash Equivalents (STIP)	2.30	91-Day T Bill * 1.05	2.14	0.16
Domestic Stock Pool	5.95	S & P 1500 Index	7.23	(1.28)
International Stock Pool	13.95	MSCI EAFE	13.65	0.30
Private Equity Pool	16.84	S&P 1500 Index + 4%	11.23	5.61
Fixed Income (RFBP)	8.02	CitiGroup Broad Investment	7.00	1.02
Montana Mortgages	7.60	NA	NA	NA
Equity Real Estate	7.99	NA	NA	NA
<b>All Assets</b>	<b><u>8.19</u></b>	<b>Composite (1)</b>	<b><u>7.95</u></b>	<b><u>0.24</u></b>

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

<b>TRS Historical Rates of Returns Versus Benchmark</b>				
<u>Year</u>	<u>% Return</u>	<u>Benchmark (1)</u>	<u>Benchmark % Return</u>	<u>Return Benchmark</u>
2005	8.19	TRS Composite	7.95	0.24
3 Year Annualized Average	9.35	TRS Composite	8.56	0.79
5 Year Annualized Average	2.87	TRS Composite	2.94	(0.07)
10 Year Annualized Average	8.19	TRS Composite	8.23	(0.04)

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

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



## OTHER RETIREMENT SYSTEMS

<b>Assets of Individual Pensions at June 30</b>						
<b>Systems</b>	<b>2005 \$ Fair Value</b>	<b>2004 \$ Fair Value</b>	<b>2005 \$ Book Value</b>	<b>2004 \$ Book Value</b>	<b>Fair % Change</b>	<b>Book % Change</b>
Police	153,724,535	140,725,594	118,153,666	112,592,929	9.2	4.9
Sheriffs	151,006,508	139,910,633	115,023,467	111,178,424	7.9	3.5
Firefighters	146,685,522	134,140,179	113,713,015	108,238,534	9.4	5.1
Highway Patrol	83,578,823	78,310,865	61,546,174	60,068,673	6.7	2.5
Game Wardens	51,750,698	45,057,186	40,208,227	35,824,914	14.9	12.2
Judges	48,424,100	44,795,416	35,753,937	34,442,726	8.1	3.8
Vol. Firefighters	<u>20,063,456</u>	<u>18,612,738</u>	<u>16,448,235</u>	<u>15,836,424</u>	<u>7.8</u>	<u>3.9</u>
<b>Total</b>	<b><u>655,233,641</u></b>	<b><u>601,552,610</u></b>	<b><u>500,846,721</u></b>	<b><u>478,182,625</u></b>	<b><u>8.9</u></b>	<b><u>4.7</u></b>

<b>Other Pensions Annual Change At June 30</b>						
<b>Investment Type</b>	<b>2005 \$ Book Value</b>	<b>% of Total</b>	<b>2004 \$ Book Value</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% of Change</b>
Fixed Income (RFBP)	194,095,162	38.8	172,395,162	36.1	21,700,000	12.6
Domestic Stock Pool	183,996,419	36.7	184,112,859	38.5	(116,440)	(0.1)
International Stock Pool	83,308,042	16.6	78,934,042	16.5	4,374,000	5.5
Montana Private Equity Pool	<u>24,052,500</u>	<u>4.8</u>	<u>24,052,500</u>	<u>5.0</u>	<u>0</u>	<u>0.0</u>
<b>Total Equity</b>	<b><u>291,356,961</u></b>	<b><u>58.2</u></b>	<b><u>287,099,401</u></b>	<b><u>60.0</u></b>	<b><u>4,257,560</u></b>	<b><u>1.5</u></b>
Cash Equivalent (STIP)	<u>15,394,599</u>	<u>3.1</u>	<u>18,688,062</u>	<u>3.9</u>	<u>(3,293,463)</u>	<u>(17.6)</u>
<b>Total</b>	<b><u>500,846,721</u></b>	<b><u>100.0</u></b>	<b><u>478,182,625</u></b>	<b><u>100.0</u></b>	<b><u>22,664,096</u></b>	<b><u>4.7</u></b>

<b>Other Pensions Book/Fair Values At June 30, 2005</b>					
<b>Investment Type</b>	<b>Book \$ Value</b>	<b>Fair \$ Value</b>	<b>Fair \$ +/- Book</b>	<b>% of Book</b>	<b>% of Fair</b>
Fixed Income (RFBP)	194,095,162	199,799,905	5,704,743	38.8	30.5
Domestic Stock Pool	183,996,419	306,912,462	122,916,043	36.7	46.8
International Stock Pool	83,308,042	102,913,686	19,605,644	16.6	15.7
Montana Private Equity Pool	<u>24,052,500</u>	<u>30,212,990</u>	<u>6,160,490</u>	<u>4.8</u>	<u>4.6</u>
<b>Total Equity</b>	<b><u>291,356,961</u></b>	<b><u>440,039,138</u></b>	<b><u>148,682,177</u></b>	<b><u>58.2</u></b>	<b><u>67.2</u></b>
Cash Equivalent (STIP)	<u>15,394,599</u>	<u>15,394,599</u>	<u>0</u>	<u>3.1</u>	<u>2.3</u>
<b>Total</b>	<b><u>500,846,721</u></b>	<b><u>655,233,641</u></b>	<b><u>154,386,920</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

**Other Retirement Systems 2005 Total Rates of Return**

<b>Fund</b>	<b>% Return</b>	<b>Index (1)</b>	<b>% Return</b>	<b>Fund +/-Index</b>
Sheriffs	8.11	Composite	7.86	0.25
Police	7.99	Composite	7.74	0.25
Firefighters	7.99	Composite	7.74	0.25
Highway Patrol	8.19	Composite	7.93	0.26
Judges	8.11	Composite	7.85	0.26
Game Warden	7.87	Composite	7.64	0.23
Vol. Firefighters	7.88	Composite	7.62	0.26

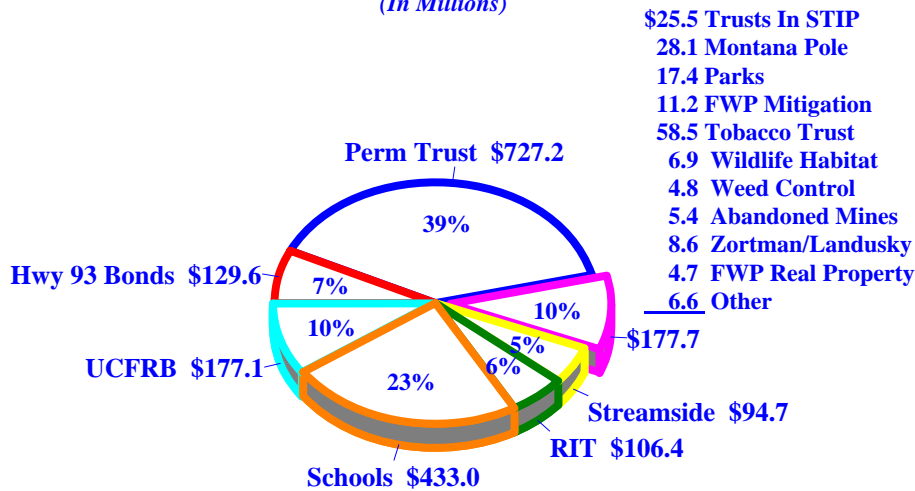
(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

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 By Source

\$1.85 Billion Fair Value At June 30, 2005

(In Millions)



- \$25.5 Trusts In STIP
- 28.1 Montana Pole
- 17.4 Parks
- 11.2 FWP Mitigation
- 58.5 Tobacco Trust
- 6.9 Wildlife Habitat
- 4.8 Weed Control
- 5.4 Abandoned Mines
- 8.6 Zortman/Landusky
- 4.7 FWP Real Property
- 6.6 Other

## TRUST FUNDS

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

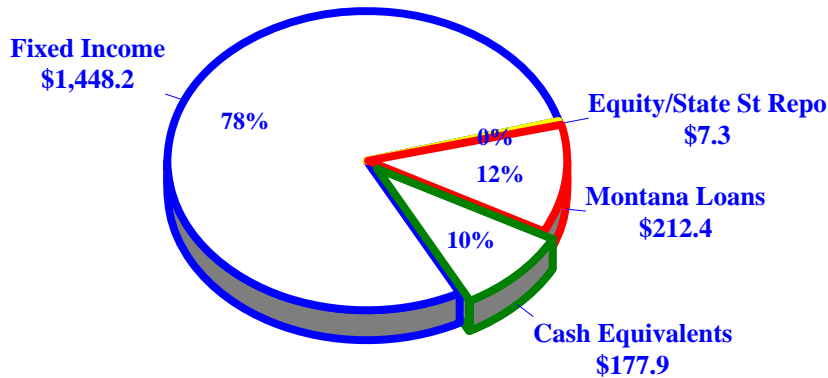
Other trusts have been created statutorily by the legislature or involve federal funds.

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

# Trust Funds By Investment

\$1.85 Billion Fair Value At June 30, 2005

(In Millions)



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 2004 to 2005 by individual trust fund.

**Total Trust Funds Annual Change At June 30**

<b>Trust</b>	<b>2005 \$</b>	<b>% of</b>	<b>2004 \$</b>	<b>% of</b>	<b>\$</b>	<b>%</b>
	<b>Book Value</b>	<b>Total</b>	<b>Book Value</b>	<b>Total</b>	<b>Change</b>	<b>Change</b>
Permanent Coal Tax Trust (1)	708,371,742	39.7	691,224,790	42.0	17,146,952	2.5
Schools (Trust and Legacy)	410,653,937	23.0	410,653,937	24.9	0	0.0
UCFRB Restoration	154,963,038	8.7	149,266,177	9.1	5,696,861	3.8
Highway 93 Bond	129,656,706	7.3	0	0.0	129,656,706	N/A
Resource Indemnity Trust	100,254,844	5.6	100,000,776	6.1	254,068	0.3
Streamside Tailings	92,218,907	5.2	93,785,967	5.7	(1,567,059)	(1.7)
Tobacco Trust	57,901,622	3.2	46,756,451	2.8	11,145,171	23.8
Montana Pole	27,704,394	1.6	27,494,950	1.7	209,444	0.8
Trusts in STIP	25,475,484	1.4	47,431,218	2.9	(21,955,734)	(46.3)
Parks Trust	16,771,162	0.9	16,188,964	1.0	582,199	3.6
UCFRB Reserve	15,151,680	0.8	14,157,512	0.9	994,168	7.0
FWP Mitigation	11,162,155	0.6	10,841,580	0.7	320,575	3.0
Zortman/Landusky	6,885,646	0.4	6,421,649	0.4	463,997	7.2
Wildlife Habitat	6,883,700	0.4	6,448,872	0.4	434,828	6.7
Abandoned Mines	5,416,370	0.3	5,199,950	0.3	216,420	4.2
Cultural Trust	4,930,175	0.3	4,689,175	0.3	241,000	5.1
Weed Control	4,797,374	0.3	4,866,922	0.3	(69,548)	(1.4)
FWP Real Property	4,676,829	0.3	4,525,667	0.3	151,162	3.3
Trusts in TFBP	414,634	0.0	414,634	0.0	0	0.0
Trusts in MTCP	244,213	0.0	244,213	0.0	0	0.0
Guaranteed Student Loan	0	0.0	5,300,935	0.3	(5,300,935)	(100.0)
<b>Total</b>	<b><u>1,784,534,613</u></b>	<b><u>100.0</u></b>	<b><u>1,645,914,338</u></b>	<b><u>100.0</u></b>	<b><u>138,620,275</u></b>	<b><u>8.4</u></b>
<b>Fixed-Income</b>	<b>1,387,909,792</b>	<b>77.8</b>	<b>1,308,908,546</b>	<b>79.5</b>	<b>79,001,246</b>	<b>6.0</b>
Montana Loans	212,353,581	11.9	221,861,642	13.5	(9,508,061)	(4.3)
Cash Equivalents (STIP)	177,868,468	10.0	114,899,937	7.0	62,968,531	54.8
State Street Repurchase Agr.	6,158,559	0.3	0	0.0	6,158,559	N/A
Equity	<u>244,213</u>	<u>0.0</u>	<u>244,213</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
<b>Total</b>	<b><u>1,784,534,613</u></b>	<b><u>100.0</u></b>	<b><u>1,645,914,338</u></b>	<b><u>100.0</u></b>	<b><u>138,620,275</u></b>	<b><u>8.4</u></b>

(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:

<b>Coal Tax Trust Subfunds at June 30</b>						
<b>Subfund</b>	<b>2005 \$ Book Value</b>	<b>% of Total</b>	<b>2004 \$ Book Value</b>	<b>% of Total</b>	<b>\$ Change</b>	<b>% Change</b>
Permanent Fund	549,720,744	77.6	545,070,171	78.9	4,650,573	0.9
Treasure State Endowment	127,055,930	17.9	118,206,758	17.1	8,849,172	7.5
Treasure State Regional Water	22,700,717	3.2	18,288,550	2.6	4,412,167	24.1
Severance Tax Bond Fund	6,151,521	0.9	6,748,396	1.0	(596,874)	(8.8)
Permanent Fund Income	2,742,830	0.4	2,910,915	0.4	(168,085)	(5.8)
<b>Total Coal Tax Trust</b>	<b>708,371,742</b>	<b>100.0</b>	<b>691,224,790</b>	<b>100.0</b>	<b>17,146,952</b>	<b>2.5</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 total rate of return.

<b>Permanent Coal Tax Trust Change At June 30 (1)</b>						
<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Fixed Income (TFBP)	446,777,546	63.1	428,271,992	62.0	18,505,554	4.3
Science and Technology	14,003,410	2.0	13,959,035	2.0	44,375	0.3
Department of Natural Resources	41,896,024	5.9	44,546,088	6.4	(2,650,063)	(5.9)
Department of Justice	2,112,000	0.3	2,037,000	0.3	75,000	3.7
Department of Revenue	0	0.0	5,698,442	0.8	(5,698,442)	(100.0)
Montana Facility Finance	47,482	0.0	943,904	0.1	(896,422)	(95.0)
Local Gov. Infrastructure	5,659,452	0.8	8,298,805	1.2	(2,639,353)	(31.8)
Value-added Loans	11,104,002	1.6	9,202,821	1.3	1,901,181	20.7
Commercial Loans	<u>137,531,209</u>	<u>19.4</u>	<u>137,175,547</u>	<u>19.8</u>	<u>355,663</u>	<u>0.3</u>
<b>Total In-State Investments</b>	<b><u>212,353,581</u></b>	<b><u>30.0</u></b>	<b><u>221,861,642</u></b>	<b><u>32.1</u></b>	<b><u>(9,508,061)</u></b>	<b><u>(4.3)</u></b>
STIP Tr. St. Endow Trust	1,861,743	0.3	1,557,864	0.2	303,878	19.5
STIP Permanent Trust Income	2,742,830	0.4	2,910,915	0.4	(168,085)	(5.8)
STIP Permanent Fund	37,931,753	5.4	29,833,926	4.3	8,097,827	27.1
STIP Sev. Tax Bond Fund	6,151,521	0.9	6,748,396	1.0	(596,874)	(8.8)
STIP Tr. St. Regional Water	<u>552,769</u>	<u>0.1</u>	<u>40,055</u>	<u>0.0</u>	<u>512,714</u>	<u>N/A</u>
Cash Equivalents (STIP)	<u>49,240,615</u>	<u>7.0</u>	<u>41,091,156</u>	<u>5.9</u>	<u>8,149,460</u>	<u>19.8</u>
<b>Total</b>	<b><u>708,371,742</u></b>	<b><u>100.0</u></b>	<b><u>691,224,790</u></b>	<b><u>100.0</u></b>	<b><u>17,146,953</u></b>	<b><u>2.5</u></b>

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

<b>Permanent Coal Tax Trust Book/Fair Values At June 30, 2005</b>					
<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Fixed Income (TFBP)	446,777,546	465,601,267	18,823,721	63.1	64.0
In-State Investments	212,353,581	212,353,581	0	30.0	29.2
Cash Equivalents (STIP)	<u>49,240,615</u>	<u>49,240,615</u>	<u>0</u>	<u>7.0</u>	<u>6.8</u>
<b>Total</b>	<b><u>708,371,742</u></b>	<b><u>727,195,463</u></b>	<b><u>18,823,721</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

<b>Permanent Coal Tax Trust 2005 Total Rates of Return</b>				
<u>Asset Type</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.18	CitiGroup Broad Investment	7.00	1.18
Montana Loans (1)	6.52	In-State Loans	NA	NA
<b>All Assets</b>	<b><u>7.34</u></b>			

(1) In-State Investment Loans, Science & Tech Loans, and other legislatively authorized loans

The Coal Tax Trust earned \$46.2 million in investment income in 2005, compared to \$44.2 million in 2004.

The Coal Tax Trust is also used to fund the In-State Investment Program (See Page 55). The Coal Tax Trust invested balances and investment income history are shown on Page A-19 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.

<b>Trust &amp; Legacy Fund Annual Change At June 30</b>						
<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Fixed Income (TFBP)	410,653,937	100.0	410,653,937	100.0	0	0.0
Cash Equivalents (STIP)	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>410,653,937</b>	<b>100.0</b>	<b>410,653,937</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>

<b>Trust &amp; Legacy Book/Fair Values At June 30, 2005</b>					
<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Fixed Income (TFBP)	410,653,937	433,049,004	22,395,067	100.0	100.0
Cash Equivalents (STIP)	0	0	0	0.0	0.0
<b>Total</b>	<b>410,653,937</b>	<b>433,049,004</b>	<b>22,395,067</b>	<b>100.0</b>	<b>100.0</b>

<b>Trust &amp; Legacy Fund 2005 Total Rates of Return</b>				
<u>Asset Type</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	CitiGroup Broad Investment	7.00	1.13
<b>All Assets</b>	<b>8.01</b>			

The Trust and Legacy Fund earned \$28.4 million in investment income in 2005, compared to \$30.1 million in 2004. The Trust and Legacy Fund invested balances and investment income history are shown on Page A-20 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.

<b>Resource Indemnity Trust Annual Change At June 30</b>						
<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Fixed Income (TFBP)	99,999,976	99.7	99,999,976	100.0	0	0.0
Cash Equivalents (STIP)	254,868	0.3	800	0.0	254,068	N/A
<b>Total</b>	<b>100,254,844</b>	<b>100.0</b>	<b>100,000,776</b>	<b>100.0</b>	<b>254,068</b>	<b>0.3</b>

<b>Resource Indemnity Trust Book/Fair Values At June 30, 2005</b>					
<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Fixed Income (TFBP)	99,999,976	106,152,429	6,152,453	99.7	99.8
Cash Equivalents (STIP)	254,868	254,868	0	0.3	0.2
<b>Total</b>	<b>100,254,844</b>	<b>106,407,297</b>	<b>6,152,453</b>	<b>100.0</b>	<b>100.0</b>

<b>Resource Indemnity Trust Fund 2005 Total Rates of Return</b>				
<u>Asset Type</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	CitiGroup Broad Investment	7.00	1.13
<b>All Assets</b>	<b>8.12</b>			

The Resource Indemnity Trust Fund earned \$6.9 million in investment income in 2005, compared to \$7.4 million in 2004. The Resource Indemnity Trust Fund invested balances and investment income history are shown on Page A-21 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.

<b>Coal Tax Parks/Cultural Funds Annual Change At June 30</b>						
<u>Fund Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% Change</u>
Parks Trust	16,771,162	77.3	16,188,964	77.5	582,199	3.60
Cultural Trust	4,930,175	22.7	4,689,175	22.5	241,000	5.14
<b>Total</b>	<b>21,701,337</b>	<b>100.0</b>	<b>20,878,139</b>	<b>100.0</b>	<b>823,199</b>	<b>3.94</b>
<u>Investment Type</u>						
Fixed Income (TFBP)	21,375,854	98.5	20,466,247	98.0	909,608	4.44
Cash Equivalents (STIP)	325,483	1.5	411,892	2.0	(86,409)	(20.98)
<b>Total</b>	<b>21,701,337</b>	<b>100.0</b>	<b>20,878,139</b>	<b>100.0</b>	<b>823,199</b>	<b>3.94</b>

<b>Parks/Cultural Trusts Book/Fair Values At June 30, 2005</b>					
<u>Fund Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
Parks Trust	16,771,162	17,359,317	588,154	77.3	77.3
Cultural Trust	4,930,175	5,085,115	154,941	22.7	22.7
<b>Total</b>	<b>21,701,337</b>	<b>22,444,432</b>	<b>743,095</b>	<b>100.0</b>	<b>100.0</b>
<u>Investment Type</u>					
Fixed Income (TFBP)	21,375,854	22,118,949	743,095	98.5	98.5
Cash Equivalents (STIP)	325,483	325,483	0	1.5	1.5
<b>Total</b>	<b>21,701,337</b>	<b>22,444,432</b>	<b>743,095</b>	<b>100.0</b>	<b>100.0</b>

<b>Parks/Cultural Trust Funds 2005 Total Rates of Return</b>				
<u>Asset Type</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
<b>Parks Trust:</b>				
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	CitiGroup Broad Investment	7.00	1.13
<b>Parks Trust All Assets</b>	<b>8.03</b>			
<b>Cultural Trust:</b>				
Cash Equivalents (STIP)	2.30	91-Day T Bill x 105%	2.14	0.16
Fixed Income (TFBP)	8.13	LB Aggregate Bond	7.00	1.13
<b>Cultural Trust All Assets</b>	<b>8.04</b>			

The trusts earned \$1.4 million in investment income in 2005, compared to \$1.5 million in 2004. The invested balances and investment income history of these trusts are shown on Page A-22 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.

**Highway 93 Bond** - proceeds from a 2005 \$129.4 million bond issue to fund Highway 93 improvements.

**Other Trusts Annual Change At June 30**

<u>Fund</u>	<u>2005 \$</u> <u>Book Value</u>	<u>% of</u> <u>Total</u>	<u>2004 \$</u> <u>Book Value</u>	<u>% of</u> <u>Total</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
UCFRB Restoration	154,963,038	29.9	149,266,177	39.8	5,696,861	3.8
Highway 93 Bond	129,656,706	25.1	0	0.0	129,656,706	N/A
Streamside Tailings	92,218,907	17.8	93,785,967	25.0	(1,567,059)	(1.7)
Tobacco Trust	57,901,622	11.2	46,756,451	12.5	11,145,171	23.8
Montana Pole	27,704,394	5.4	27,494,950	7.3	209,444	0.8
UCFRB Reserve	15,151,680	2.9	14,157,512	3.8	994,168	7.0
FWP Mitigation	11,162,155	2.2	10,841,580	2.9	320,575	3.0
Zortman/Landusky	6,885,646	1.3	6,421,649	1.7	463,997	7.2
Wildlife Habitat	6,883,700	1.3	6,448,872	1.7	434,828	6.7
Abandoned Mines	5,416,370	1.0	5,199,950	1.4	216,420	4.2
Weed Control	4,797,374	0.9	4,866,922	1.3	(69,548)	(1.4)
FWP Real Property	4,676,829	0.9	4,525,667	1.2	151,162	3.3
Guaranteed Student Loan	<u>0</u>	<u>0.0</u>	<u>5,300,935</u>	<u>1.4</u>	<u>(5,300,935)</u>	<u>(100.0)</u>
<b>Total</b>	<b><u>517,418,422</u></b>	<b><u>100.0</u></b>	<b><u>375,066,632</u></b>	<b><u>100.0</u></b>	<b><u>142,351,790</u></b>	<b><u>38.0</u></b>
<b>Investment Type</b>						
Trust Funds Bond Pool	277,839,504	53.7	257,536,227	68.7	20,303,277	7.9
Corporate Asset-Backed Bonds	10,792,453	2.1	12,217,058	3.3	(1,424,606)	(11.7)
Other Corporate Bonds	16,699,041	3.2	26,988,787	7.2	(10,289,746)	(38.1)
US Mortgage-Backed Bonds	3,121,676	0.6	6,641,924	1.8	(3,520,248)	(53.0)
US Government-Backed Bonds	99,335,774	19.2	44,818,523	11.9	54,517,251	121.6
International Bonds (US \$)	<u>899,397</u>	<u>0.2</u>	<u>899,241</u>	<u>0.2</u>	<u>156</u>	<u>0.0</u>
<b>Total Fixed Income</b>	<b><u>408,687,845</u></b>	<b><u>79.0</u></b>	<b><u>349,101,761</u></b>	<b><u>93.1</u></b>	<b><u>59,586,084</u></b>	<b><u>17.1</u></b>
Short Term Investment Pool	102,572,018	19.8	25,964,872	6.9	76,607,146	295.0
State Street Repurchase Agr.	<u>6,158,559</u>	<u>1.2</u>	<u>0</u>	<u>0.0</u>	<u>6,158,559</u>	<u>N/A</u>
<b>Total Cash Equivalents</b>	<b><u>108,730,577</u></b>	<b><u>21.0</u></b>	<b><u>25,964,872</u></b>	<b><u>6.9</u></b>	<b><u>82,765,706</u></b>	<b><u>318.8</u></b>
<b>Total</b>	<b><u>517,418,422</u></b>	<b><u>100.0</u></b>	<b><u>375,066,632</u></b>	<b><u>100.0</u></b>	<b><u>142,351,790</u></b>	<b><u>38.0</u></b>

**Other Trusts Book/Fair Values At June 30, 2005**

<u>Fund</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
UCFRB Restoration	154,963,038	161,312,993	6,349,954	29.9	30.5
Highway 93 Bond	129,656,706	129,567,724	(88,982)	25.1	24.5
Streamside Tailings	92,218,907	94,691,620	2,472,713	17.8	17.9
Tobacco Trust	57,901,622	58,528,528	626,907	11.2	11.1
Montana Pole	27,704,394	28,156,856	452,462	5.4	5.3
UCFRB Reserve	15,151,680	15,743,881	592,201	2.9	3.0
FWP Mitigation	11,162,155	11,190,292	28,137	2.2	2.1
Zortman/Landusky	6,885,646	8,587,962	1,702,316	1.3	1.6
Wildlife Habitat	6,883,700	6,873,925	(9,775)	1.3	1.3
Abandoned Mines	5,416,370	5,435,860	19,490	1.0	1.0
Weed Control	4,797,374	4,828,595	31,221	0.9	0.9
FWP Real Property	<u>4,676,829</u>	<u>4,676,689</u>	<u>(140)</u>	<u>0.9</u>	<u>0.9</u>
<b>Total</b>	<b><u>517,418,422</u></b>	<b><u>529,594,925</u></b>	<b><u>12,176,503</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
<b><u>Investment Type</u></b>					
Trust Funds Bond Pool	277,839,504	287,458,974	9,619,469	53.7	54.3
Corporate Asset-Backed Bonds	10,792,453	10,658,015	(134,437)	2.1	2.0
Other Corporate Bonds	16,699,041	16,809,084	110,043	3.2	3.2
US Mortgage-Backed Bonds	3,121,676	3,252,089	130,414	0.6	0.6
US Government-Backed Bonds	99,335,774	101,772,131	2,436,357	19.2	19.2
International (US \$)	<u>899,397</u>	<u>914,055</u>	<u>14,658</u>	<u>0.2</u>	<u>0.2</u>
<b>Total Fixed-Income</b>	<b><u>408,687,845</u></b>	<b><u>420,864,348</u></b>	<b><u>12,176,503</u></b>	<b><u>79.0</u></b>	<b><u>79.5</u></b>
Short Term Investment Pool	102,572,018	102,572,018	0	19.8	19.4
State Street Repurchase Agr.	<u>6,158,559</u>	<u>6,158,559</u>	<u>0</u>	<u>1.2</u>	<u>1.2</u>
<b>Total Cash Equivalents</b>	<b><u>108,730,577</u></b>	<b><u>108,730,577</u></b>	<b><u>0</u></b>	<b><u>21.0</u></b>	<b><u>20.5</u></b>
<b>Total</b>	<b><u>517,418,422</u></b>	<b><u>529,594,925</u></b>	<b><u>12,176,503</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

The other trust portfolios are listed beginning on Page A-6 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.

<b>State Fund Annual Change At June 30</b>						
<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% of Change</u>
Corporate Asset-Backed Bonds	24,310,182	3.7	23,105,996	3.9	1,204,185	5.2
Other Corporate Bonds	256,757,099	38.6	242,107,218	41.3	14,649,881	6.1
US Mortgage-Backed Bonds	26,134,547	3.9	43,220,924	7.4	(17,086,378)	(39.5)
US Government-Backed Bonds	244,379,693	36.8	182,136,355	31.1	62,243,338	34.2
International Bonds (US \$)	<u>11,951,816</u>	<u>1.8</u>	<u>8,940,976</u>	<u>1.5</u>	<u>3,010,840</u>	<u>33.7</u>
<b>Total Fixed Income</b>	<b>563,533,335</b>	<b>84.8</b>	<b>499,511,469</b>	<b>85.2</b>	<b>64,021,867</b>	<b>12.8</b>
BGI S&P 500 Equity Index	<u>68,406,676</u>	<u>10.3</u>	<u>68,406,676</u>	<u>11.7</u>	<u>0</u>	<u>0.0</u>
Short Term Investment Pool	29,462,578	4.4	18,207,649	3.1	11,254,929	61.8
State Street Repurchase Agr.	<u>3,105,156</u>	<u>0.5</u>	<u>0</u>	<u>0.0</u>	<u>3,105,156</u>	<u>N/A</u>
<b>Total Cash Equivalents</b>	<b>32,567,734</b>	<b>4.9</b>	<b>18,207,649</b>	<b>3.1</b>	<b>14,360,085</b>	<b>78.9</b>
<b>Total</b>	<b>664,507,746</b>	<b>100.0</b>	<b>586,125,794</b>	<b>100.0</b>	<b>78,381,952</b>	<b>13.4</b>
<b>State Insurance Fund Book/Fair Values At June 30, 2005</b>						
<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Fixed</u>	<u>% of Fair</u>	
Corporate Asset-Backed Bonds	24,310,182	23,997,657	(312,524)	4.2	3.5	
Other Corporate Bonds	256,757,099	262,712,646	5,955,547	45.6	38.3	
US Mortgage-Backed Bonds	26,134,547	26,917,257	782,711	4.7	3.9	
US Government-Backed Bonds	244,379,693	250,083,773	5,704,080	43.4	36.5	
International Bonds (US \$)	<u>11,951,816</u>	<u>12,475,433</u>	<u>523,618</u>	<u>2.2</u>	<u>1.8</u>	
<b>Total Fixed Income</b>	<b>563,533,335</b>	<b>576,186,766</b>	<b>12,653,431</b>	<b>100.0</b>	<b>84.1</b>	
BGI S&P 500 Equity Index	<u>68,406,676</u>	<u>76,737,097</u>	<u>8,330,421</u>		<u>11.2</u>	
Short Term Investment Pool	29,462,578	29,462,578	0		4.3	
State Street Repurchase Agr.	<u>3,105,156</u>	<u>3,105,156</u>	<u>0</u>		<u>0.5</u>	
<b>Cash Equivalents (STIP)</b>	<b>32,567,734</b>	<b>32,567,734</b>	<b>0</b>		<b>4.8</b>	
<b>Total</b>	<b>664,507,746</b>	<b>685,491,597</b>	<b>20,983,852</b>		<b>100.0</b>	
<b>State Fund Insurance 2005 Total Rates of Return</b>						
<u>Asset Type</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>		
Cash Equivalents (STIP)	2.30	91-Day T Bill	2.14	0.16		
Equities	6.37	S & P 500 Index	6.32	0.05		
Fixed Income	<u>5.95</u>	LB Gov/Corp Intermediate	<u>4.77</u>	<u>1.18</u>		
<b>All Assets</b>	<b>5.88</b>	Composite (1)	<b>4.86</b>	<b>1.02</b>		
(1) An Index Composite paralleling the Fund's asset allocation at fair value						

The State Fund earned \$30.2 million in investment income in 2005, compared to \$27.8 million in 2004. The State Fund portfolio is listed beginning on Page A-8 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.....	\$22,164,624
Uninsured Employers .....	997,753
Agency Insurance.....	10,342,154
<b>Unemployment Insurance Benefits .....</b>	<b>4,857,395</b>

<b>Total</b>	<b>\$38,361,926</b>
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<b>Other Insurance Annual Change At June 30</b>						
<b>Fund Type</b>	<b>2005 \$</b>	<b>% of</b>	<b>2004 \$</b>	<b>% of</b>	<b>\$</b>	<b>% of</b>
	<b>Book Value</b>	<b>Total</b>	<b>Book Value</b>	<b>Total</b>	<b>Change</b>	<b>Change</b>
Old Fund	62,604,429	62.4	71,336,169	75.6	(8,731,740)	(12.2)
Group Insurance	27,006,434	26.9	15,214,849	16.1	11,791,584	77.5
Hail Insurance	8,909,984	8.9	6,102,175	6.5	2,807,809	46.0
Subsequent Injury	1,764,417	1.8	1,745,225	1.8	19,193	1.1
<b>Total</b>	<b>100,285,264</b>	<b>100.0</b>	<b>94,398,418</b>	<b>100.0</b>	<b>5,886,846</b>	<b>6.2</b>
<b>Investment Type</b>						
Corporate Asset-Backed Bonds	2,680,027	2.7	4,924,938	5.2	(2,244,911)	(45.6)
Other Corporate Bonds	10,430,094	10.4	16,103,603	17.1	(5,673,509)	(35.2)
US Mortgage-Backed Bonds	2,415,662	2.4	7,825,891	8.3	(5,410,229)	(69.1)
US Government-Backed Bonds	48,938,362	48.8	44,591,074	47.2	4,347,288	9.7
International Bonds (US \$)	99,933	0.1	99,916	0.1	17	0.0
<b>Total Fixed Income</b>	<b>64,564,079</b>	<b>64.4</b>	<b>73,545,422</b>	<b>77.9</b>	<b>(8,981,343)</b>	<b>(12.2)</b>
Short Term Investment Pool	34,634,381	34.5	20,852,996	22.1	13,781,385	66.1
State Street Repurchase Agr.	1,086,805	1.1	0	0.0	1,086,805	N/A
<b>Total Cash Equivalents</b>	<b>35,721,185</b>	<b>35.6</b>	<b>20,852,996</b>	<b>22.1</b>	<b>14,868,189</b>	<b>71.3</b>
<b>Total</b>	<b>100,285,264</b>	<b>100.0</b>	<b>94,398,418</b>	<b>100.0</b>	<b>5,886,846</b>	<b>6.2</b>

<b>Other Insurance Book/Fair Values At June 30, 2005</b>					
<b>Fund Type</b>	<b>Book \$ Value</b>	<b>Fair \$ Value</b>	<b>Fair \$ +/- Book</b>	<b>% of Book</b>	<b>% of Fair</b>
Old Fund	62,604,429	62,952,777	348,348	62.4	62.6
Group Insurance	27,006,434	26,955,926	(50,507)	26.9	26.8
Hail Insurance	8,909,984	8,909,984	0	8.9	8.9
Subsequent Injury	<u>1,764,417</u>	<u>1,768,318</u>	<u>3,900</u>	<u>1.8</u>	<u>1.8</u>
<b>Total</b>	<b><u>100,285,264</u></b>	<b><u>100,587,005</u></b>	<b><u>301,741</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
<b>Investment Type</b>					
Corporate Asset-Backed Bonds	2,680,027	2,600,771	(79,256)	2.7	2.6
Other Corporate Bonds	10,430,094	10,445,019	14,925	10.4	10.4
US Mortgage-Backed Bonds	2,415,662	2,500,761	85,098	2.4	2.5
US Government-Backed Bonds	48,938,362	49,217,708	279,346	48.8	48.9
International Bonds (US \$)	<u>99,933</u>	<u>101,562</u>	<u>1,629</u>	<u>0.1</u>	<u>0.1</u>
<b>Total Fixed Income</b>	<b><u>64,564,079</u></b>	<b><u>64,865,820</u></b>	<b><u>301,741</u></b>	<b><u>64.4</u></b>	<b><u>64.5</u></b>
Short Term Investment Pool	34,634,381	34,634,381	0	34.5	34.4
State Street Repurchase Agr.	<u>1,086,805</u>	<u>1,086,805</u>	<u>0</u>	<u>1.1</u>	<u>1.1</u>
Cash Equivalents (STIP)	<u>35,721,185</u>	<u>35,721,185</u>	<u>0</u>	<u>35.6</u>	<u>35.5</u>
<b>Total</b>	<b><u>100,285,264</u></b>	<b><u>100,587,005</u></b>	<b><u>301,741</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

Other Insurance Portfolios are listed beginning on Page A-10 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.

<b>Treasurer's Fund Annual Change At June 30</b>						
<u>Investment Type</u>	<u>2005 \$ Book Value</u>	<u>% of Total</u>	<u>2004 \$ Book Value</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>% of Change</u>
US Bank Sweep Repo	16,542,234	2.6	0	0.0	16,542,234	N/A
Municipal Investor Account	0	0.0	37,847,576	8.6	(37,847,576)	(100.0)
US Government-Backed Bonds	269,835,639	42.5	182,257,449	41.3	87,578,189	48.1
Cash Equivalents (STIP)	<u>348,097,291</u>	<u>54.9</u>	<u>221,130,581</u>	<u>50.1</u>	<u>126,966,710</u>	<u>57.4</u>
<b>Total</b>	<b><u>634,475,164</u></b>	<b><u>100.0</u></b>	<b><u>441,235,606</u></b>	<b><u>100.0</u></b>	<b><u>193,239,558</u></b>	<b><u>43.8</u></b>

<b>Treasurer's Fund Book/Fair Values At June 30, 2005</b>					
<u>Investment Type</u>	<u>Book \$ Value</u>	<u>Fair \$ Value</u>	<u>Fair \$ +/- Book</u>	<u>% of Book</u>	<u>% of Fair</u>
US Bank Sweep Repo	16,542,234	16,542,234	0	2.6	2.6
Municipal Investor Account	0	0	0	0.0	0.0
US Government-Backed Bonds	269,835,639	267,577,534	(2,258,105)	42.5	42.3
Cash Equivalents (STIP)	<u>348,097,291</u>	<u>348,097,292</u>	<u>1</u>	<u>54.9</u>	<u>55.1</u>
<b>Total</b>	<b><u>634,475,164</u></b>	<b><u>632,217,060</u></b>	<b><u>(2,258,104)</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

<b>Treasurer's Fund 2005 Total Rates of Return</b>				
<u>Asset Type</u>	<u>% Return</u>	<u>Benchmarks</u>	<u>Benchmark % Return</u>	<u>Return +/- Benchmark</u>
Cash Equivalents (STIP)	2.29	91-Day T Bill	2.14	0.15
Fixed Income	<u>2.24</u>	ML US Treasury 1-3 Yrs.	<u>1.87</u>	<u>0.37</u>
All Assets	<u>2.27</u>			

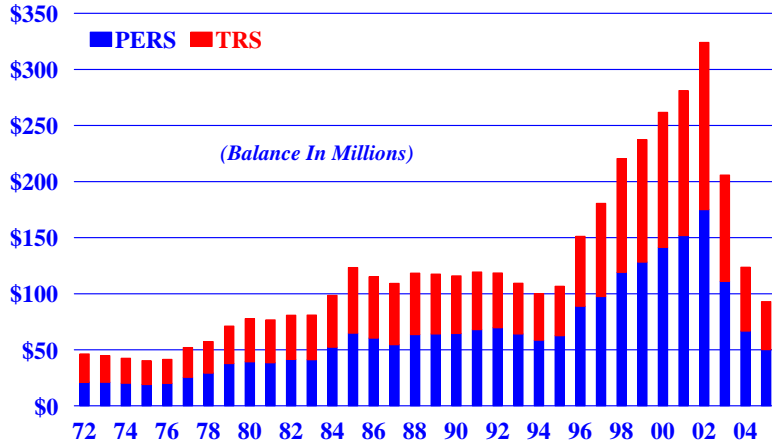
The Treasurer's Fund earned \$10.0 million in investment income in 2005, compared to \$6.4 million in 2004. The Treasurer's Fund Portfolio is listed beginning on Page A-6 of Appendix A. The Treasurer's Fund invested balance and income history are shown on Page A-23 of Appendix A.



## MONTANA RESIDENTIAL MORTGAGES

### Pension Mortgages History

#### Outstanding Principal At Year-End



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	2005	% Of	2004	% Of	\$	%
	Book Value	Total	Book Value	Total	Change	Change
Residential Conventional	65,837,802	70.8	85,373,121	69.1	(19,535,320)	(22.9)
Residential FHA	23,739,991	25.5	30,690,906	24.8	(6,950,914)	(22.6)
Residential VA	3,109,327	3.3	3,387,178	2.7	(277,851)	(8.2)
Multi-Family Conventional	123,275	0.1	581,552	0.5	(458,277)	(78.8)
Commercial	0	0.0	3,586,615	2.9	(3,586,615)	(100.0)
<b>Total Mortgages</b>	<b>92,939,453</b>	<b>99.9</b>	<b>123,619,372</b>	<b>100.0</b>	<b>(30,679,919)</b>	<b>(24.8)</b>

Mortgage rates on the secondary market declined to less than 6 percent during 2003 and the Board chose not to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage re-financings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio during 2003, 2004, and 2005.

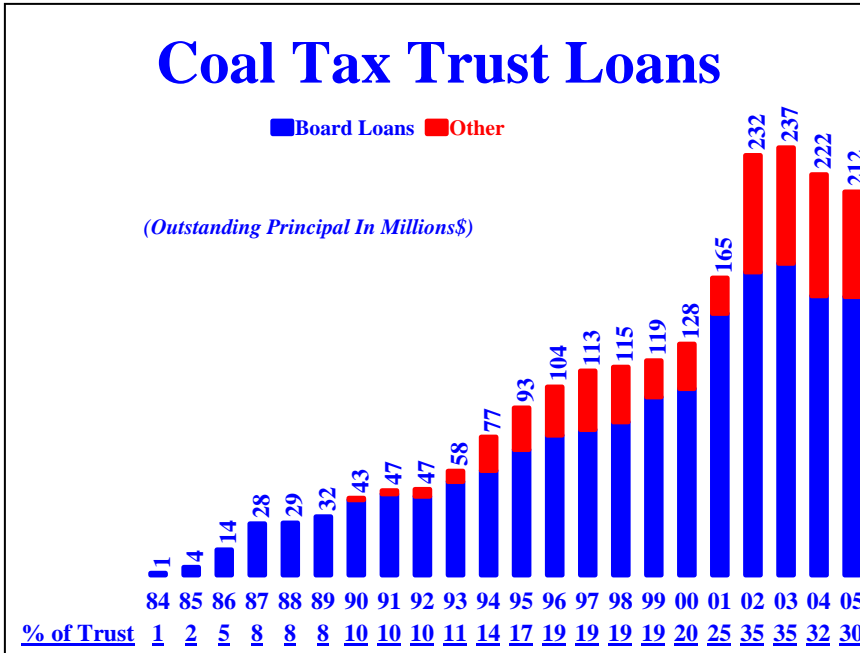
**Loan Losses/Arrears** – Pension Mortgage loans in arrears 90 or more days decreased from .24 percent of total mortgage holdings at year end 2004 to .23 percent of mortgage holdings at year end 2005. These arrears ratios compare to .44 percent and .40 percent respectively for Montana\* financial institutions during the period. The number of properties in foreclosure decreased from one at year-end 2004 to zero at year-end 2005. All mortgages are secured by single-family residential, multi-family residential or commercial properties in Montana.

\*Source: Montana Bankers Association National Delinquency Survey data dated 6/30/04 and 6/30/05.

**Residential Mortgage Balances By County Annual Change At June 30**

<u>County</u>	<u>2005 Balance</u>	<u>% Of Total</u>	<u>2004 Balance</u>	<u>% Of Total</u>	<u>04-05 \$ Change</u>	<u>2005 Loans</u>	<u>2004 Loans</u>	<u>04 - 05 Change</u>
Yellowstone	32,926,021	35.4	43,880,608	35.9	(10,954,587)	556	701	(145)
Gallatin	9,749,028	10.5	12,721,441	10.8	(2,972,414)	147	172	(25)
Flathead	6,254,231	6.7	9,186,354	8.2	(2,932,123)	101	134	(33)
Lake	5,264,591	5.7	6,917,452	6.0	(1,652,861)	89	107	(18)
Stillwater	4,867,193	5.2	6,138,979	5.1	(1,271,786)	71	86	(15)
Custer	4,636,911	5.0	5,637,845	3.7	(1,000,934)	112	132	(20)
Cascade	3,928,710	4.2	5,343,504	4.1	(1,414,794)	77	92	(15)
Hill	2,054,572	2.2	2,254,085	1.2	(199,513)	44	46	(2)
Park	2,023,355	2.2	2,351,902	2.2	(328,547)	36	39	(3)
Richland	1,991,738	2.1	2,259,242	1.7	(267,504)	51	57	(6)
Carbon	1,906,655	2.1	2,418,194	1.6	(511,539)	30	35	(5)
Roosevelt	1,819,524	2.0	2,019,438	1.3	(199,913)	41	46	(5)
Sanders	1,786,099	1.9	2,359,762	1.9	(573,663)	27	37	(10)
Valley	1,529,842	1.6	1,560,814	1.0	(30,973)	37	38	(1)
Beaverhead	1,261,751	1.4	1,385,193	1.1	(123,442)	21	22	(1)
Dawson	1,234,238	1.3	1,509,428	1.1	(275,190)	38	43	(5)
Missoula	913,961	1.0	4,380,505	4.7	(3,466,544)	20	36	(16)
Blaine	835,550	0.9	962,502	0.5	(126,952)	18	21	(3)
Lewis & Clark	712,447	0.8	920,095	0.8	(207,648)	19	23	(4)
Phillips	692,732	0.7	743,696	0.5	(50,963)	18	18	0
Rosebud	562,428	0.6	762,097	0.5	(199,670)	13	16	(3)
Choteau	550,861	0.6	630,459	0.5	(79,597)	12	14	(2)
Madison	546,638	0.6	566,369	0.6	(19,731)	5	5	0
Fergus	518,145	0.6	565,984	0.4	(47,840)	9	13	(4)
Bighorn	409,388	0.4	469,048	0.3	(59,660)	10	11	(1)
Fallon	401,874	0.4	451,237	0.2	(49,363)	8	9	(1)
Jefferson	394,769	0.4	651,458	0.4	(256,690)	6	9	(3)
Broadwater	390,300	0.4	429,979	0.4	(39,679)	14	14	0
Ravalli	342,200	0.4	513,761	0.5	(171,561)	5	6	(1)
Silver Bow	326,511	0.4	644,571	0.4	(318,060)	8	12	(4)
Glacier	267,019	0.3	454,946	0.4	(187,927)	5	9	(4)
Wheatland	161,183	0.2	223,558	0.1	(62,375)	4	5	(1)
Sheridan	159,388	0.2	236,023	0.1	(76,635)	8	10	(2)
Powell	144,752	0.2	148,309	0.2	(3,557)	3	3	0
McCone	133,560	0.1	142,756	0.1	(9,196)	4	4	0
Sweet Grass	118,149	0.1	252,871	0.3	(134,723)	3	5	(2)
Treasure	115,113	0.1	116,717	0.1	(1,604)	1	1	0
Deer Lodge	111,494	0.1	45,914	0.0	65,580	3	2	1
Musselshell	84,943	0.1	168,442	0.2	(83,499)	3	5	(2)
Mineral	83,118	0.1	98,160	0.1	(15,042)	1	1	0
Pondera	76,699	0.1	102,415	0.1	(25,716)	1	2	(1)
Prairie	69,526	0.1	73,398	0.0	(3,872)	2	2	0
Daniels	58,487	0.1	109,086	0.1	(50,599)	1	2	(1)
Carter	57,498	0.1	61,365	0.0	(3,867)	2	2	0
Judith Basin	51,110	0.1	52,060	0.0	(950)	1	1	0
Teton	46,267	0.0	109,343	0.1	(63,076)	2	5	(3)
Golden Valley	44,273	0.0	50,509	0.0	(6,236)	1	1	0
Lincoln	43,032	0.0	229,317	0.2	(186,285)	1	3	(2)
Granite	35,062	0.0	35,758	0.0	(697)	1	1	0
Wibaux	27,249	0.0	33,632	0.0	(6,383)	2	2	0
Meagher	26,911	0.0	99,639	0.1	(72,728)	1	3	(2)
Powder River	25,857	0.0	28,592	0.0	(2,735)	1	1	0
Garfield	23,433	0.0	99,642	0.1	(76,208)	1	2	(1)
Toole	14,008	0.0	34,916	0.0	(20,908)	1	3	(2)
<b>Total</b>	<b>92,939,453</b>	<b>100.0</b>	<b>123,619,372</b>	<b>100.0</b>	<b>(30,679,919)</b>	<b>1,696</b>	<b>2,069</b>	<b>(373)</b>

## 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 - \$41.9 Million
- Science & Tech - 14.0 Million
- Dep. of Justice - 2.1 Million
- Facilities Finance - .5 Million

**Loan Types** – Five major 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 2005, this Program had \$60.05 million in loan principal outstanding, or 43.66 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 2005, this Program had \$71.48 million in loan principal outstanding, or 52.0 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 2005, this Program had \$4.19 million in loan principal outstanding, or 3.0 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 2005, this Program had \$5.66 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 2005, this Program had \$11.10 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to \$50.0 million.

**Loan Yield** - On June 30, 2005, the average weighted yield of all outstanding commercial loans, excluding Value-Added Loans whose interest rates are set by law, was 5.93 percent.

**Loans From Inception By County Annual Change At June 30**

<u>County</u>	<u>Through 2005</u>	<u>% Of Total</u>	<u>Through 2004</u>	<u>% Of Total</u>	<u>04-05 \$ Increase</u>	<u>2005 &lt;# Loans&gt;</u>	<u>2004</u>	<u>04-05 Inc</u>
Missoula	84,839,411	17.9	84,574,058	18.7	265,353	209	208	1
Yellowstone	63,249,342	13.3	55,146,758	12.2	8,102,584	122	115	7
Gallatin	61,949,128	13.1	61,179,764	13.6	769,365	110	108	2
Cascade	40,546,039	8.6	34,463,707	7.6	6,082,332	45	38	7
Lewis & Clark	40,317,039	8.5	33,524,971	7.4	6,792,068	92	85	7
Flathead	36,183,535	7.6	36,183,535	8.0	0	79	79	0
Lake	19,432,991	4.1	19,432,991	4.3	0	91	91	0
Park	17,260,860	3.6	17,260,860	3.8	0	27	27	0
Ravalli	14,987,006	3.2	14,987,006	3.3	0	48	48	0
Madison	13,713,554	2.9	13,713,554	3.0	0	70	70	0
Beaverhead	11,150,710	2.4	11,150,710	2.5	0	30	30	0
Silver Bow	10,057,683	2.1	9,984,143	2.2	73,540	12	10	2
Stillwater	9,230,452	1.9	9,037,797	2.0	192,654	48	46	2
Sanders	7,730,387	1.6	7,730,387	1.7	0	10	10	0
Blaine	5,928,325	1.3	5,928,325	1.3	0	34	34	0
Richland	3,580,953	0.8	3,580,953	0.8	0	26	26	0
Rosebud	3,162,078	0.7	3,162,078	0.7	0	2	2	0
Carbon	3,037,336	0.6	2,904,586	0.6	132,750	17	13	4
Roosevelt	2,972,856	0.6	2,972,856	0.7	0	7	7	0
Jefferson	2,863,980	0.6	2,863,980	0.6	0	12	12	0
Custer	1,960,399	0.4	1,725,449	0.4	234,950	3	2	1
Lincoln	1,923,608	0.4	1,923,608	0.4	0	6	6	0
Valley	1,906,399	0.4	1,906,399	0.4	0	15	15	0
Choteau	1,701,998	0.4	1,701,998	0.4	0	4	4	0
Mineral	1,611,093	0.3	1,611,093	0.4	0	3	3	0
Granite	1,524,095	0.3	1,524,095	0.3	0	6	6	0
Hill	1,511,297	0.3	1,511,297	0.3	0	9	9	0
Meagher	1,424,517	0.3	1,424,517	0.3	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	0.2	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	0.1	0	3	3	0
Powell	616,500	0.1	616,500	0.1	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
<b>Total</b>	<b><u>473,834,114</u></b>	<b><u>100.0</u></b>	<b><u>451,188,517</u></b>	<b><u>100.0</u></b>	<b><u>22,645,596</u></b>	<b><u>1,172</u></b>	<b><u>1,139</u></b>	<b><u>33</u></b>

**Commercial Loan By Sector Annual Change At June 30**

<u>Investment Type</u>	<u>2005 Book Value</u>	<u>% Of Total</u>	<u>2004 Book Value</u>	<u>% Of Total</u>	<u>\$ (1) Change</u>	<u>% Change</u>
Service Industry	167,669,054	35.4	158,305,878	35.1	9,363,175	5.9
Manufacturing	66,430,023	14.0	64,964,335	14.4	1,465,688	2.3
Retail Trade	74,596,411	15.7	76,040,882	16.9	(1,444,472)	(1.9)
Agriculture/Forestry/Fishing	54,206,164	11.4	54,206,156	12.0	8	0.0
Finance/Insurance/Real Estate	84,838,783	17.9	74,759,022	16.6	10,079,761	13.5
Transportation/Utilities/Comm.	7,664,904	1.6	7,941,437	1.8	(276,533)	(3.5)
Wholesale Trade	8,797,713	1.9	6,180,451	1.4	2,617,262	42.3
Construction	6,684,052	1.4	5,843,345	1.3	840,707	14.4
Mining	<u>2,947,010</u>	<u>0.6</u>	<u>2,947,010</u>	<u>0.7</u>	<u>0</u>	<u>0.0</u>
<b>Total</b>	<b><u>473,834,114</u></b>	<b><u>100.0</u></b>	<b><u>451,188,517</u></b>	<b><u>100.0</u></b>	<b><u>22,645,596</u></b>	<b><u>5.0</u></b>

(1) Several Changes Were Made in Sector Codes During Fiscal 2005

**Loan Losses/Arrears** – The number of loans in this program in arrears 90 or more days decreased from .87 percent of total outstanding loans at year-end 2004 to .12 percent of outstanding loans at year-end 2005. These arrears ratios compare to 2.04 percent and 1.63 percent, respectively for Montana\* financial institutions during that period. There were no losses in 2004 or 2005.

\*Source: Total FDIC Past Due and Non Accrual as of 3/31/05.

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:

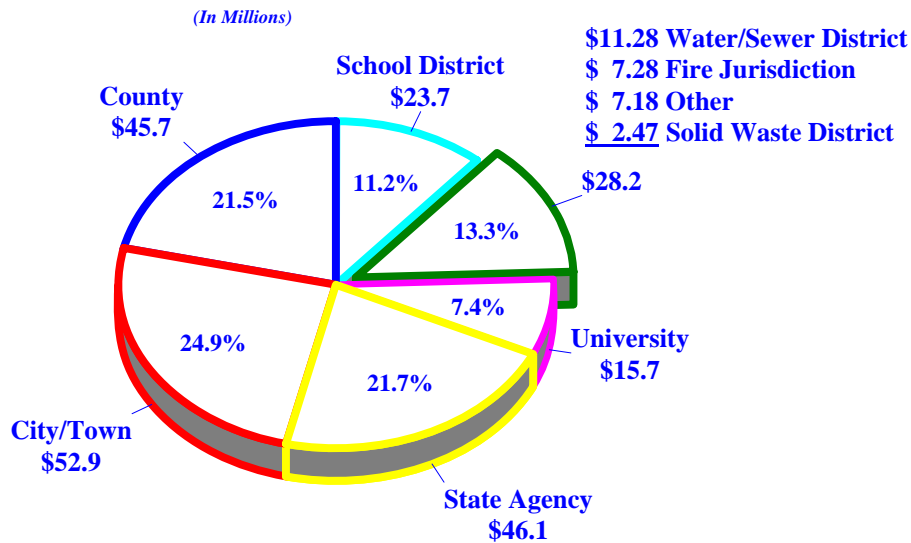
**Instate Loans and Other In-State Investments**

<u>Loan Type</u>	<u>2005 \$ Book Value</u>	<u>2004 \$ Book Value</u>	<u>\$ Change</u>
Commercial Loans	137,531,209	137,175,547	355,663
Residential Mortgages	92,939,453	123,619,372	(30,679,919)
School Trust Loan	41,896,024	44,546,088	(2,650,063)
Pension Equity Real Estate	16,316,230	16,092,940	223,289
Montana Science and Technology	14,003,410	13,959,035	44,375
Value-Added Loans	11,104,002	9,202,821	1,901,181
Infrastructure Loans	5,659,452	8,298,806	(2,639,353)
Department of Justice Loan	2,112,000	2,037,000	75,000
Facility Finance Authority Loans	47,482	943,904	(896,422)
Department of Revenue Loan	<u>0</u>	<u>5,698,442</u>	<u>(5,698,442)</u>
<b>Total In-State Loans</b>	<b><u>321,609,263</u></b>	<b><u>361,573,954</u></b>	<b><u>(39,964,691)</u></b>
PPL Montana	45,396,911	48,221,512	(2,824,602)
Med Map LLC (St. Vincent's Hospital, Billings)	23,910,000	24,960,000	(1,050,000)
First Interstate BancSystem, Montana	8,900,000	12,900,000	(4,000,000)
Montana CRP Bonds (69 issues)	3,028,270	4,789,283	(1,761,013)
Butte/Silver Bow Tax Increment	1,535,000	3,225,000	(1,690,000)
Board of Housing	1,140,000	1,145,000	(5,000)
Renewable Resource (1997A GO)	<u>419,219</u>	<u>733,242</u>	<u>(314,023)</u>
<b>Total State, Local Gvt and Corporate Bonds</b>	<b><u>84,329,399</u></b>	<b><u>95,974,037</u></b>	<b><u>(11,644,638)</u></b>
<b>Total Loans and Bonds</b>	<b><u>405,938,662</u></b>	<b><u>457,547,991</u></b>	<b><u>(51,609,329)</u></b>
<b>Bond Guarantees (1)</b>	<b><u>130,476,641</u></b>	<b><u>126,787,072</u></b>	<b><u>3,689,569</u></b>

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

## BOND PROGRAMS

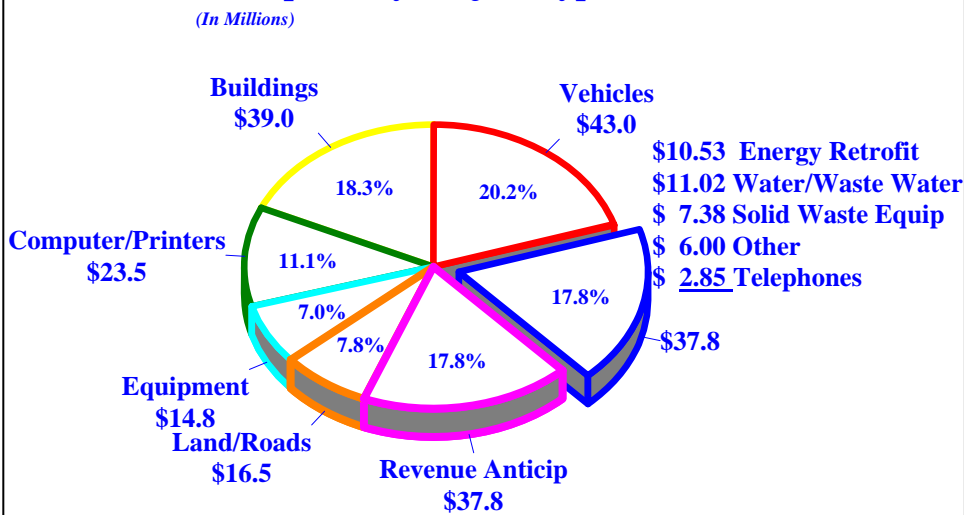
### INTERCAP Loans From Inception By Borrower Type \$212.35 Million



**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, 401 eligible governments have received 1,066 loans, totaling \$212.35 million.

### INTERCAP Loans From Inception By Project Type \$212.35 Million



The lower graph shows the types of projects for which loans were made since program inception. At June 30, 2005, there was \$64.74 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 \$84.28 million outstanding at June 30, 2005.

Loan interest rates, which are reset each February 16 based on the interest on the bonds funding the loans, were set at 3.80 percent on February 16, 2005.

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:

<b>Project</b>	<b>Issue Date</b>	<b>Issue Amount</b>	<b>6/30/05 Balance</b>
Huntley Project Schools	12/00	750,000	750,000
Bozeman Public Schools	11/03	1,586,000	1,586,000
Philipsburg Schools	12/03	2,000,000	2,000,000
<b>Total</b>		<b><u>4,336,000</u></b>	<b><u>4,336,000</u></b>

### **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:

<b>Project</b>	<b>Issue Date</b>	<b>Issue Amount</b>	<b>6/30/05 Balance</b>
Colstrip	10/89	60,800,000	53,100,000
BGI	07/93	118,345,000	116,345,000
Stillwater Mining	07/00	30,000,000	30,000,000
Gainey Foundation	10/02	6,000,000	5,140,000
<b>Total</b>		<b><u>215,145,000</u></b>	<b><u>204,585,000</u></b>

- ***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 231 loans, totaling \$30.29 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 is one loan outstanding in this program, the bonds issued to fund the loans have been repaid.

The Bond Program financial statements begin on Page 74 of Appendix B.



**Appendix A - Total Income By Fund**

Account Description	Investment Income	Pool Distributions					TFBP	Total
		STIP	MDEP	MTIP	MPEP	RFBP		
Public Employees Retirement System	8,738,615	1,612,559	19,789,762	5,668,792	1,997,076	60,109,224		97,916,029
Teachers Retirement	11,695,083	1,003,700	15,247,032	4,363,847	1,546,544	45,690,274		79,546,482
Coal Severance Tax Income Fund	14,336,097	691,339					21,463,149	36,490,585
State Fund Insurance	29,768,981	457,069						30,226,050
Trust And Legacy		269,698					28,106,281	28,375,979
STIP Local Government		12,419,504						12,419,504
General Fund	6,237,663	3,808,868						10,046,532
UCFRB Restoration Fund	819,835	121,160					9,023,409	9,964,404
TSEF Income Fund	748,189	262,013					7,272,317	8,282,519
Resource Indemnity Trust Income Fund		12,289					6,889,636	6,901,925
SST/OU Remedial Actio	1,974,147	86,564					3,550,163	5,610,875
State Policemen Retirement Reserve		100,097	933,410	273,737	94,658	3,088,320		4,490,223
Sheriffs Retirement		89,428	919,064	263,061	92,041	2,980,660		4,344,254
Firefighters Unified Retirement		92,479	888,552	260,437	90,141	2,947,847		4,279,456
Tobacco Settlement Income		36,611					3,165,726	3,202,337
Old State Fund	3,058,654	126,095						3,184,749
Highway Patrol Retirement	278,167	39,456	512,342	146,482	52,332	1,653,607		2,682,385
Retirement Funds Bond Pool		2,448,416						2,448,416
Game Wardens Retirement		59,425	293,384	85,767	28,779	986,749		1,454,105
Montana Pole Remedial	349,650	138,904					922,002	1,410,555
TSEF Region Water Income		55,941					1,340,362	1,396,303
Montana Judges Retirement		29,484	293,330	84,060	29,558	954,714		1,391,146
Trust Funds Bond Pool		1,219,191						1,219,191
Coal Tax-FWP Part Acquisition		4,699					1,095,405	1,100,104
UCFRB Assess/Litigation		537					991,244	991,781
General License Account	414,285	508,113						922,398
Highway 93 Bond Proceeds	102,848	774,187						877,036
Volunteer Firefighter Retirement	140,394	13,172	123,412	36,725	13,154	413,785		740,642
MSU General Operating		438,797					250,001	688,797
UM-MSO Unrestricted		530,054					83,508	613,563
Group Benefits Claims	101,043	440,135						541,178
Highways Special Revenue		530,599						530,599
FWP Wildlife Mitigation Fund	426,000	55,936						481,936
Zortman/Landusky Long Term	461,056	1,212						462,268
MT Oil & Gas Tax Clearance		414,709						414,709
MUS Group Insurance		409,840						409,840
Common School Permanent Trust		408,384						408,384
Wildlife Habitat Trust	124,961	8,984					271,339	405,284
MSU Auxiliary Funds		308,240					37,749	345,988
Cultural Trust		2,184					316,149	318,333
MSU Designated Funds		271,033					20,075	291,108
Agency Insurance Int.		282,784						282,784
FWP Real Property Trust	113,465	6,730					158,531	278,727
UM-MSO Renewal and Replacement		242,228						242,228
Noxious Weed Management Trust	206,481	18,118						224,599
UM-MSO Auxiliary		219,692						219,692
AML Trust Fund	180,470	30,359						210,829
MSU Renewal and Replacement		152,957					40,286	193,243
UM-MSO Designated		39,782					148,180	187,962
Hail Insurance		157,809						157,809
CST Bond Unrestricted Reserve		140,790						140,790
SOS Election Federal Grant Fund		139,346						139,346
U & I Tax Benefit		131,061						131,061
Wildlife Habitat		127,130						127,130
U.S. Dept Ed / GSL Reserve		124,905						124,905
UM-MSO Endowments		2,383	10,979				99,653	113,014
MSU-Billings Designated		107,652						107,652
Research & Commercial		101,724						101,724
Orphan Share Fund		95,863						95,863
MSU Retirement		95,016						95,016
Oil & Gas ERA		93,251						93,251
MSU-Billings Renewal		91,872						91,872
Guaranteed Student Loan		89,504						89,504
MSU -AG General Operating		87,131						87,131
UM-TECH Unrestricted		85,756						85,756
MSU-Billings General Operating		80,000						80,000
Subsequent Injuiry	74,545	3,648						78,194
UM-MSO Agency		64,672						64,672
Upland Game Bird Habitat		61,059						61,059
MSU-Billings Auxiliary		50,362						50,362
GO Bond Debt Service-Renewed		49,775						49,775

**Appendix A - Total Income By Fund**

Account Description	Investment Income	Pool Distributions					TFBP	Total
		STIP	MDEP	MTIP	MPEP	RFBP		
UM-MSO Restricted		49,384						49,384
Inspection And Control		45,659						45,659
C R Kendall Bond Forfeit		44,410						44,410
Science and Technology	43,954							43,954
Long Range Building		43,684						43,684
MSU Restricted Funds		42,358				1,270		43,628
CST 2001D Refunding Debt Service		43,304						43,304
MSU Loan Funds		40,978				469		41,447
Wheat and Barley Research		40,922						40,922
UM-Western Unrestricted		40,744						40,744
Market Based Outfitter Combo Sales		39,462						39,462
HUD Section 8 Housing		39,398						39,398
Health Facilities Authority		38,019						38,019
Petroleum Storage Tank		35,729						35,729
MSU Unexpended Plant		35,117						35,117
Noxious Weed Admin		34,271						34,271
MUS Self-Funded Worke		33,954						33,954
MSU-GCOT Unexpended Plant		33,631						33,631
OSM Trust Fund - Coal		32,874						32,874
Lvstk Per Capita Fees		32,378						32,378
UM-TECH Restricted		6,564				24,305		30,869
Enterprise Fund		30,354						30,354
2003A LRBP Bonds		29,150						29,150
Rural Develop & Rehab		29,127						29,127
MSU-EXT Designated Fund		28,460						28,460
UM-HCOT Unrestricted		28,359						28,359
CST 04A Refund Debt S		27,936						27,936
2004B LRBP		26,674						26,674
Mountain Sheep Account		24,828						24,828
BVSL Special Revenue		24,747						24,747
Coal Bed Methane Prot		24,635						24,635
Landusky Reel		24,298						24,298
Zortman Reclamation Short Term		23,977						23,977
Warm Water Fish Stamp		23,656						23,656
Housing Trust Fund		23,553						23,553
UM-MSO Student Loans		22,914						22,914
Habitat Trust		22,316						22,316
Energy Conservation: Exxon		21,985						21,985
UM-TECH Student Loans	12,205	3,623	1,372			4,441		21,642
MSU-AG Restricted Fund		10,589				10,896		21,485
GO 03 SBP Bond Proceeds		20,794						20,794
Hard Rock Mining Reclamation		20,740						20,740
PERS Educational Program		19,563						19,563
State Lottery Fund		19,552						19,552
Enhanced 9-1-1 Emergency		18,263						18,263
MSU-Northern Gen Operation		18,128						18,128
Fisheries Mitigation Private		17,545						17,545
River Restoration Account		17,537						17,537
Fishing Access		17,414						17,414
Uninsured Employer Fund		16,938						16,938
Alternative Energy Loan Fund		16,764						16,764
UM-TECH Unexpended Plant		16,652						16,652
Coal Tax Trust Account		16,559						16,559
Charles Bair Trust		1,078	3,342			11,663		16,083
MSU-GCOT General Operation		16,016						16,016
MSU-GCOT Designated Fund		15,973						15,973
CST 2003A Tax Debt		15,870						15,870
Pegasus Bankruptcy Operations		15,529						15,529
UM-TECH Renewal and Replacement		14,965						14,965
Waterfowl Stamp		14,953						14,953
Cashed Plan II Liquidation		14,340						14,340
UM-Western Auxiliary		14,081						14,081
SEC 8 Project Based		13,458						13,458
MSU-EXT General Operating		13,146						13,146
Rural Physicians Trust		12,350						12,350
Montana Heritage Preservation		12,200						12,200
MSU-Billings Unexpended		11,949						11,949
Luzenac America-Yello		11,655						11,655
Juvenile Accountabiliy		10,781						10,781
MSU Endowment Funds		1,356				9,287		10,643
Pest Ag Chemical Group		10,489						10,489

**Appendix A - Total Income By Fund**

Account Description	Investment Income	Pool Distributions					TFBP	Total
		STIP	MDEP	MTIP	MPEP	RFBP		
Acc. Cty Sick/Vacation		10,410						10,410
Energy Conservation: Stripper		9,832						9,832
Pegasus - Basin Mine		9,239						9,239
UM-Western Renew and Replacement		9,139						9,139
MSU-Billings Loan Fund		8,496						8,496
Unlocated Mineral Owners Trust		8,474						8,474
Real Estate Recovery		8,432						8,432
Broadwater Irrigation		8,254						8,254
457 Plan - Administration		7,589						7,589
MSU-GCOT Auxiliary Fund		7,427						7,427
Treasure State Endowment		7,370						7,370
UM-HCOT Unexpended Plant		7,353						7,353
Wildlife Mitigation Private		7,340						7,340
Development Finance Bonds		7,281						7,281
Produce Account		7,016						7,016
GO SBP Debt Service		6,774						6,774
UM-Western Unexpended		6,465						6,465
GO Bond Loan Loss Reserve		6,352						6,352
Sobotka Memorial Trust							6,302	6,302
State Lands Resource Development		6,173						6,173
James H. Bradley Memorial		290	4,608				1,256	6,155
Thomas Teakle Trust Fund		291	3,975				1,888	6,154
Big Horn Limestone		6,108						6,108
Moore-Sipple Connection		5,415						5,415
PERS-DC Disability		5,212						5,212
Marketing Service		5,182						5,182
Section 8FSS Escrow		5,160						5,160
Water Storage		5,135						5,135
Real Estate Trust		4,799						4,799
CST 04B Debt Service		4,733						4,733
HFA Loan Program		4,583						4,583
Environmental Rehab and Response		4,329						4,329
Oil and Gas Damage Mitigation		4,237						4,237
Claiborne-Ortenberg-MHP Trust		4,100						4,100
CST 2001F Taxable Debt Service		4,093						4,093
Pesticide Management		4,080						4,080
Pegasus - Beal Mountain		4,068						4,068
Acquisitions Trust		361	544				3,151	4,056
2002B LRBP Bonds		3,989						3,989
MSU-GCOT Retirement		3,908						3,908
OSM Trust Fund - Acid		3,901						3,901
Foster Children's Trust		3,346						3,346
MSU Agency Funds		3,166						3,166
1996D LRBP Bonds		3,127						3,127
State-Tribal Economic Development		3,055						3,055
CERCLA GO Bond Procee		2,964						2,964
Milk Control Bureau		2,855						2,855
Merritt-Wheeler Memorial		62	895				1,888	2,845
VC National Park Service		2,807						2,807
MSU-Northern Loan Fund		2,767						2,767
Cashed Plan I Liquidation		2,686						2,686
UM-Western Designated		2,664						2,664
Montana State Library		2,658						2,658
Flexible Spending Fund		2,613						2,613
1999C LRBP Bond		2,573						2,573
MSU-FIRE Designated Fund		2,559						2,559
Special Law Enforcement		2,397						2,397
BOH Financial Program		2,345						2,345
2005B LRBP Bonds		2,331						2,331
UM-Western Student Loans		2,324						2,324
Montana Pole-Miners B		2,239						2,239
Fishing Access Site		2,207						2,207
Montana Arts Council		2,160						2,160
MSU-GCOT Renewal and Rplacement		2,143						2,143
Sobotka Expendable Trust		2,084						2,084
Microbusiness Admin		2,055						2,055
UM-TECH Designated		2,005						2,005
Rail Construction Trust		1,983						1,983
UM-TECH Auxiliary		1,914						1,914
EDA Revolving Loan Fund		1,860						1,860
FY01 CST Taxable Bond		1,839						1,839

**Appendix A - Total Income By Fund**

Account Description	Investment Income	Pool Distributions					TFBP	Total
		STIP	MDEP	MTIP	MPEP	RFBP		
MSU-GCOT Restricted		1,827						1,827
Gear Up Essay Scholar		1,764						1,764
Nongame Wildlife Account		1,756						1,756
Off Hwy Vehicle Park		1,742						1,742
Search & Rescue		1,737						1,737
UM-Forest Experimental Station		1,667						1,667
Sigerson Fellowship Exhibit Tour		1,564						1,564
Hazardous Waste-CERCL		1,531						1,531
Parks Enterprise Account		1,517						1,517
PERS Defined Contribution		1,499						1,499
UM-HCOT Endowments		1,093	263					1,356
2000C LRBP Bonds		1,353						1,353
1998B LRBP Bonds		1,343						1,343
MSU-AG Renewal and Replacement		1,335						1,335
MSU-FIRE General Operating		1,301						1,301
MSU-Billings Retirement		1,291						1,291
Grain Services		1,282						1,282
MSU-AG Unexpended Plant		1,253						1,253
Potato Research & Marketing		1,192						1,192
UM-Western Retirement		1,182						1,182
CST 90 A Fisheries Mitigation		1,160						1,160
Commercial Fertilizer		1,150						1,150
CST 97B Debt Service		1,059						1,059
Protest Oil/Gas Royal		1,038						1,038
Commercial Feed		1,032						1,032
PERS-DC Education		968						968
Paddlefish Roe Account		928						928
Arbitrage Rebate		914						914
Woodville Highways		913						913
Broadwater O & M		905						905
Off-Highway Vehicle		897						897
Alfalfa Seed Assessment		886						886
Pegasus Reclamation/Zortman		816						816
Stripper Wells Oil		784						784
Moose Auction		721						721
Washington Gulch Bond Forfeit		716						716
CST 2001E Tax Debt Service		699						699
Stripper-SECP		683						683
Affordable House Rev		671						671
Diamond Shamrock-Administration		621						621
Yellowstone Groundwater		613						613
Tongue River Fed		603						603
Snowmobile Registration		603						603
Basin Creek Mine - Luttrill		581						581
Organic Certification		551						551
Haynes Collection Trust		546						546
2000D IT Bonds		537						537
Nursery Account		519						519
Upland Game Bird Planting		491						491
Water Well Contractor		460						460
Exxon-SECP		454						454
Pegsaus Reclamation/Zortman		430						430
Elk Auction		418						418
2001B LRBP Bonds		369						369
Churchill Endowment		350						350
Off-Hwy Vehicle Acct		317						317
MSU-Northern Endowment		299						299
MSU-Billings Restricted		282						282
Montana IA Disaster Fund		270						270
Fert. Ag Chemical Group		254						254
Seed Account		250						250
Mint Committee		237						237
FY01 CST Nontaxable Bond		234						234
AG NB Private Funds		217						217
Mule Deer Auction		172						172
Anhydrous Ammonia Account		165						165
Snowmobile Registration		162						162
Commercial Dealer/Public Ware		159						159
Stripper-SBP		140						140
Donated SAR - Aeronautics		116						116
Alfalfa Leaf Cutting Bees		112						112

**Appendix A - Total Income By Fund**

<b>Account Description</b>	<b>Investment Income</b>	<b>&lt;-----Pool Distributions-----&gt;</b>					<b>TFBP</b>	<b>Total</b>
		<b>STIP</b>	<b>MDEP</b>	<b>MTIP</b>	<b>MPEP</b>	<b>RFBP</b>		
UM-Western Endowments		100						100
CST 97A Debt Service		98						98
State Noxious Weed Forage		80						80
CST OIC Refunding Debt Service		35						35
Child Abuse & Neglect		33						33
Glacier General Insurance		30						30
Exxon-ICP		26						26
Beginning Farm Loans		12						12
Oil Overcharge Leave		4						4
<b>GROSS INCOME</b>	<b>80,406,791</b>	<b>35,298,423</b>	<b>39,026,265</b>	<b>11,182,909</b>	<b>3,944,284</b>	<b>118,825,180</b>	<b>85,321,979</b>	<b>374,005,830</b>
<b>LESS ADMIN EXPENSE*</b>	<b>(317,969)</b>	<b>(22,303)</b>	<b>(2,459,209)</b>	<b>(2,641,330)</b>	<b>(3,734,605)</b>	<b>(233,417)</b>		<b>(9,408,832)</b>
<b>SUBTOTAL</b>	<b>80,088,822</b>	<b>35,276,121</b>	<b>36,567,056</b>	<b>8,541,579</b>	<b>209,679</b>	<b>118,591,763</b>	<b>85,321,979</b>	<b>364,596,997</b>
<b>LESS RFBP STIP INCOME</b>		<b>(2,448,416)</b>						<b>(2,448,416)</b>
<b>LESS TFBP STIP INCOME</b>		<b>(1,219,191)</b>						<b>(1,219,191)</b>
<b>NET INCOME</b>	<b>80,088,822</b>	<b>31,608,513</b>	<b>36,567,056</b>	<b>8,541,579</b>	<b>209,679</b>	<b>118,591,763</b>	<b>85,321,979</b>	<b>360,929,390</b>

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
Treasurer's Fund	US BANK SWEEP REPO	3.000	07/01/05	16,542,233.93	16,542,233.93	16,542,233.93
	<b>TOTAL CASH EQUIVALENT</b>			<b>16,542,233.93</b>	<b>16,542,233.93</b>	<b>16,542,233.93</b>
Treasurer's Fund	FEDERAL AGRIC MTG CORP MT	5.300	04/24/06	20,000,000.00	20,437,531.71	20,238,782.00
Treasurer's Fund	FEDERAL FARM CR BKS	3.100	01/22/08	10,000,000.00	9,783,013.14	9,792,552.00
Treasurer's Fund	FEDERAL HOME LN BK	4.000	03/30/07	10,000,000.00	10,000,000.00	9,983,260.00
Treasurer's Fund	FEDERAL HOME LN BKS	2.375	02/15/06	10,000,000.00	10,003,896.09	9,915,371.00
Treasurer's Fund	FEDERAL HOME LN BKS	3.750	09/29/06	10,000,000.00	9,973,610.00	9,980,732.00
Treasurer's Fund	FEDERAL HOME LN BKS	3.500	08/15/06	10,000,000.00	10,127,397.62	9,958,662.00
Treasurer's Fund	FEDERAL HOME LN BKS	2.500	03/15/06	10,000,000.00	10,015,974.89	9,913,340.00
Treasurer's Fund	FEDERAL HOME LN BKS	2.250	05/15/06	10,000,000.00	9,990,323.26	9,865,126.00
Treasurer's Fund	FEDERAL HOME LN BKS	2.750	11/15/06	10,000,000.00	10,034,867.98	9,846,188.00
Treasurer's Fund	FEDERAL HOME LN BKS	3.250	02/26/07	10,000,000.00	10,001,979.71	9,909,400.00
Treasurer's Fund	FEDERAL HOME LN BKS	3.375	09/14/07	10,000,000.00	10,054,258.66	9,907,155.00
Treasurer's Fund	FEDERAL HOME LN BKS	3.750	11/30/06	15,000,000.00	14,993,571.13	14,965,755.00
Treasurer's Fund	FEDERAL HOME LN MTG CORP	3.050	01/19/07	5,000,000.00	4,945,357.33	4,936,297.50
Treasurer's Fund	FEDERAL HOME LOAN MTG CO	2.850	02/23/07	15,000,000.00	14,988,218.15	14,748,139.50
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.250	11/15/07	10,000,000.00	9,931,540.76	9,865,155.00
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.010	06/02/06	15,000,000.00	14,996,763.69	14,891,044.50
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.000	08/15/07	10,000,000.00	9,958,050.42	9,827,943.00
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.550	11/16/07	10,000,000.00	10,000,000.00	9,925,760.00
Treasurer's Fund	FEDERAL NATL MTG ASSN	3.250	05/11/07	15,000,000.00	14,991,279.96	14,845,932.00
Treasurer's Fund	FEDERAL NATL MTG ASSN MTN	2.200	12/04/06	10,000,000.00	9,825,896.60	9,769,472.00
Treasurer's Fund	FEDERAL NATL MTG ASSN MTN	3.310	01/26/07	15,000,000.00	14,956,131.11	14,869,222.50
Treasurer's Fund	FREDDIE MAC	2.875	05/15/07	10,000,000.00	9,971,983.06	9,833,963.00
Treasurer's Fund	UNITED STATES TREAS NTS	2.500	09/30/06	10,000,000.00	9,895,865.38	9,867,188.00
Treasurer's Fund	UNITED STATES TREAS NTS	3.125	01/31/07	10,000,000.00	9,958,128.07	9,921,094.00
	GOVERNMENT DIRECT-INDIRECT			270,000,000.00	269,835,638.72	267,577,534.00
	<b>TOTAL FIXED INCOME</b>			<b>270,000,000.00</b>	<b>269,835,638.72</b>	<b>267,577,534.00</b>
Treasurer's Fund	SHORT TERM INVESTMENT POC	1.000	12/31/10	348,097,291.72	348,097,291.72	348,097,291.72
	<b>TREASURER'S FUND TOTAL</b>			<b>634,639,525.65</b>	<b>634,475,164.37</b>	<b>632,217,059.65</b>
Abandoned Mine	STATE STREET REPO	2.250	07/01/05	103,505.20	103,505.20	103,505.20
	<b>TOTAL CASH EQUIVALENT</b>			<b>103,505.20</b>	<b>103,505.20</b>	<b>103,505.20</b>
Abandoned Mine	AMERICAN GEN FIN CORP MTN	4.875	05/15/10	200,000.00	199,972.75	202,716.38
Abandoned Mine	CITIGROUP INC	5.750	05/10/06	100,000.00	99,998.44	101,754.73
Abandoned Mine	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	200,000.00	199,848.80	195,934.78
Abandoned Mine	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000.00	199,846.97	204,669.44
Abandoned Mine	GENERAL MTRS ACCEP CORP	7.500	07/15/05	100,000.00	99,999.26	100,090.23
Abandoned Mine	J P MORGAN CHASE + CO	5.350	03/01/07	200,000.00	199,666.11	204,409.54
Abandoned Mine	WACHOVIA CORP 2ND NEW	4.950	11/01/06	100,000.00	99,941.44	101,479.98
Abandoned Mine	WELLS FARGO + CO NEW	5.900	05/21/06	100,000.00	99,978.15	101,938.16
	CORPORATE OTHER			1,200,000.00	1,199,251.92	1,212,993.24
Abandoned Mine	FEDERAL HOME LN BKS	4.875	11/15/06	200,000.00	199,218.98	202,742.00
Abandoned Mine	FEDERAL HOME LN BKS	4.875	02/15/07	400,000.00	399,971.37	406,296.88
Abandoned Mine	FEDERAL HOME LN MTG CORP	3.625	09/15/08	200,000.00	200,469.22	198,352.20
Abandoned Mine	FEDERAL HOME LN MTG CORP	2.125	11/15/05	500,000.00	499,923.39	497,253.85
Abandoned Mine	FEDERAL HOME LOAN MTG CO	2.850	02/23/07	500,000.00	499,607.27	491,604.65
Abandoned Mine	FEDERAL NATL MTG ASSN	6.000	12/15/05	400,000.00	400,652.04	404,314.08
Abandoned Mine	UNITED STATES TREAS NTS	3.000	02/15/09	500,000.00	486,550.84	488,320.50
	GOVERNMENT DIRECT-INDIRECT			2,700,000.00	2,686,393.11	2,688,884.16
Abandoned Mine	HOUSEHOLD FIN CORP	4.750	05/15/09	200,000.00	199,866.00	203,123.32
	YANKEE BONDS			200,000.00	199,866.00	203,123.32
	<b>TOTAL FIXED INCOME</b>			<b>4,100,000.00</b>	<b>4,085,511.03</b>	<b>4,105,000.72</b>
Abandoned Mine	SHORT TERM INVESTMENT POC	1.000	12/31/10	1,227,353.98	1,227,353.98	1,227,353.98
	<b>ABANDONED MINE TOTAL</b>			<b>5,430,859</b>	<b>5,416,370</b>	<b>5,435,860</b>
FWP Mitigation	STATE STREET REPO	2.250	07/01/05	414,020.80	414,020.80	414,020.80
	<b>TOTAL CASH EQUIVALENT</b>			<b>414,020.80</b>	<b>414,020.80</b>	<b>414,020.80</b>
FWP Mitigation	AMERICAN GEN FIN CORP MTN	4.875	05/15/10	500,000.00	499,931.88	506,790.95
FWP Mitigation	CITIGROUP INC	5.750	05/10/06	400,000.00	399,993.82	407,018.92

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
FWP Mitigation	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	400,000.00	399,697.60	391,869.56
FWP Mitigation	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	500,000.00	499,617.43	511,673.60
FWP Mitigation	GENERAL MTRS ACCEP CORP	5.625	05/15/09	300,000.00	305,567.31	278,770.68
FWP Mitigation	J P MORGAN CHASE + CO	5.350	03/01/07	400,000.00	399,332.23	408,819.08
FWP Mitigation	WACHOVIA CORP 2ND NEW	4.950	11/01/06	400,000.00	399,765.76	405,919.92
FWP Mitigation	WELLS FARGO + CO NEW	5.900	05/21/06	200,000.00	199,956.29	203,876.32
	CORPORATE OTHER			3,100,000.00	3,103,862.32	3,114,739.03
FWP Mitigation	FEDERAL HOME LN BKS	4.875	11/15/06	800,000.00	796,875.93	810,968.00
FWP Mitigation	FEDERAL HOME LN BKS	4.875	02/15/07	800,000.00	799,942.74	812,593.76
FWP Mitigation	FEDERAL HOME LN MTG CORP	3.625	09/15/08	500,000.00	501,173.04	495,880.50
FWP Mitigation	FEDERAL HOME LN MTG CORP	2.125	11/15/05	700,000.00	699,892.74	696,155.39
FWP Mitigation	FEDERAL HOME LOAN MTG COI	2.850	02/23/07	1,000,000.00	999,214.54	983,209.30
FWP Mitigation	FEDERAL NATL MTG ASSN	6.000	12/15/05	500,000.00	500,815.03	505,392.60
FWP Mitigation	UNITED STATES TREAS NTS	3.000	02/15/09	800,000.00	778,481.34	781,312.80
	GOVERNMENT DIRECT-INDIRECT			5,100,000.00	5,076,395.36	5,085,512.35
FWP Mitigation	HOUSEHOLD FIN CORP	4.750	05/15/09	500,000.00	499,665.00	507,808.30
	YANKEE BONDS			500,000.00	499,665.00	507,808.30
	<b>TOTAL FIXED INCOME</b>			<b>8,700,000.00</b>	<b>8,679,922.68</b>	<b>8,708,059.68</b>
FWP Mitigation	SHORT TERM INVESTMENT POC	1.000	12/31/10	2,068,211.73	2,068,211.73	2,068,211.73
	<b>FWP MITIGATION TOTAL</b>			<b>11,182,232.53</b>	<b>11,162,155.21</b>	<b>11,190,292.21</b>
Montana Pole	STATE STREET REPO	2.250	07/01/05	672,783.80	672,783.80	672,783.80
	<b>TOTAL CASH EQUIVALENT</b>			<b>672,783.80</b>	<b>672,783.80</b>	<b>672,783.80</b>
Montana Pole	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	800,000.00	799,395.20	783,739.12
Montana Pole	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	1,000,000.00	999,234.88	1,023,347.20
Montana Pole	WACHOVIA CORP 2ND NEW	4.950	11/01/06	1,000,000.00	999,414.40	1,014,799.80
Montana Pole	WELLS FARGO + CO NEW	5.900	05/21/06	200,000.00	199,956.29	203,876.32
	CORPORATE OTHER			3,000,000.00	2,998,000.77	3,025,762.44
Montana Pole	FNMA POOL 313999	6.000	02/01/13	274,372.35	273,332.17	284,179.02
	GOVERNMENT-MORTGAGE BACKED			274,372.35	273,332.17	284,179.02
Montana Pole	FEDERAL HOME LN BKS	4.875	11/15/06	1,000,000.00	996,094.92	1,013,710.00
Montana Pole	FEDERAL HOME LN BKS	4.875	02/15/07	700,000.00	699,949.89	711,019.54
Montana Pole	FEDERAL HOME LN MTG CORP	2.125	11/15/05	1,000,000.00	999,846.78	994,507.70
Montana Pole	FEDERAL HOME LOAN MTG COI	2.850	02/23/07	1,000,000.00	999,214.54	983,209.30
	GOVERNMENT DIRECT-INDIRECT			3,700,000.00	3,695,106.13	3,702,446.54
Montana Pole	TRUST FUNDS BOND POOL	1.000	12/31/09	14,016,100.00	13,799,273.65	14,205,786.61
	<b>TOTAL FIXED INCOME</b>			<b>20,990,472.35</b>	<b>20,765,712.72</b>	<b>21,218,174.61</b>
Montana Pole	SHORT TERM INVESTMENT POC	1.000	12/31/10	6,265,897.16	6,265,897.16	6,265,897.16
	<b>MONTANA POLE TOTAL</b>			<b>27,929,153.31</b>	<b>27,704,393.68</b>	<b>28,156,855.57</b>
FWP License Account	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	700,000.00	699,470.80	685,771.73
FWP License Account	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	1,000,000.00	999,234.88	1,023,347.20
FWP License Account	J P MORGAN CHASE + CO	5.350	03/01/07	700,000.00	698,831.41	715,433.39
FWP License Account	WACHOVIA CORP 2ND NEW	4.950	11/01/06	1,000,000.00	999,414.40	1,014,799.80
	CORPORATE OTHER			3,400,000.00	3,396,951.49	3,439,352.12
FWP License Account	FEDERAL HOME LN BKS	4.875	11/15/06	2,000,000.00	1,992,189.85	2,027,420.00
FWP License Account	FEDERAL HOME LN BKS	4.875	02/15/07	2,000,000.00	1,999,856.86	2,031,484.40
FWP License Account	FEDERAL HOME LN MTG CORP	2.125	11/15/05	1,000,000.00	999,846.78	994,507.70
FWP License Account	FEDERAL HOME LOAN MTG COI	2.850	02/23/07	1,000,000.00	999,214.54	983,209.30
	GOVERNMENT DIRECT-INDIRECT			6,000,000.00	5,991,108.03	6,036,621.40
	<b>TOTAL FIXED INCOME</b>			<b>9,400,000.00</b>	<b>9,388,059.52</b>	<b>9,475,973.52</b>
FWP License Account	SHORT TERM INVESTMENT POC	1.000	12/31/10	18,879,308.87	18,879,308.87	18,879,308.87
	<b>FWP LICENSE ACCOUNT TOTAL</b>			<b>28,279,308.87</b>	<b>28,267,368.39</b>	<b>28,355,282.39</b>
Streamside Tailings	STATE STREET REPO	2.250	07/01/05	3,105,156.00	3,105,156.00	3,105,156.00
	<b>TOTAL CASH EQUIVALENT</b>			<b>3,105,156.00</b>	<b>3,105,156.00</b>	<b>3,105,156.00</b>
Streamside Tailings	AA / FT WORTH HQ FIN TR	5.500	10/05/10	2,536,309.48	2,536,309.48	2,468,082.75
Streamside Tailings	J P MORGAN CHASE COML MTG	4.200	07/12/35	4,109,147.86	4,128,071.65	4,094,966.37
	CORPORATE ASSET-BACKED			6,645,457.34	6,664,381.13	6,563,049.12
Streamside Tailings	GENERAL MTRS ACCEP CORP	7.500	07/15/05	3,000,000.00	2,999,978.15	3,002,706.90
	CORPORATE OTHER			3,000,000.00	2,999,978.15	3,002,706.90
Streamside Tailings	FED HM LN PC POOL E00659	6.000	04/01/14	661,853.40	661,440.42	685,406.05

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
Streamside Tailings	FNMA POOL 254233	5.000	03/01/17	2,251,111.85	2,186,903.16	2,282,504.28
	GOVERNMENT-MORTGAGE BACKED			2,912,965.25	2,848,343.58	2,967,910.33
Streamside Tailings	ENSCO OFFSHORE CO	6.360	12/01/15	3,500,078.99	3,500,078.99	3,824,851.32
Streamside Tailings	FEDERAL HOME LN BKS	2.375	02/15/06	5,000,000.00	4,997,733.05	4,957,685.50
Streamside Tailings	FEDERAL HOME LN MTG CORP	5.125	05/13/13	5,000,000.00	5,000,000.00	4,974,998.00
Streamside Tailings	MAYBANK NAV LLC	7.620	07/25/20	3,875,000.00	3,875,000.00	4,096,223.75
Streamside Tailings	UNITED STATES TREAS NTS	3.000	12/31/06	3,000,000.00	2,989,703.33	2,972,460.00
	GOVERNMENT DIRECT-INDIRECT			20,375,078.99	20,362,515.37	20,826,218.57
Streamside Tailings	TRUST FUNDS BOND POOL	1.000	12/31/09	54,745,400.00	53,498,249.39	55,486,295.78
	<b>TOTAL FIXED INCOME</b>			<b>87,678,901.58</b>	<b>86,373,467.62</b>	<b>88,846,180.70</b>
Streamside Tailings	SHORT TERM INVESTMENT POC	1.000	12/31/10	2,740,283.51	2,740,283.51	2,740,283.51
<b>STREAMSIDE TAILINGS TOTAL</b>				<b>93,524,341.09</b>	<b>92,218,907.13</b>	<b>94,691,620.21</b>
UCFRB Restoration	STATE STREET REPO	2.250	07/01/05	1,552,578.00	1,552,578.00	1,552,578.00
	<b>TOTAL CASH EQUIVALENT</b>			<b>1,552,578.00</b>	<b>1,552,578.00</b>	<b>1,552,578.00</b>
UCFRB Restoration	J P MORGAN CHASE COML MTG	4.200	07/12/35	4,109,147.81	4,128,071.60	4,094,966.32
	CORPORATE ASSET-BACKED			4,109,147.81	4,128,071.60	4,094,966.32
UCFRB Restoration	GENERAL MTRS ACCEP CORP	7.500	07/15/05	3,000,000.00	2,999,978.15	3,002,706.90
	CORPORATE OTHER			3,000,000.00	2,999,978.15	3,002,706.90
UCFRB Restoration	ENSCO OFFSHORE CO	6.360	12/01/15	3,500,078.99	3,500,078.99	3,824,851.32
UCFRB Restoration	UNITED STATES TREAS NTS	3.000	12/31/06	3,000,000.00	2,989,703.33	2,972,460.00
	GOVERNMENT DIRECT-INDIRECT			6,500,078.99	6,489,782.32	6,797,311.32
UCFRB Restoration	TRUST FUNDS BOND POOL	1.000	12/31/09	137,707,000.00	133,497,852.97	139,570,654.93
	<b>TOTAL FIXED INCOME</b>			<b>151,316,226.80</b>	<b>147,115,685.04</b>	<b>153,465,639.47</b>
UCFRB Restoration	SHORT TERM INVESTMENT POC	1.000	12/31/10	6,294,775.28	6,294,775.28	6,294,775.28
<b>USFRB RESTORATION TOTAL</b>				<b>159,163,580.08</b>	<b>154,963,038.32</b>	<b>161,312,992.75</b>
UCFRB Access	TRUST FUNDS BOND POOL	1.000	12/31/09	15,498,900.00	15,116,452.99	15,708,654.05
	<b>TOTAL FIXED INCOME</b>			<b>15,498,900.00</b>	<b>15,116,452.99</b>	<b>15,708,654.05</b>
UCFRB Access	SHORT TERM INVESTMENT POC	1.000	12/31/10	35,227.33	35,227.33	35,227.33
<b>UCFRB ACCESS TOTAL</b>				<b>15,534,127.33</b>	<b>15,151,680.32</b>	<b>15,743,881.38</b>
State Fund Insurance	STATE STREET REPO	2.250	07/01/05	3,105,156.00	3,105,156.00	3,105,156.00
	<b>TOTAL CASH EQUIVALENT</b>			<b>3,105,156.00</b>	<b>3,105,156.00</b>	<b>3,105,156.00</b>
State Fund Insurance	AA / FT WORTH HQ FIN TR	5.500	10/05/10	7,925,966.86	7,925,966.86	7,712,758.35
State Fund Insurance	GALENA CDO CLASS C1U7	1.000	01/11/13	4,000,000.00	4,000,000.00	4,000,000.00
State Fund Insurance	J P MORGAN CHASE COML MTG	4.200	07/12/35	12,327,443.51	12,384,214.93	12,284,899.04
	CORPORATE ASSET-BACKED			24,253,410.37	24,310,181.79	23,997,657.39
State Fund Insurance	ABBOTT LABS	3.500	02/17/09	10,000,000.00	9,961,683.68	9,806,903.00
State Fund Insurance	ALTRIA GROUP INC	7.650	07/01/08	5,000,000.00	5,365,479.36	5,420,418.00
State Fund Insurance	AMERICAN AIRLINE	6.977	05/23/21	3,569,221.24	3,560,360.49	3,283,683.54
State Fund Insurance	AMERICAN GEN FIN CORP MTN	4.875	05/15/10	4,000,000.00	3,999,455.01	4,054,327.60
State Fund Insurance	BANK AMER CORP	3.375	02/17/09	5,000,000.00	4,981,130.14	4,871,012.00
State Fund Insurance	BANK AMER CORP	5.375	06/15/14	5,000,000.00	4,959,011.93	5,300,505.50
State Fund Insurance	BANK ONE TEX N A MT SUB BK	6.250	02/15/08	2,000,000.00	1,957,099.89	2,100,384.60
State Fund Insurance	BANKBOSTON NA MTN	6.375	03/25/08	2,000,000.00	1,958,987.19	2,114,432.00
State Fund Insurance	BORG WARNER AUTOMOTIVE I	7.000	11/01/06	3,000,000.00	3,014,927.54	3,107,809.80
State Fund Insurance	BURLINGTON NORTHN RR CO	6.940	01/02/14	3,194,089.33	3,194,089.33	3,727,670.90
State Fund Insurance	BURLINGTON NORTHN SANTA I	7.160	01/02/20	4,373,522.92	4,373,522.92	5,019,212.79
State Fund Insurance	CENTEX CORP	5.700	05/15/14	3,000,000.00	2,996,337.08	3,116,421.90
State Fund Insurance	CIT GROUP EQUIP FING INC	6.490	01/05/21	7,337,857.73	7,337,857.73	8,115,599.47
State Fund Insurance	CIT GROUP INC NEW	5.750	09/25/07	5,000,000.00	5,095,475.41	5,161,227.50
State Fund Insurance	CITIGROUP INC	6.000	02/21/12	5,000,000.00	4,998,771.05	5,464,326.50
State Fund Insurance	CITIGROUP INC	3.625	02/09/09	5,000,000.00	4,991,336.62	4,908,479.00
State Fund Insurance	CONTINENTAL AIRLS	6.563	08/15/13	5,000,000.00	5,018,715.83	5,313,981.00
State Fund Insurance	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	5,000,000.00	4,996,220.00	4,898,369.50
State Fund Insurance	COX COMMUNICATIONS INC NE	4.625	01/15/10	3,000,000.00	2,997,212.67	2,992,080.00
State Fund Insurance	CSX CORP	7.450	05/01/07	5,000,000.00	4,998,615.03	5,292,266.00
State Fund Insurance	DELTA AIR LINES INC DEL	6.417	07/02/12	10,000,000.00	9,968,673.31	10,520,492.00
State Fund Insurance	DETROIT EDISON CO	5.200	10/15/12	5,000,000.00	4,949,488.52	5,199,201.50
State Fund Insurance	DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000.00	4,817,234.18	4,877,215.00
State Fund Insurance	ENTERGY ARK INC	4.500	06/01/10	3,000,000.00	2,986,941.75	3,000,586.80



**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<u>Fund</u>	<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par/Shares</u>	<u>Book Value</u>	<u>Fair Value</u>
State Fund Insurance	FIRST CHICAGO CORP	6.375	01/30/09	2,000,000.00	1,930,917.24	2,143,322.20
State Fund Insurance	FIRST UN CORP	7.050	08/01/05	5,000,000.00	4,999,488.43	5,016,157.00
State Fund Insurance	FORD MTR CR CO	5.800	01/12/09	5,000,000.00	5,062,588.00	4,748,046.50
State Fund Insurance	FORD MTR CR CO	5.700	01/15/10	5,000,000.00	4,969,557.29	4,603,674.00
State Fund Insurance	GENERAL ELEC CAP CORP MTN	4.375	11/21/11	2,000,000.00	1,996,710.10	1,995,187.00
State Fund Insurance	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	5,000,000.00	5,112,572.18	5,116,736.00
State Fund Insurance	GENERAL MTRS ACCEP CORP	7.500	07/15/05	2,500,000.00	2,499,981.79	2,502,255.75
State Fund Insurance	GENERAL MTRS ACCEP CORP	6.125	08/28/07	5,000,000.00	5,003,952.97	4,937,581.00
State Fund Insurance	GENERAL MTRS ACCEP CORP	5.625	05/15/09	5,000,000.00	5,004,917.56	4,646,178.00
State Fund Insurance	GOLDMAN SACHS GROUP INC	3.875	01/15/09	5,000,000.00	5,040,135.33	4,928,119.00
State Fund Insurance	INTL LEASE FIN CORP MTN	4.550	10/15/09	5,000,000.00	5,112,117.15	5,046,075.00
State Fund Insurance	J P MORGAN CHASE AND CO	3.500	03/15/09	10,000,000.00	9,955,983.19	9,736,730.00
State Fund Insurance	KCT INTERMODAL TRANSN COI	6.884	08/01/18	3,472,533.34	3,472,533.34	3,851,324.92
State Fund Insurance	KEY BK NA MED TERM NTS BK	4.412	03/18/08	5,000,000.00	5,000,000.00	5,021,160.00
State Fund Insurance	KRAFT FOODS INC	4.125	11/12/09	3,000,000.00	2,987,238.25	2,974,542.00
State Fund Insurance	LEHMAN BROTHERS HLDGS INC	3.950	11/10/09	3,000,000.00	2,994,785.13	2,958,429.00
State Fund Insurance	MARSH + MCLENNAN COS INC	7.125	06/15/09	3,000,000.00	2,997,056.99	3,245,560.20
State Fund Insurance	MERRILL LYNCH + CO INC	4.125	01/15/09	5,000,000.00	4,997,922.95	4,978,322.50
State Fund Insurance	METLIFE INC	5.000	11/24/13	5,000,000.00	4,959,644.84	5,086,030.00
State Fund Insurance	MORGAN STANLEY	4.000	01/15/10	5,000,000.00	4,963,572.22	4,915,081.00
State Fund Insurance	NATIONWIDE FINL SVCS INC	6.250	11/15/11	5,000,000.00	5,261,827.16	5,446,326.50
State Fund Insurance	NORTHWEST AIRLS TRS	6.810	02/01/20	4,137,515.14	4,084,548.11	3,573,778.70
State Fund Insurance	OLD REP INTL CORP	7.000	06/15/07	3,000,000.00	2,999,682.56	3,159,125.70
State Fund Insurance	PNC FDG CORP	4.200	03/10/08	5,000,000.00	4,997,892.29	5,001,510.00
State Fund Insurance	PPL MONT LLC	8.903	07/02/20	4,112,337.30	4,112,337.30	4,926,166.80
State Fund Insurance	PRINCIPAL LIFE GLOBAL FDG M	5.125	10/15/13	5,000,000.00	4,993,907.53	5,153,799.00
State Fund Insurance	SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000.00	3,996,563.26	4,685,173.20
State Fund Insurance	UNION PAC CORP	6.400	02/01/06	3,000,000.00	2,997,168.87	3,048,413.40
State Fund Insurance	UNION TANK CAR CO	7.125	02/01/07	2,000,000.00	1,999,660.57	2,091,434.60
State Fund Insurance	WASHINGTON MUT INC	4.200	01/15/10	5,000,000.00	4,993,147.22	4,960,040.00
State Fund Insurance	WELLS FARGO + CO NEW	4.625	04/15/14	5,000,000.00	4,810,795.19	5,035,798.50
State Fund Insurance	WESTERN PPTYS TR	7.200	09/15/08	1,000,000.00	981,031.32	1,081,054.30
State Fund Insurance	WYETH	5.500	02/01/14	5,000,000.00	4,991,691.18	5,256,112.00
State Fund Insurance	ZIONS BANCORPORATION	5.650	05/15/14	3,000,000.00	2,996,544.71	3,176,796.00
	<b>CORPORATE OTHER</b>			<b>256,697,077.00</b>	<b>256,757,098.88</b>	<b>262,712,645.67</b>
State Fund Insurance	FED HM LN PC POOL E00540	6.000	03/01/13	1,242,203.70	1,239,128.06	1,286,408.64
State Fund Insurance	FED HM LN PC POOL E00659	6.000	04/01/14	1,058,965.44	1,058,304.69	1,096,649.68
State Fund Insurance	FED HM LN PC POOL G10814	5.500	05/01/13	1,693,530.41	1,692,532.04	1,743,740.88
State Fund Insurance	FNMA POOL 190985	7.500	08/01/09	606,420.90	606,421.29	638,258.00
State Fund Insurance	FNMA POOL 254140	5.500	01/01/17	9,231,714.90	9,199,853.56	9,493,159.84
State Fund Insurance	FNMA POOL 254233	5.000	03/01/17	4,502,223.70	4,373,806.17	4,565,008.56
State Fund Insurance	FNMA POOL 254631	5.000	02/01/18	5,553,711.10	5,602,746.80	5,622,478.26
State Fund Insurance	FNMA POOL 303590	7.000	11/01/10	746,664.60	746,664.48	783,152.01
State Fund Insurance	FNMA POOL 572220	6.000	03/01/16	515,943.80	514,736.03	534,062.30
State Fund Insurance	FNMA POOL 592327	5.500	06/01/16	1,121,866.34	1,100,353.56	1,154,339.10
	<b>GOVERNMENT-MORTGAGE BACKED</b>			<b>26,273,244.89</b>	<b>26,134,546.68</b>	<b>26,917,257.27</b>
State Fund Insurance	ENSCO OFFSHORE CO	6.360	12/01/15	3,500,078.99	3,500,078.99	3,824,851.32
State Fund Insurance	FED HOME LN MTG CORP MTN	4.000	07/18/18	5,000,000.00	5,000,000.00	4,898,310.50
State Fund Insurance	FEDERAL HOME LN BKS	4.125	08/13/10	20,000,000.00	19,981,587.65	20,041,940.00
State Fund Insurance	FEDERAL HOME LN BKS	3.625	11/14/08	10,000,000.00	9,984,412.82	9,916,919.00
State Fund Insurance	FEDERAL HOME LN BKS	3.750	09/29/06	10,000,000.00	9,973,610.00	9,980,732.00
State Fund Insurance	FEDERAL HOME LN MTG CORP	4.750	10/11/12	20,000,000.00	19,948,657.50	20,026,502.00
State Fund Insurance	FEDERAL HOME LN MTG CORP	3.050	01/19/07	5,000,000.00	4,945,357.33	4,936,297.50
State Fund Insurance	FEDERAL HOME LN MTG CORP	5.625	03/15/11	10,000,000.00	10,053,083.72	10,784,478.00
State Fund Insurance	FEDERAL HOME LN MTG CORP	6.000	06/15/11	15,000,000.00	14,992,082.72	16,504,603.50
State Fund Insurance	FEDERAL HOME LN MTG CORP	3.625	09/15/08	10,000,000.00	10,036,899.51	9,917,610.00
State Fund Insurance	FEDERAL HOME LN MTG CORP	5.125	05/13/13	15,000,000.00	15,000,000.00	14,924,994.00
State Fund Insurance	FEDERAL NATL MTG ASSN	6.000	05/15/08	5,000,000.00	4,937,508.51	5,284,350.50
State Fund Insurance	FEDERAL NATL MTG ASSN	7.250	01/15/10	8,000,000.00	8,261,877.84	9,068,630.40
State Fund Insurance	FEDERAL NATL MTG ASSN	6.625	10/15/07	10,000,000.00	10,480,859.08	10,602,552.00
State Fund Insurance	FEDERAL NATL MTG ASSN	6.625	11/15/10	10,000,000.00	10,233,653.13	11,224,583.00
State Fund Insurance	FEDERAL NATL MTG ASSN	4.375	07/17/13	20,000,000.00	19,368,241.36	19,704,888.00
State Fund Insurance	FEDERAL NATL MTG ASSN	3.375	12/15/08	15,000,000.00	14,904,252.57	14,735,167.50
State Fund Insurance	FEDERAL NATL MTG ASSN	4.125	04/15/14	10,000,000.00	9,431,702.30	9,928,386.00

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
State Fund Insurance	FEDERAL NATL MTG ASSN MTN	5.875	02/14/06	5,000,000.00	4,982,241.62	5,065,700.50
State Fund Insurance	FEDERAL NATL MTG ASSN MTN	2.200	12/04/06	10,000,000.00	9,818,585.93	9,769,472.00
State Fund Insurance	FREDDIE MAC	4.100	01/28/14	15,000,000.00	15,000,000.00	14,961,885.00
State Fund Insurance	GLOBAL INDS LTD	7.710	02/15/25	4,000,000.00	4,000,000.00	4,000,000.00
State Fund Insurance	ROWAN COS INC	5.880	03/15/12	9,545,000.00	9,545,000.00	9,980,920.15
	<b>GOVERNMENT DIRECT-INDIRECT</b>			<b>245,045,078.99</b>	<b>244,379,692.58</b>	<b>250,083,772.87</b>
State Fund Insurance	HOUSEHOLD FIN CORP	6.875	03/01/07	3,000,000.00	2,982,577.69	3,136,930.20
State Fund Insurance	IBP FIN CO CDA	7.450	06/01/07	4,000,000.00	3,999,470.67	4,166,280.00
State Fund Insurance	ING SEC LIFE INSTL FDG	4.250	01/15/10	3,000,000.00	2,994,040.66	2,991,864.00
State Fund Insurance	PANAMERICAN BEVERAGES INC	7.250	07/01/09	2,000,000.00	1,975,726.51	2,180,359.00
	<b>YANKEE BONDS</b>			<b>12,000,000.00</b>	<b>11,951,815.53</b>	<b>12,475,433.20</b>
	<b>TOTAL FIXED INCOME</b>			<b>564,268,811.25</b>	<b>563,533,335.46</b>	<b>576,186,766.40</b>
State Fund Insurance	BGI EQUITY INDEX FUND B			480,587.27	68,406,676.45	76,737,097.11
	<b>TOTAL EQUITY</b>			<b>480,587.27</b>	<b>68,406,676.45</b>	<b>76,737,097.11</b>
State Fund Insurance	SHORT TERM INVESTMENT POC	1.000	12/31/10	29,462,577.60	29,462,577.60	29,462,577.60
<b>STATE FUND INSURANCE TOTAL</b>				<b>597,317,132.12</b>	<b>664,507,745.51</b>	<b>685,491,597.11</b>
Subsequent Injury	STATE STREET REPO	2.250	07/01/05	51,752.60	51,752.60	51,752.60
	<b>TOTAL CASH EQUIVALENT</b>			<b>51,752.60</b>	<b>51,752.60</b>	<b>51,752.60</b>
Subsequent Injury	AMERICAN GEN FIN CORP MTN	4.875	05/15/10	100,000.00	99,986.37	101,358.19
Subsequent Injury	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	50,000.00	49,962.20	48,983.70
Subsequent Injury	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	100,000.00	99,923.48	102,334.72
Subsequent Injury	GENERAL MTRS ACCEP CORP	5.625	05/15/09	100,000.00	101,855.77	92,923.56
Subsequent Injury	J P MORGAN CHASE + CO	5.350	03/01/07	100,000.00	99,833.05	102,204.77
Subsequent Injury	WELLS FARGO + CO NEW	5.900	05/21/06	100,000.00	99,978.15	101,938.16
	<b>CORPORATE OTHER</b>			<b>550,000.00</b>	<b>551,539.02</b>	<b>549,743.10</b>
Subsequent Injury	FEDERAL HOME LN BKS	4.875	11/15/06	200,000.00	199,218.98	202,742.00
Subsequent Injury	FEDERAL HOME LN BKS	4.875	02/15/07	100,000.00	99,992.83	101,574.22
Subsequent Injury	FEDERAL HOME LN MTG CORP	3.625	09/15/08	100,000.00	100,234.61	99,176.10
Subsequent Injury	FEDERAL HOME LN MTG CORP	2.125	11/15/05	300,000.00	299,954.03	298,352.31
Subsequent Injury	FEDERAL NATL MTG ASSN	6.000	12/15/05	100,000.00	100,163.01	101,078.52
Subsequent Injury	UNITED STATES TREAS NTS	3.000	02/15/09	200,000.00	194,620.33	195,328.20
	<b>GOVERNMENT DIRECT-INDIRECT</b>			<b>1,000,000.00</b>	<b>994,183.79</b>	<b>998,251.35</b>
Subsequent Injury	HOUSEHOLD FIN CORP	4.750	05/15/09	100,000.00	99,933.00	101,561.66
	<b>YANKEE BONDS</b>			<b>100,000.00</b>	<b>99,933.00</b>	<b>101,561.66</b>
	<b>TOTAL FIXED INCOME</b>			<b>1,650,000.00</b>	<b>1,645,655.81</b>	<b>1,649,556.11</b>
Subsequent Injury	SHORT TERM INVESTMENT POC	1.000	12/31/10	67,009.05	67,009.05	67,009.05
<b>SUBSEQUENT INJURY TOTAL</b>				<b>1,768,761.65</b>	<b>1,764,417.46</b>	<b>1,768,317.76</b>
Old Fund Insurance	STATE STREET REPO	2.250	07/01/05	1,035,052.00	1,035,052.00	1,035,052.00
	<b>TOTAL CASH EQUIVALENT</b>			<b>1,035,052.00</b>	<b>1,035,052.00</b>	<b>1,035,052.00</b>
Old Fund Insurance	J P MORGAN CHASE COML MTG	3.053	01/15/38	2,672,372.11	2,680,026.88	2,600,770.71
	<b>CORPORATE ASSET-BACKED</b>			<b>2,672,372.11</b>	<b>2,680,026.88</b>	<b>2,600,770.71</b>
Old Fund Insurance	BORG WARNER AUTOMOTIVE I	7.000	11/01/06	1,000,000.00	1,005,044.95	1,035,936.60
Old Fund Insurance	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	1,600,000.00	1,598,775.80	1,637,355.52
Old Fund Insurance	GENERAL MTRS ACCEP CORP	5.625	05/15/09	1,600,000.00	1,629,692.33	1,486,776.96
Old Fund Insurance	J P MORGAN CHASE + CO	5.350	03/01/07	3,000,000.00	2,994,991.76	3,066,143.10
Old Fund Insurance	UNION PAC CORP	6.400	02/01/06	2,000,000.00	2,000,541.78	2,032,275.60
	<b>CORPORATE OTHER</b>			<b>9,200,000.00</b>	<b>9,229,046.62</b>	<b>9,258,487.78</b>
Old Fund Insurance	FED HM LN PC POOL E00247	5.500	10/01/08	199,351.59	197,773.15	204,763.67
Old Fund Insurance	FED HM LN PC POOL E00540	6.000	03/01/13	414,067.90	413,042.69	428,802.88
Old Fund Insurance	FED HM LN PC POOL G10173	6.000	01/01/09	256,214.80	255,708.08	265,172.30
Old Fund Insurance	FED HM LN PC POOL G10814	5.500	05/01/13	911,900.99	911,363.40	938,937.40
Old Fund Insurance	FNMA POOL 313999	6.000	02/01/13	640,202.15	637,775.12	663,084.38
	<b>GOVERNMENT-MORTGAGE BACKED</b>			<b>2,421,737.43</b>	<b>2,415,662.44</b>	<b>2,500,760.63</b>
Old Fund Insurance	FEDERAL HOME LN MTG CORP	3.625	09/15/08	3,000,000.00	3,007,038.26	2,975,283.00
Old Fund Insurance	FEDERAL HOME LN MTG CORP	2.125	11/15/05	2,000,000.00	2,000,286.49	1,989,015.40
Old Fund Insurance	FEDERAL NATL MTG ASSN	5.750	02/15/08	5,000,000.00	5,347,436.51	5,233,298.00
Old Fund Insurance	FEDERAL NATL MTG ASSN	6.625	10/15/07	5,000,000.00	5,155,197.40	5,301,276.00
Old Fund Insurance	FEDERAL NATL MTG ASSN	5.250	06/15/06	5,000,000.00	5,010,122.81	5,066,712.50
Old Fund Insurance	MAY BANK NAVIGATION CO LI	5.900	09/16/13	2,258,000.00	2,258,000.00	2,258,000.00

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
Old Fund Insurance	NORTH AMERICAN SHIP BUILDI	5.840	02/15/06	644,000.00	644,000.00	644,000.00
Old Fund Insurance	ROWAN COS INC	5.880	03/15/12	6,362,000.00	6,362,000.00	6,652,552.54
Old Fund Insurance	TRICO MARINE INTERNATIONALA	6.080	09/01/06	1,875,000.00	1,875,000.00	1,875,000.00
Old Fund Insurance	UNITED STATES TREAS NTS	3.000	12/31/06	4,000,000.00	3,986,271.10	3,963,280.00
	GOVERNMENT DIRECT-INDIRECT			35,139,000.00	35,645,352.57	35,958,417.44
	<b>TOTAL FIXED INCOME</b>			<b>49,433,109.54</b>	<b>49,970,088.51</b>	<b>50,318,436.56</b>
Old Fund Insurance	SHORT TERM INVESTMENT POC	1.000	12/31/10	11,599,288.34	11,599,288.34	11,599,288.34
<b>OLD FUND INSURANCE TOTAL</b>				<b>62,067,449.88</b>	<b>62,604,428.85</b>	<b>62,952,776.90</b>
Zortman/Landusky	FEDERAL NATL MTG ASSN	0.010	06/01/17	14,600,000.00	6,828,639.44	8,530,955.20
	GOVERNMENT DIRECT-INDIRECT			14,600,000.00	6,828,639.44	8,530,955.20
	<b>TOTAL FIXED INCOME</b>			<b>14,600,000.00</b>	<b>6,828,639.44</b>	<b>8,530,955.20</b>
Zortman/Landusky	SHORT TERM INVESTMENT POC	1.000	12/31/10	57,006.54	57,006.54	57,006.54
<b>ZORTMAN/LANDUSKY TOTAL</b>				<b>14,657,006.54</b>	<b>6,885,645.98</b>	<b>8,587,961.74</b>
Group Benefits	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	650,000.00	649,508.60	636,788.04
	CORPORATE OTHER			650,000.00	649,508.60	636,788.04
Group Benefits	FEDERAL HOME LN BK	4.000	03/30/07	5,000,000.00	5,000,000.00	4,991,630.00
Group Benefits	FEDERAL HOME LN MTG CORP	4.050	06/28/07	5,000,000.00	5,000,000.00	4,996,729.00
Group Benefits	FEDERAL HOME LN MTG CORP	2.125	11/15/05	1,000,000.00	999,846.78	994,507.70
Group Benefits	FEDERAL HOME LOAN MTG COI	2.850	02/23/07	1,300,000.00	1,298,978.90	1,278,172.09
	GOVERNMENT DIRECT-INDIRECT			12,300,000.00	12,298,825.68	12,261,038.79
	<b>TOTAL FIXED INCOME</b>			<b>12,950,000.00</b>	<b>12,948,334.28</b>	<b>12,897,826.83</b>
Group Benefits	SHORT TERM INVESTMENT POC	1.000	12/31/10	14,058,099.37	14,058,099.37	14,058,099.37
<b>GROUP BENEFITS TOTAL</b>				<b>27,008,099.37</b>	<b>27,006,433.65</b>	<b>26,955,926.20</b>
Permanent Coal Trust	TRUST FUNDS BOND POOL	1.000	12/31/09	319,835,400.00	308,115,981.71	324,163,885.99
	<b>TOTAL FIXED INCOME</b>			<b>319,835,400.00</b>	<b>308,115,981.71</b>	<b>324,163,885.99</b>
Permanent Coal Trust	PERMANENT COAL TRUST		12/31/10	203,673,009.22	203,673,009.22	203,673,009.22
Permanent Coal Trust	SHORT TERM INVESTMENT POC	1.000	12/31/10	37,931,752.73	37,931,752.73	37,931,752.73
Permanent Fund Inc.	SHORT TERM INVESTMENT POOL			2,742,829.59	2,742,829.59	2,742,829.59
CST Bond Fund	SHORT TERM INVESTMENT POOL			6,151,521.25	6,151,521.25	6,151,521.25
<b>PERMANENT COAL TRUST TOTAL</b>				<b>570,334,512.79</b>	<b>558,615,094.50</b>	<b>574,662,998.78</b>
FWP Real Property	STATE STREET REPO	2.250	07/01/05	103,505.20	103,505.20	103,505.20
	<b>TOTAL CASH EQUIVALENT</b>			<b>103,505.20</b>	<b>103,505.20</b>	<b>103,505.20</b>
FWP Real Property	CITIGROUP INC	5.750	05/10/06	100,000.00	99,998.44	101,754.73
FWP Real Property	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000.00	199,846.97	204,669.44
FWP Real Property	GENERAL MTRS ACCEP CORP	7.500	07/15/05	100,000.00	99,999.26	100,090.23
FWP Real Property	J P MORGAN CHASE + CO	5.350	03/01/07	200,000.00	199,666.11	204,409.54
FWP Real Property	WACHOVIA CORP 2ND NEW	4.950	11/01/06	200,000.00	199,882.88	202,959.96
FWP Real Property	WELLS FARGO + CO NEW	5.900	05/21/06	100,000.00	99,978.15	101,938.16
	CORPORATE OTHER			900,000.00	899,371.81	915,822.06
FWP Real Property	FEDERAL HOME LN BKS	4.875	11/15/06	200,000.00	199,218.98	202,742.00
FWP Real Property	FEDERAL HOME LN BKS	4.875	02/15/07	200,000.00	199,985.68	203,148.44
FWP Real Property	FEDERAL NATL MTG ASSN	6.000	12/15/05	400,000.00	400,652.04	404,314.08
	GOVERNMENT DIRECT-INDIRECT			800,000.00	799,856.70	810,204.52
FWP Real Property	TRUST FUNDS BOND POOL	1.000	12/31/09	2,518,500.00	2,579,522.35	2,552,584.07
	<b>TOTAL FIXED INCOME</b>			<b>4,218,500.00</b>	<b>4,278,750.86</b>	<b>4,278,610.65</b>
FWP Real Property	SHORT TERM INVESTMENT POC	1.000	12/31/10	294,573.12	294,573.12	294,573.12
<b>FWP REAL PROPERTY TOTAL</b>				<b>4,616,578.32</b>	<b>4,676,829.18</b>	<b>4,676,688.97</b>
Resource Indemnity Trust	TRUST FUNDS BOND POOL	1.000	12/31/09	104,735,000.00	99,999,975.70	106,152,429.03
	<b>TOTAL FIXED INCOME</b>			<b>104,735,000.00</b>	<b>99,999,975.70</b>	<b>106,152,429.03</b>
Resource Indemnity Trust	SHORT TERM INVESTMENT POC	1.000	12/31/10	254,867.98	254,867.98	254,867.98
<b>RESOURCE INDEMNITY TRUST TOTAL</b>				<b>104,989,867.98</b>	<b>100,254,843.68</b>	<b>106,407,297.01</b>
Coal Tax Park Acquisition	TRUST FUNDS BOND POOL	1.000	12/31/09	16,895,500.00	16,536,000.62	17,124,154.91
	<b>TOTAL FIXED INCOME</b>			<b>16,895,500.00</b>	<b>16,536,000.62</b>	<b>17,124,154.91</b>
Coal Tax Park Acquisition	SHORT TERM INVESTMENT POC	1.000	12/31/10	235,161.73	235,161.73	235,161.73

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>COAL TAX PARK ACQUISITION TOTAL</b>				<b>17,130,661.73</b>	<b>16,771,162.35</b>	<b>17,359,316.64</b>
Wildlife Habitat	STATE STREET REPO	2.250	07/01/05	103,505.20	103,505.20	103,505.20
	<b>TOTAL CASH EQUIVALENT</b>			<b>103,505.20</b>	<b>103,505.20</b>	<b>103,505.20</b>
Wildlife Habitat	CITIGROUP INC	5.750	05/10/06	200,000.00	199,996.90	203,509.46
Wildlife Habitat	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000.00	199,846.97	204,669.44
Wildlife Habitat	GENERAL MTRS ACCEP CORP	7.500	07/15/05	200,000.00	199,998.53	200,180.46
Wildlife Habitat	J P MORGAN CHASE + CO	5.350	03/01/07	200,000.00	199,666.11	204,409.54
Wildlife Habitat	WACHOVIA CORP 2ND NEW	4.950	11/01/06	200,000.00	199,882.88	202,959.96
Wildlife Habitat	WELLS FARGO + CO NEW	5.900	05/21/06	200,000.00	199,956.29	203,876.32
	CORPORATE OTHER			1,200,000.00	1,199,347.68	1,219,605.18
Wildlife Habitat	FEDERAL HOME LN BKS	4.875	11/15/06	300,000.00	298,828.47	304,113.00
Wildlife Habitat	FEDERAL HOME LN BKS	4.875	02/15/07	300,000.00	299,978.52	304,722.66
	GOVERNMENT DIRECT-INDIRECT			600,000.00	598,806.99	608,835.66
Wildlife Habitat	TRUST FUNDS BOND POOL	1.000	12/31/09	4,202,700.00	4,299,638.42	4,259,577.16
	<b>TOTAL FIXED INCOME</b>			<b>6,002,700.00</b>	<b>6,097,793.09</b>	<b>6,088,018.00</b>
Wildlife Habitat	SHORT TERM INVESTMENT POC	1.000	12/31/10	682,401.74	682,401.74	682,401.74
<b>WILDLIFE HABITAT TOTAL</b>				<b>6,788,606.94</b>	<b>6,883,700.03</b>	<b>6,873,924.94</b>
Trust and Legacy Account	TRUST FUNDS BOND POOL	1.000	12/31/09	427,266,600.00	410,653,937.06	433,049,003.99
	<b>TOTAL FIXED INCOME</b>			<b>427,266,600.00</b>	<b>410,653,937.06</b>	<b>433,049,003.99</b>
<b>TRUST AND LEGACY TOTAL</b>				<b>427,266,600.00</b>	<b>410,653,937.06</b>	<b>433,049,003.99</b>
Highway 93 Bond	FEDERAL HOME LN BK	4.000	03/30/07	10,000,000.00	10,000,000.00	9,983,260.00
Highway 93 Bond	FEDERAL HOME LN MTG CORP	4.050	06/28/07	10,000,000.00	10,000,000.00	9,993,458.00
Highway 93 Bond	FEDERAL HOME LOAN MTG CO	3.625	02/15/07	10,000,000.00	9,979,557.14	9,955,714.00
Highway 93 Bond	FEDERAL NATL MTG ASSN	4.300	05/05/08	10,000,000.00	10,026,560.90	9,999,469.00
Highway 93 Bond	FEDERAL NATL MTG ASSN	4.000	05/09/07	10,000,000.00	10,005,603.45	9,990,838.00
	GOVERNMENT DIRECT-INDIRECT			50,000,000.00	50,011,721.49	49,922,739.00
	<b>TOTAL FIXED INCOME</b>			<b>50,000,000.00</b>	<b>50,011,721.49</b>	<b>49,922,739.00</b>
Highway 93 Bond	SHORT TERM INVESTMENT POC	1.000	12/31/10	79,644,984.97	79,644,984.97	79,644,984.97
<b>HIGHWAY 93 BOND TOTAL</b>				<b>129,644,984.97</b>	<b>129,656,706.46</b>	<b>129,567,723.97</b>
Weed Control	STATE STREET REPO	2.250	07/01/05	103,505.20	103,505.20	103,505.20
	<b>TOTAL CASH EQUIVALENT</b>			<b>103,505.20</b>	<b>103,505.20</b>	<b>103,505.20</b>
Weed Control	AMERICAN GEN FIN CORP MTN	4.875	05/15/10	200,000.00	199,972.75	202,716.38
Weed Control	CITIGROUP INC	5.750	05/10/06	200,000.00	199,996.90	203,509.46
Weed Control	COUNTRYWIDE HOME LNS INC	2.875	02/15/07	200,000.00	199,848.80	195,934.78
Weed Control	GENERAL ELEC CAP CORP MTN	5.375	03/15/07	200,000.00	199,846.97	204,669.44
Weed Control	GENERAL MTRS ACCEP CORP	7.500	07/15/05	100,000.00	99,999.26	100,090.23
Weed Control	J P MORGAN CHASE + CO	5.350	03/01/07	200,000.00	199,666.11	204,409.54
Weed Control	WACHOVIA CORP 2ND NEW	4.950	11/01/06	100,000.00	99,941.44	101,479.98
Weed Control	WELLS FARGO + CO NEW	5.900	05/21/06	100,000.00	99,978.15	101,938.16
	CORPORATE OTHER			1,300,000.00	1,299,250.38	1,314,747.97
Weed Control	FEDERAL HOME LN BKS	4.875	11/15/06	300,000.00	298,828.47	304,113.00
Weed Control	FEDERAL HOME LN BKS	4.875	02/15/07	500,000.00	499,964.22	507,871.10
Weed Control	FEDERAL HOME LN MTG CORP	3.625	09/15/08	200,000.00	200,469.22	198,352.20
Weed Control	FEDERAL HOME LN MTG CORP	2.125	11/15/05	500,000.00	499,923.39	497,253.85
Weed Control	FEDERAL HOME LOAN MTG CO	2.850	02/23/07	200,000.00	199,842.90	196,641.86
Weed Control	FEDERAL NATL MTG ASSN	6.000	12/15/05	600,000.00	600,978.05	606,471.12
Weed Control	UNITED STATES TREAS NTS	3.000	02/15/09	500,000.00	486,550.84	488,320.50
	GOVERNMENT DIRECT-INDIRECT			2,800,000.00	2,786,557.09	2,799,023.63
Weed Control	HOUSEHOLD FIN CORP	4.750	05/15/09	200,000.00	199,866.00	203,123.32
	YANKEE BONDS			200,000.00	199,866.00	203,123.32
	<b>TOTAL FIXED INCOME</b>			<b>4,300,000.00</b>	<b>4,285,673.47</b>	<b>4,316,894.92</b>
Weed Control	SHORT TERM INVESTMENT POC	1.000	12/31/10	408,195.36	408,195.36	408,195.36
<b>WEED CONTROL TOTAL</b>				<b>4,811,700.56</b>	<b>4,797,374.03</b>	<b>4,828,595.48</b>
Tobacco Trust	TRUST FUNDS BOND POOL	1.000	12/31/09	54,932,000.00	55,048,514.56	55,675,421.12
	<b>TOTAL FIXED INCOME</b>			<b>54,932,000.00</b>	<b>55,048,514.56</b>	<b>55,675,421.12</b>

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
Tobacco Trust	SHORT TERM INVESTMENT POC	1.000	12/31/10	2,853,107.15	2,853,107.15	2,853,107.15
<b>TOBACCO TRUST TOTAL</b>				<b>57,785,107.15</b>	<b>57,901,621.71</b>	<b>58,528,528.27</b>
Coal Tax Cultural Trust	TRUST FUNDS BOND POOL	1.000	12/31/09	4,928,100.00	4,839,853.82	4,994,794.34
	<b>TOTAL FIXED INCOME</b>			<b>4,928,100.00</b>	<b>4,839,853.82</b>	<b>4,994,794.34</b>
Coal Tax Cultural Trust	SHORT TERM INVESTMENT POC	1.000	12/31/10	90,321.14	90,321.14	90,321.14
<b>COAL TAX CULTURAL TRUST TOTAL</b>				<b>5,018,421.14</b>	<b>4,930,174.96</b>	<b>5,085,115.48</b>
Treasure State Water	TRUST FUNDS BOND POOL	1.000	12/31/09	22,274,700.00	22,147,948.55	22,576,154.21
	<b>TOTAL FIXED INCOME</b>			<b>22,274,700.00</b>	<b>22,147,948.55</b>	<b>22,576,154.21</b>
Treasure State Water	SHORT TERM INVESTMENT POC	1.000	12/31/10	552,769.04	552,769.04	552,769.04
<b>TREASURE STATE WATER TOTAL</b>				<b>22,827,469.04</b>	<b>22,700,717.59</b>	<b>23,128,923.25</b>
Treasure State Endowment	TRUST FUNDS BOND POOL	1.000	12/31/09	117,274,100.00	116,513,615.94	118,861,226.69
	<b>TOTAL FIXED INCOME</b>			<b>117,274,100.00</b>	<b>116,513,615.94</b>	<b>118,861,226.69</b>
Treasure State Endowment	PERMANENT COAL TRUST		12/31/10	8,680,571.43	8,680,571.43	8,680,571.43
Treasure State Endowment	SHORT TERM INVESTMENT POC	1.000	12/31/10	1,861,742.64	1,861,742.64	1,861,742.64
<b>TREASURE STATE ENDOWMENT TOTAL</b>				<b>127,816,414.07</b>	<b>127,055,930.01</b>	<b>129,403,540.76</b>
Public Employees' Retirement	RETIREMENT FUNDS BOND POC		12/31/09	883,496,318.00	898,495,209.95	930,369,190.30
	<b>TOTAL FIXED INCOME</b>			<b>883,496,318.00</b>	<b>898,495,209.95</b>	<b>930,369,190.30</b>
Public Employees' Retirement	MONOGENESIS CORP			1.00	-	-
Public Employees' Retirement	MONTANA PRIVATE EQUITY PC			1,297,559.90	122,267,848.59	150,594,503.09
Public Employees' Retirement	OCEAN WEST HOLDING CORP			100.00	15.00	140.00
	PRIVATE EQUITY			1,297,660.90	122,267,863.59	150,594,643.09
Public Employees' Retirement	MONTANA DOMESTIC EQUITY I			11,886,568.28	795,839,836.04	1,529,417,960.66
Public Employees' Retirement	MONTANA INTERNATIONAL PO			4,152,605.54	406,553,000.00	505,111,708.63
	STOCK TOTAL			16,039,173.82	1,202,392,836.04	2,034,529,669.29
Public Employees' Retirement	BOZEMAN PROPERTY		12/31/10	1,036,943.62	1,036,943.62	1,041,007.00
Public Employees' Retirement	CALIFORNIA STREET PROP		12/31/10	102,417.58	102,417.58	105,260.47
Public Employees' Retirement	MT COLONIAL DRIVE		12/31/10	3,545,296.81	3,545,296.81	3,790,500.00
Public Employees' Retirement	NINTH AVENUE		12/31/10	511,312.12	511,312.12	576,369.00
Public Employees' Retirement	NORTH PARK AVENUE		12/31/10	3,217,800.66	3,217,800.66	3,012,263.10
	REAL ESTATE TOTAL			8,413,770.79	8,413,770.79	8,525,399.57
	<b>TOTAL EQUITY</b>			<b>25,750,605.51</b>	<b>1,333,074,470.42</b>	<b>2,193,649,711.95</b>
Public Employees' Retirement	MONTANA ST		12/31/10	50,187,304.47	50,187,304.47	50,658,046.33
	<b>TOTAL MORTGAGES/LOANS</b>			<b>50,187,304.47</b>	<b>50,187,304.47</b>	<b>50,658,046.33</b>
Public Employees' Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	58,112,029.31	58,112,029.31	58,112,029.31
<b>PUBLIC EMPLOYEES' RETIREMENT TOTAL</b>				<b>1,017,546,257.29</b>	<b>2,339,869,014.15</b>	<b>3,232,788,977.89</b>
Police Retirement	RETIREMENT FUNDS BOND POC		12/31/09	45,007,135.02	45,925,633.28	47,394,936.36
	<b>TOTAL FIXED INCOME</b>			<b>45,007,135.02</b>	<b>45,925,633.28</b>	<b>47,394,936.36</b>
Police Retirement	MONTANA PRIVATE EQUITY PC			61,502.38	5,714,071.41	7,137,952.54
	PRIVATE EQUITY			61,502.38	5,714,071.41	7,137,952.54
Police Retirement	MONTANA INTERNATIONAL PO			201,873.72	19,918,000.00	24,555,373.92
Police Retirement	MONTANA DOMESTIC EQUITY I			562,614.46	44,350,024.51	72,390,334.74
	STOCK TOTAL			764,488.18	64,268,024.51	96,945,708.66
	<b>TOTAL EQUITY</b>			<b>825,990.57</b>	<b>69,982,095.92</b>	<b>104,083,661.20</b>
Police Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	2,245,937.19	2,245,937.19	2,245,937.19
<b>POLICE RETIREMENT TOTAL</b>				<b>48,079,062.78</b>	<b>118,153,666.39</b>	<b>153,724,534.75</b>
Game Wardens' Retirement	RETIREMENT FUNDS BOND POC		12/31/09	14,691,956.90	15,168,743.15	15,471,421.63
	<b>TOTAL FIXED INCOME</b>			<b>14,691,956.90</b>	<b>15,168,743.15</b>	<b>15,471,421.63</b>
Game Wardens' Retirement	MONTANA PRIVATE EQUITY PC			18,698.83	1,748,156.16	2,170,182.03
	PRIVATE EQUITY			18,698.83	1,748,156.16	2,170,182.03
Game Wardens' Retirement	MONTANA INTERNATIONAL PO			63,346.47	6,206,000.04	7,705,292.71
Game Wardens' Retirement	MONTANA DOMESTIC EQUITY I			179,621.00	13,792,955.78	23,111,429.77
	STOCK TOTAL			242,967.47	19,998,955.82	30,816,722.48
	<b>TOTAL EQUITY</b>			<b>261,666.30</b>	<b>21,747,111.98</b>	<b>32,986,904.51</b>

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
Game Wardens' Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	3,292,371.55	3,292,371.55	3,292,371.55
<b>GAME WARDENS' RETIREMENT TOTAL</b>				<b>18,245,994.75</b>	<b>40,208,226.68</b>	<b>51,750,697.69</b>
Sheriffs' Retirement	RETIREMENT FUNDS BOND POC		12/31/09	43,578,085.40	44,335,901.49	45,890,070.17
<b>TOTAL FIXED INCOME</b>				<b>43,578,085.40</b>	<b>44,335,901.49</b>	<b>45,890,070.17</b>
Sheriffs' Retirement	MONTANA PRIVATE EQUITY POC			59,801.55	5,537,596.47	6,940,553.67
	PRIVATE EQUITY			59,801.55	5,537,596.47	6,940,553.67
Sheriffs' Retirement	MONTANA INTERNATIONAL PO			192,840.86	19,027,000.00	23,456,640.65
Sheriffs' Retirement	MONTANA DOMESTIC EQUITY I			553,967.67	42,681,497.13	71,277,772.27
<b>STOCK TOTAL</b>				<b>746,808.53</b>	<b>61,708,497.13</b>	<b>94,734,412.92</b>
<b>TOTAL EQUITY</b>				<b>806,610.08</b>	<b>67,246,093.60</b>	<b>101,674,966.59</b>
Sheriffs' Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	3,441,471.70	3,441,471.70	3,441,471.70
<b>SHERIFFS' RETIREMENT TOTAL</b>				<b>47,826,167.18</b>	<b>115,023,466.79</b>	<b>151,006,508.46</b>
Judges' Retirement	RETIREMENT FUNDS BOND POC		12/31/09	13,916,724.60	14,405,892.33	14,655,060.28
<b>TOTAL FIXED INCOME</b>				<b>13,916,724.60</b>	<b>14,405,892.33</b>	<b>14,655,060.28</b>
Judges' Retirement	MONTANA PRIVATE EQUITY POC			19,204.46	1,699,908.79	2,228,865.44
	PRIVATE EQUITY			19,204.46	1,699,908.79	2,228,865.44
Judges' Retirement	MONTANA INTERNATIONAL PO			61,715.43	5,995,000.00	7,506,897.66
Judges' Retirement	MONTANA DOMESTIC EQUITY I			176,805.14	12,368,978.78	22,749,119.54
<b>STOCK TOTAL</b>				<b>238,520.57</b>	<b>18,363,978.78</b>	<b>30,256,017.20</b>
<b>TOTAL EQUITY</b>				<b>257,725.03</b>	<b>20,063,887.57</b>	<b>32,484,882.64</b>
Judges' Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	1,284,156.92	1,284,156.92	1,284,156.92
<b>JUDGES' RETIREMENT TOTAL</b>				<b>15,458,606.55</b>	<b>35,753,936.82</b>	<b>48,424,099.84</b>
Highway Patrol Retirement	RETIREMENT FUNDS BOND POC		12/31/09	23,971,779.60	24,569,008.54	25,243,574.56
<b>TOTAL FIXED INCOME</b>				<b>23,971,779.60</b>	<b>24,569,008.54</b>	<b>25,243,574.56</b>
Highway Patrol Retirement	MONTANA PRIVATE EQUITY POC			34,001.37	3,079,370.90	3,946,191.41
	PRIVATE EQUITY			34,001.37	3,079,370.90	3,946,191.41
Highway Patrol Retirement	MONTANA INTERNATIONAL PO			107,159.41	10,466,000.00	13,034,580.75
Highway Patrol Retirement	MONTANA DOMESTIC EQUITY I			306,031.77	21,453,736.73	39,376,418.36
<b>STOCK TOTAL</b>				<b>413,191.18</b>	<b>31,919,736.73</b>	<b>52,410,999.11</b>
<b>TOTAL EQUITY</b>				<b>447,192.55</b>	<b>34,999,107.63</b>	<b>56,357,190.52</b>
Highway Patrol Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	1,978,057.62	1,978,057.62	1,978,057.62
<b>HIGHWAY PATROL RETIREMENT TOTAL</b>				<b>26,397,029.77</b>	<b>61,546,173.79</b>	<b>83,578,822.70</b>
Teachers' Retirement	RETIREMENT FUNDS BOND POC		12/31/09	668,960,218.60	678,652,976.64	704,451,127.00
<b>TOTAL FIXED INCOME</b>				<b>668,960,218.60</b>	<b>678,652,976.64</b>	<b>704,451,127.00</b>
Teachers' Retirement	MONTANA PRIVATE EQUITY POC			1,004,835.93	94,424,972.47	116,621,027.27
	PRIVATE EQUITY			1,004,835.93	94,424,972.47	116,621,027.27
Teachers' Retirement	MONTANA INTERNATIONAL PO			3,193,357.40	311,631,000.00	388,431,358.69
Teachers' Retirement	MONTANA DOMESTIC EQUITY I			9,115,961.64	600,682,625.08	1,172,930,246.47
<b>STOCK TOTAL</b>				<b>12,309,319.04</b>	<b>912,313,625.08</b>	<b>1,561,361,605.16</b>
Teachers' Retirement	BOZEMAN PROPERTY		12/31/10	1,036,943.62	1,036,943.62	1,041,007.00
Teachers' Retirement	CALIFORNIA STREET PROP		12/31/10	102,417.58	102,417.58	105,260.47
Teachers' Retirement	MT COLONIAL DRIVE		12/31/10	3,545,296.82	3,545,296.82	3,790,500.01
Teachers' Retirement	NORTH PARK AVENUE		12/31/10	3,217,800.69	3,217,800.69	3,012,263.12
<b>REAL ESTATE TOTAL</b>				<b>7,902,458.71</b>	<b>7,902,458.71</b>	<b>7,949,030.60</b>
<b>TOTAL EQUITY</b>				<b>21,216,613.68</b>	<b>1,014,641,056.26</b>	<b>1,685,931,663.03</b>
Teachers' Retirement	MONTANA ST		12/31/10	42,752,148.19	42,752,148.19	43,153,150.51
<b>TOTAL MORTGAGES/LOANS</b>				<b>42,752,148.19</b>	<b>42,752,148.19</b>	<b>43,153,150.51</b>
Teachers' Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	27,619,404.31	27,619,404.31	27,619,404.31
<b>TEACHERS' RETIREMENT TOTAL</b>				<b>760,548,384.78</b>	<b>1,763,665,585.40</b>	<b>2,461,155,344.85</b>
Vol. Firemen's Retirement	RETIREMENT FUNDS BOND POC		12/31/09	5,859,060.50	6,076,070.35	6,169,906.16
<b>TOTAL FIXED INCOME</b>				<b>5,859,060.50</b>	<b>6,076,070.35</b>	<b>6,169,906.16</b>
Vol. Firemen's Retirement	MONTANA PRIVATE EQUITY POC			8,546.68	748,939.41	991,925.95
	PRIVATE EQUITY			8,546.68	748,939.41	991,925.95
Vol. Firemen's Retirement	MONTANA INTERNATIONAL PO			27,080.30	2,625,042.35	3,293,974.47

**APPENDIX A - Securities Listings By Portfolios As Of June 30, 2005**

<b>Fund</b>	<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Par/Shares</b>	<b>Book Value</b>	<b>Fair Value</b>
Vol. Firemen's Retirement	MONTANA DOMESTIC EQUITY I			70,693.82	6,486,548.12	9,096,014.42
	STOCK TOTAL			97,774.12	9,111,590.47	12,389,988.89
	<b>TOTAL EQUITY</b>			<b>106,320.80</b>	<b>9,860,529.88</b>	<b>13,381,914.84</b>
Vol. Firemen's Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	511,635.18	511,635.18	511,635.18
<b>VOL. FIREMEN'S RETIREMENT TOTAL</b>				<b>6,477,016.48</b>	<b>16,448,235.41</b>	<b>20,063,456.18</b>
Firefighters' Retirement	RETIREMENT FUNDS BOND POC		12/31/09	42,709,056.02	43,613,912.48	44,974,935.44
	<b>TOTAL FIXED INCOME</b>			<b>42,709,056.02</b>	<b>43,613,912.48</b>	<b>44,974,935.44</b>
Firefighters' Retirement	MONTANA PRIVATE EQUITY PO			58,567.40	5,524,456.78	6,797,318.97
	PRIVATE EQUITY			58,567.40	5,524,456.78	6,797,318.97
Firefighters' Retirement	MONTANA INTERNATIONAL PO			192,053.97	19,071,000.00	23,360,925.96
Firefighters' Retirement	MONTANA DOMESTIC EQUITY I			535,576.12	42,862,677.78	68,911,372.84
	STOCK TOTAL			727,630.09	61,933,677.78	92,272,298.80
	<b>TOTAL EQUITY</b>			<b>786,197.49</b>	<b>67,458,134.56</b>	<b>99,069,617.77</b>
Firefighters' Retirement	SHORT TERM INVESTMENT POC	1.000	12/31/10	2,640,968.40	2,640,968.40	2,640,968.40
<b>FIREFIGHTERS' RETIREMENT TOTAL</b>				<b>46,136,221.91</b>	<b>113,713,015.44</b>	<b>146,685,521.61</b>
U of M Endowment	TRUST FUNDS BOND POOL	1.000	12/31/09	1,514,900.00	1,544,165.21	1,535,401.87
	<b>TOTAL FIXED INCOME</b>			<b>1,514,900.00</b>	<b>1,544,165.21</b>	<b>1,535,401.87</b>
U of M Endowment	MONTANA DOMESTIC EQUITY I			7,062.66	531,639.31	908,736.16
	STOCK TOTAL			7,062.66	531,639.31	908,736.16
	<b>TOTAL EQUITY</b>			<b>7,062.66</b>	<b>531,639.31</b>	<b>908,736.16</b>
U of M Endowment	SHORT TERM INVESTMENT POC	1.000	12/31/10	103,983.20	103,983.20	103,983.20
<b>U OF M ENDOWMENT TOTAL</b>				<b>1,625,945.86</b>	<b>2,179,787.72</b>	<b>2,548,121.23</b>
U of M Designated	TRUST FUNDS BOND POOL	1.000	12/31/09	3,973,000.00	4,008,755.91	4,026,768.52
	<b>TOTAL FIXED INCOME</b>			<b>3,973,000.00</b>	<b>4,008,755.91</b>	<b>4,026,768.52</b>
U of M Designated	SHORT TERM INVESTMENT POC	1.000	12/31/10	12,114,052.53	12,114,052.53	12,114,052.53
<b>U OF M DESIGNATED TOTAL</b>				<b>16,087,052.53</b>	<b>16,122,808.44</b>	<b>16,140,821.05</b>
U of M Other	SHORT TERM INVESTMENT POC	1.000	12/31/10	19,728,338.38	19,728,338.38	19,728,338.38
<b>U OF M OTHER TOTAL</b>				<b>19,728,338.38</b>	<b>19,728,338.38</b>	<b>19,728,338.38</b>
MT Tech UM Agency Fund	TRUST FUNDS BOND POOL	1.000	12/31/09	445,100.00	458,449.92	451,123.75
	<b>TOTAL FIXED INCOME</b>			<b>445,100.00</b>	<b>458,449.92</b>	<b>451,123.75</b>
MT Tech UM Agency Fund	SHORT TERM INVESTMENT POC	1.000	12/31/10	1,611,807.82	1,611,807.82	1,611,807.82
<b>MT TECH UM AGENCY FUND TOTAL</b>				<b>2,056,907.82</b>	<b>2,070,257.74</b>	<b>2,062,931.57</b>
Montana State University	TRUST FUNDS BOND POOL	1.000	12/31/09	9,909,600.00	9,999,374.45	10,043,711.37
	<b>TOTAL FIXED INCOME</b>			<b>9,909,600.00</b>	<b>9,999,374.45</b>	<b>10,043,711.37</b>
Montana State University	SHORT TERM INVESTMENT POC	1.000	12/31/10	17,011,100.00	17,011,100.00	17,011,100.00
<b>MONTANA STATE UNIVERSITY TOTAL</b>				<b>26,920,700.00</b>	<b>27,010,474.45</b>	<b>27,054,811.37</b>

**Total Fund Historical Book Balances, Income, and Income Return**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		286,208,324		10.9	
2005	9,765,866,580	787,273,910	360,929,390	8.8	3.85
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		<i>68,479,204</i>		<i>10.8</i>	
2005	2,339,869,014	63,948,447	93,137,953	2.8	4.04
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		<i>51,231,237</i>		<i>10.1</i>	
2005	1,763,665,585	21,099,089	75,845,392	1.2	4.33
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		<i>26,004,051</i>		<i>19.1</i>	
2005	708,371,742	17,146,953	46,169,407	2.5	6.60
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		<i>10,545,624</i>		<i>5.9</i>	
2005	410,653,937	-	28,375,979	0.0	6.91
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		3,198,603		15.7	
2005	100,254,844	254,068	6,901,925	0.3	6.89
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		738,731		16.2	
2005	21,701,337	823,199	1,418,436	3.9	6.66
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**

<u>Year</u>	<u>Year-End \$ Balances</u>	<u>Annual \$ Increase</u>	<u>Annual \$ Income</u>	<u>Annual % Incr.</u>	<u>Income %Return</u>
<i>Average Annual Balance Increase</i>		<i>17,433,437</i>		<i>7.5</i>	
2005	634,475,164	193,239,558	10,046,532	43.8	1.87
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

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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**B-1**



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

**STATEMENT OF NET ASSET VALUE JUNE 30, 2005 AND 2004**

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 0	\$ 0
Security lending cash collateral (Notes 3 and 4 )	214,242,953	215,688,215
Interest receivable	21,273,507	21,278,290
Investments managed at fair value (amortized cost of \$1,752,825,241 in 2005 and \$1,552,369,244 in 2004)(Notes 2 and 4)	<u>1,836,304,371</u>	<u>1,619,985,769</u>
<b>Total assets</b>	<b>\$ <u>2,071,820,831</u></b>	<b>\$ <u>1,856,952,274</u></b>
 <u>Liabilities</u>		
Income due participants (Note 2)	10,375,342	11,798,842
Broker payable for securities purchased but not settled (Note 2)	12,000,000	29,517,180
Security lending obligations (Notes 3 and 4)	214,242,953	215,688,215
Security lending expense payable	<u>582,309</u>	<u>190,415</u>
<b>Total liabilities</b>	<b><u>237,200,604</u></b>	<b><u>257,194,652</u></b>
<b>Net asset value</b>	<b>\$ <u>1,834,620,227</u></b>	<b>\$ <u>1,599,757,622</u></b>
<b>Units Outstanding (Note 2)</b>	<b>17,421,903</b>	<b>15,335,617</b>
<b>Unit Value (Note 2)</b>	<b>\$ 105.31</b>	<b>\$ 104.32</b>

**STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net asset value, beginning of year	\$ 1,599,757,622	\$ 1,611,806,276
Value of units purchased by participants	219,000,000	87,900,000
Value of units sold by participants	0	(2,737,550)
Changes in fair value of investments managed	<u>15,862,605</u>	<u>(97,211,104)</u>
<b>Net asset value, end of year</b>	<b>\$ <u>1,834,620,227</u></b>	<b>\$ <u>1,599,757,622</u></b>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Interest income (Note 2 )	\$ 90,313,722	\$ 85,498,351
Amortization/accretion	7,120,260	12,834,615
Net realized gains	21,186,265	15,413,877
Security lending income	4,491,649	1,815,757
Security lending expense	(4,284,986)	(1,628,334)
Administrative expenses	(233,417)	(226,380)
Income due participants, beginning of year	<u>11,798,842</u>	<u>9,800,159</u>
<b>Income available for distribution</b>	<b>130,392,335</b>	<b>123,508,045</b>
<b>Distribution</b>	<b><u>120,016,993</u></b>	<b><u>111,709,203</u></b>
<b>Income due participants, end of year (Note 2)</b>	<b>\$ <u>10,375,342</u></b>	<b>\$ <u>11,798,842</u></b>

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, 2005 AND 2004

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 securities classified as corporate, foreign government bonds, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

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 U.S. government indirect-backed in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 8 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 six variable-rate securities, with a total amortized cost of \$52,000,003 and \$250,000, respectively, as of June 30, 2005 and 2004, are identified and reported as corporate or U.S. government indirect-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 8 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, 2005 unit value of \$105.31 increased from a June 30, 2004 unit value of \$104.32. The yield on longer term bonds decreased during the fiscal year, which has the effect of increasing bond prices and the pool unit value. A one percent

(1%) change in interest rates is expected to have a four to six percent (4%-6%) inverse change in the unit value. RFBP investments are considered long-term in nature.

The Value of Units Purchased by Participants of \$219 million for fiscal year 2005, as compared to \$87.9 million purchased and \$2.7 million sold for fiscal year 2004, 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.

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 2005 and 2004, 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 2005 and 2004 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 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street.

During fiscal years 2005 and 2004, 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 which has a weighted average maturity of 35 and 49 days, respectively as of June 30, 2005 and 2004. 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. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2005, the carrying and fair values of the underlying securities on loan for the RFBP were \$199,141,164 and \$208,000,643 respectively. Cash collateral provided for the securities on loan totaled \$214,242,953. The carrying value of the underlying securities on loan is categorized as \$29,436,384 corporate, \$114,129 foreign government bonds, \$102,991,211 U.S. government direct-backed bonds and \$66,599,440 U.S. government indirect-backed bonds.

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. The carrying value of the underlying securities on loan is categorized as \$25,908,826 corporate, \$4,368,700 foreign government bonds, \$21,717,255 U.S. government direct-backed bonds and \$146,580,745 U.S. government indirect-backed bonds.

#### 4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The financial statement disclosures for the year ended June 30, 2004 have been restated to compare with the financial statement disclosures for the year ended June 30, 2005. The investment risk disclosures are described in the following paragraphs.

##### Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the RFBP fixed income instruments have credit risk as measured by major credit rating services. This risk is 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 fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

##### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

##### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. According to the RFBP Investment Policy, "with the exception of U.S. government indirect-backed (agency) securities, additional RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2005, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 6.21%. As of June 30, 2004, there were no single issuer investments that exceeded 5% of the RFBP portfolio.

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The RFBP investment policy does not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs)."

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.

As reported in the U.S. government indirect-backed category, the RFBP portfolio holds REMICs totaling \$554,309 and \$1,034,466 in amortized cost, respectively, as of June 30, 2005 and June 30, 2004. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The Interest Only (IO) securities 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 \$3 as of June 30, 2005 and \$250,000 as of June 30, 2004.

The RFBP holds one inverse variable rate corporate \$25 million par bond. The quarterly coupon is calculated at an increased set rate less the 12 month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2005 and June 30, 2004. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

**Credit Quality Rating and Effective Duration as of June 30, 2005**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 894,556,479	A-	5.75
Corporate Bonds (Unrated)	19,537,653	NR	4.07
Foreign Government Bonds	5,217,500	BBB	6.67
U.S. Government Direct-Backed	188,790,314	AAA	4.50
U.S. Government Indirect-Backed	605,800,830	AAA	3.91
State Street Repurchase Agreement* (Rated)	9,923,600	AA-	NA
Short Term Investment Pool (STIP)	<u>112,477,995</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>1,836,304,371</u>	<u>AA-</u>	<u>4.95</u>
Securities Lending Collateral Investment Pool	\$ <u>214,242,953</u>	NR	NA

\* At June 30, 2005, the State Street Bank repurchase agreement was collateralized at \$10,169,671 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

**Credit Quality Rating and Effective Duration as of June 30, 2004**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 855,074,117	A-	6.54
Corporate Bonds (Unrated)	19,161,517	NR	2.88
Foreign Government Bonds	4,805,000	BBB-	6.96
U.S. Government Direct-Backed	91,669,717	AAA	8.18
U.S. Government Indirect-Backed	585,521,127	AAA	6.64
Short Term Investment Pool (STIP)	<u>63,754,291</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>1,619,985,769</u>	<u>AA-</u>	<u>6.63</u>
Securities Lending Collateral Investment Pool	\$ <u>215,688,215</u>	NR	NA

**Specific Legal and Credit Risk**

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the Board. The RFBP holds \$3 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013, a \$1.971 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2011 and a \$6 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the Board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the Board received the interest due in June 2005 and August 2005. The combined book value of these securities was \$10,949,050 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to \$1.5 million, \$985,500 and \$3 million, respectively.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the Board. The RFBP held a \$9,930,036 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a \$7,802,614 par 7.935% Northwest Airlines Inc. MBI Insurance Corp. insured bond maturing April 1, 2019 and a \$5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was \$22,989,339 as of June 30, 2005. On

September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the Board stopped the interest income accruals for the 6.81% bond maturing February 1, 2020 after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of \$642,183. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bond maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the Board did not stop the interest income accrual or reduce book value. The 4.64% bond maturing July 7, 2010 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005 and June 30, 2004, 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. In February 2005 and May 2005, the Board received an additional \$208,771 and \$194,247, respectively, for its unsecured claim. The Board is expected to receive additional proceeds over the next two to three years.

As of June 30, 2004, Winn Dixie presented a higher credit risk to the Board. The RFBP held a Winn Dixie Trust, \$70 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the Board stopped accruing income and reduced the book value to \$5.2 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the Board sold the bond and recorded a \$4.6 million gain.

#### 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 September 23, 2005, this matter is still pending.

#### 6. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

The trading system will serve the Board's internally managed portfolios and will be phased in as training is completed. Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Electronic trading for the Short Term Investment Pool will be next followed by the other fixed income portfolios managed by Board Staff.

#### 7. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a

lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

## 8. YEAR END PORTFOLIO

The June 30, 2005 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.

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
SHORT TERM INVESTMENT POOL			112,477,995	112,477,995	112,477,995	6.13%
STATE STREET REPURCHASE AGREEMENT	2.250	07/01/05	9,923,600	9,923,600	9,923,600	0.54%
<b>CASH EQUIVALENTS</b>	<b>2 Issue(s)</b>		<b>122,401,595</b>	<b>122,401,595</b>	<b>122,401,595</b>	<b>6.67%</b>
AA / FT WORTH HQ FINANCE TRUST	5.500	10/05/10	7,925,967	7,925,967	7,712,758	0.42%
AERO 1 HQ FINANCE TRUST	4.640	07/07/10	5,745,000	5,745,000	5,614,071	0.31%
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.930	01/02/19	4,756,695	4,756,695	5,261,618	0.29%
AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	8,566,131	8,547,841	7,880,840	0.43%
AMERICAN AIRLINES 1991 EQUIPMENT TRUST	10.180	01/02/13	5,000,000	4,998,464	3,550,000	0.19%
AMERICAN EXPRESS CO	4.750	06/17/09	3,000,000	2,996,030	3,060,939	0.17%
AMERICAN GEN FINANCIAL CORP	4.625	05/15/09	6,000,000	6,022,242	6,030,672	0.33%
ARCHER DANIELS MIDLAND CO	10.250	01/15/06	3,500,000	3,499,410	3,624,671	0.20%
ATCHISON TOPEKA + SANTA FE RY	6.550	01/06/13	6,730,044	6,730,044	7,083,375	0.39%
BANK ONE TEXAS	6.250	02/15/08	4,000,000	3,914,200	4,200,769	0.23%
BANKBOSTON NA	6.375	03/25/08	4,000,000	3,917,974	4,228,864	0.23%
BAYERISCHE LANDESBANK	VAR	09/27/11	25,000,000	25,000,000	25,000,000	1.36%
BELLSOUTH CORP	4.750	11/15/12	2,000,000	1,995,501	2,010,498	0.11%
BELLSOUTH TELECOMM INC	6.300	12/15/15	13,467,800	14,668,428	14,399,583	0.78%
BISHOPSGATE CDO LTD	5.180	06/30/10	30,000,000	30,000,000	30,000,000	1.63%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	5,000,000	5,003,632	5,179,683	0.28%
BURLINGTON INDUSTRIES INC	7.250	09/15/05	6,000,000	0	60	0.00%
BURLINGTON NORTHERN RR CO	7.970	01/01/15	3,533,016	3,533,016	4,349,425	0.24%
BURLINGTON NORTHERN RR CO	6.940	01/02/14	3,194,089	3,194,089	3,727,671	0.20%
CANADIAN NATIONAL RAILWAY CO	6.800	07/15/18	6,000,000	5,969,156	7,174,438	0.39%
CANADIAN PACIFIC LTD	9.450	08/01/21	5,000,000	5,132,397	7,321,859	0.40%
CAPITAL ONE BANK	5.000	06/15/09	6,000,000	5,991,032	6,130,602	0.33%
CENTEX CORP	4.550	11/01/10	9,000,000	8,987,505	8,893,431	0.48%
CHAMPION INTERNATIONAL CORP	7.150	12/15/27	7,000,000	6,874,841	8,222,507	0.45%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	7,798,942	7,798,942	9,349,252	0.51%
CIT GROUP INC	4.750	12/15/10	7,000,000	7,245,860	7,080,906	0.39%
CITICORP CAPITAL II	8.015	02/15/27	4,000,000	3,971,708	4,387,868	0.24%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,870,922	5,343,475	0.29%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.545	02/02/19	6,590,057	6,590,057	6,375,880	0.35%
CORPORATE PROPERTY REIT	7.875	03/15/16	12,000,000	12,047,590	14,577,978	0.79%
COX COMMUNICATIONS INC	4.625	01/15/10	7,000,000	6,993,496	6,981,520	0.38%
CSX CORP	7.450	05/01/07	3,000,000	3,038,652	3,175,360	0.17%
CSX CORP	7.900	05/01/17	4,588,000	4,586,425	5,848,013	0.32%
DEER PARK REFINING L P	6.470	12/15/08	4,149,700	4,121,474	4,307,496	0.23%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	2,000,000	2,000,000	850,000	0.05%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	4,000,000	3,989,204	1,700,000	0.09%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/11	1,971,000	1,959,846	827,820	0.05%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/13	3,000,000	3,000,000	1,290,000	0.07%
DONNELLEY R R + SONS CO	4.950	05/15/10	5,000,000	4,987,034	5,023,355	0.27%
DOT HEADQUARTERS II LEASE MTG	1.000	12/07/21	30,000,000	25,761,803	26,706,900	1.45%
EASTERN ENERGY LTD	7.250	12/01/16	5,000,000	4,948,666	6,190,832	0.34%
EL PASO NATURAL GAS CO	8.625	01/15/22	5,000,000	5,192,445	5,812,500	0.32%
ENTERGY ARKANSAS INC	4.500	06/01/10	7,000,000	6,969,531	7,001,369	0.38%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,861,834	4,286,644	0.23%
FIRST UNION BANK NC CHARLOTTE	5.800	12/01/08	6,000,000	5,770,324	6,314,047	0.34%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	10,000,000	9,948,503	12,726,526	0.69%
FORD MOTOR CREDIT CO	7.375	10/28/09	8,000,000	8,005,650	7,900,353	0.43%
FORD MOTOR CREDIT CO	7.000	10/01/13	5,000,000	4,884,854	4,797,395	0.26%
FORD MOTOR CREDIT CO	5.700	01/15/10	7,000,000	6,938,234	6,445,144	0.35%
FPL ENERGY NATIONAL WIND LLC	5.608	03/10/24	3,000,000	3,000,000	3,061,200	0.17%
GALENA CDO TRUST	VAR	01/11/13	12,000,000	12,000,000	12,000,000	0.65%
GENERAL AMERICAN TRANSN CORP EQUIP TRST	8.420	01/01/15	7,444,367	7,444,367	8,582,520	0.47%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
GENERAL ELECTRIC CAPITAL CORP	8.125	05/15/12	5,000,000	5,196,846	6,073,494	0.33%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,008,377	4,937,581	0.27%
GENERAL MOTORS ACCEPTANCE CORP	6.875	08/28/12	15,000,000	12,958,246	13,704,203	0.75%
GENERAL MOTORS ACCEPTANCE CORP	5.625	05/15/09	9,000,000	9,167,019	8,363,120	0.46%
GTE CORP	7.900	02/01/27	14,000,000	14,000,000	15,223,082	0.83%
GTE SOUTH INC	7.500	03/15/26	9,000,000	8,891,819	9,476,444	0.52%
HOUSEHOLD FINANCE CORP	6.875	03/01/07	4,000,000	3,976,770	4,182,574	0.23%
HOUSEHOLD FINANCE CORP	6.500	11/15/08	5,000,000	4,894,747	5,345,256	0.29%
IBP FINANCE CO CANADA	7.450	06/01/07	3,000,000	2,999,603	3,124,710	0.17%
ILLINOIS BELL TELEPHONE CO	6.625	02/01/25	2,000,000	1,814,963	2,030,414	0.11%
ING SECURITY LIFE INSTITUTIONAL FDG	4.250	01/15/10	7,000,000	6,986,095	6,981,016	0.38%
INTERNATIONAL LEASE FINANCE CORP	4.550	10/15/09	2,000,000	2,006,753	2,018,430	0.11%
INTERNATIONAL PAPER CO	6.875	11/01/23	3,000,000	2,967,285	3,345,128	0.18%
INTERNATIONAL PAPER CO	4.000	04/01/10	4,000,000	4,001,196	3,865,628	0.21%
J P MORGAN CAPITAL TRUST	7.540	01/15/27	6,000,000	5,703,599	6,456,179	0.35%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRUST	4.555	06/12/41	12,000,000	11,999,883	12,094,774	0.66%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRUST	3.053	01/15/38	2,672,372	2,680,027	2,600,771	0.14%
KCT INTERMODAL TRANSPORTATION CORP	6.884	08/01/18	3,472,533	3,472,533	3,851,325	0.21%
KELLWOOD CO	7.625	10/15/17	12,000,000	11,836,774	12,886,860	0.70%
KERR MCGEE CORP	7.125	10/15/27	7,000,000	7,081,879	7,253,750	0.40%
KERR MCGEE CORP	6.950	07/01/24	4,000,000	3,970,435	4,133,092	0.23%
KEY BANK	4.412	03/18/08	5,000,000	5,000,000	5,021,160	0.27%
KEYCORP	4.700	05/21/09	5,000,000	4,999,495	5,079,160	0.28%
KRAFT FOODS INC	4.125	11/12/09	2,000,000	1,991,492	1,983,028	0.11%
LEHMAN BROTHERS HOLDINGS INC	3.950	11/10/09	7,000,000	6,987,832	6,903,001	0.38%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	10,000,000	9,841,409	12,038,152	0.66%
MARSH + MCLENNAN COS INC	7.125	06/15/09	7,000,000	6,996,836	7,572,974	0.41%
MEAD CORP	7.350	03/01/17	11,000,000	10,992,835	12,999,990	0.71%
MED MAP L L C MONTANA	7.060	12/01/15	9,140,000	9,140,000	9,140,000	0.50%
MED MAP L L C MONTANA	7.000	06/01/21	5,940,000	5,940,000	5,940,000	0.32%
METLIFE INC	5.000	11/24/13	5,000,000	4,959,645	5,086,030	0.28%
METROPOLITAN LIFE GOLBAL MTN	4.250	07/30/09	3,000,000	2,998,779	3,010,404	0.16%
MILLENUM AMERICAN INC	7.000	11/15/06	4,000,000	3,983,439	4,115,000	0.22%
MOBIL CORP	5.940	01/15/19	8,422,738	8,422,738	9,190,754	0.50%
MORGAN J P + CO INC	0.000	04/15/27	30,000,000	5,821,215	5,784,627	0.32%
NATIONWIDE FINANCIAL SERVICES INC	8.000	03/01/27	6,000,000	5,918,501	6,533,810	0.36%
NORFOLK SOUTHERN CORP	7.700	05/15/17	6,000,000	6,024,639	7,504,399	0.41%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	02/01/20	9,930,036	9,579,767	8,577,069	0.47%
NORTHWEST AIRLINES EQUIPMENT TRUST	7.935	04/01/19	7,802,614	7,664,572	8,485,342	0.46%
OCCIDENTAL PETROLEUM CORP	7.200	04/01/28	13,000,000	12,862,250	16,182,251	0.88%
OCCIDENTAL PETROLEUM CORP	8.750	01/15/23	6,000,000	5,957,566	8,391,748	0.46%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	4,000,000	3,999,577	4,212,168	0.23%
PACIFIC BELL TEL CO	7.250	11/01/27	6,000,000	5,962,320	6,428,449	0.35%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	6,000,000	5,976,370	6,541,077	0.36%
PHILLIPS PETROLEUM CO	7.125	03/15/28	11,000,000	10,856,249	11,939,122	0.65%
PNC FUNDING CORP	4.200	03/10/08	10,000,000	9,995,785	10,003,020	0.54%
PPL MONTANA LLC	8.903	07/02/20	20,561,686	20,642,287	24,630,834	1.34%
SBC COMMUNICATIONS INC	4.125	09/15/09	3,000,000	2,999,429	2,975,139	0.16%
SECURITY CAP GROUP INC	7.700	06/15/28	3,000,000	3,504,948	4,009,649	0.22%
SONAT INC	7.000	02/01/18	3,000,000	2,999,713	2,775,000	0.15%
SOUTHERN UNION CO	7.600	02/01/24	7,000,000	7,033,937	8,577,976	0.47%
SOUTHWEST GAS CORP	7.500	08/01/06	6,000,000	6,031,007	6,210,515	0.34%
SOUTHWEST GAS CORP	8.375	02/15/11	6,000,000	5,988,026	7,027,760	0.38%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	3,000,000	2,996,914	3,186,361	0.17%
SUNAMERICA INC	8.125	04/28/23	13,000,000	13,016,674	17,393,243	0.95%
SUPER VALUE INC	7.875	08/01/09	3,000,000	3,002,944	3,344,290	0.18%
TENNECO PACKAGING INC	7.200	12/15/05	5,000,000	5,003,551	5,084,106	0.28%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	3,000,000	2,779,483	3,754,188	0.20%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	3,000,000	3,002,806	3,240,000	0.18%
TRISTATE GENERATION/TRANSPORT ASSOC	6.040	01/31/18	8,000,000	8,077,942	8,314,160	0.45%



<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
TYSON FOODS INC	8.250	10/01/11	5,000,000	5,391,409	5,902,618	0.32%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	3,000,000	2,982,963	3,413,227	0.19%
UNION OIL CO CALIFORNIA	6.700	10/15/07	5,000,000	4,996,302	5,209,743	0.28%
UNION PACIFIC RESOURCES GROUP INC	7.050	05/15/18	12,000,000	11,937,216	13,722,025	0.75%
UNION TANK CAR CO	7.125	02/01/07	6,000,000	5,998,982	6,274,304	0.34%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	5,540,716	0.30%
US BANK NA MINNEAPOLIS	6.500	02/01/08	5,000,000	4,999,625	5,299,412	0.29%
WAL MART STORES INC PASS THRU TRUST	7.490	06/21/07	1,779,418	1,774,006	1,871,365	0.10%
WASHINGTON MUTUAL INC	4.200	01/15/10	9,000,000	8,987,665	8,928,072	0.49%
WESTERN PROPERTIES REIT	7.200	09/15/08	3,000,000	2,943,094	3,243,163	0.18%
WESTVACO CORP	7.650	03/15/27	9,000,000	8,966,526	10,735,240	0.58%
WEYERHAEUSER CO	8.500	01/15/25	7,000,000	7,274,863	9,020,400	0.49%
WILLAMETTE INDUSTRIES INC	7.000	02/01/18	4,000,000	3,979,654	4,423,998	0.24%
XANTERRA SOUTH RIM LLC	5.690	12/15/11	10,000,000	10,000,000	10,000,000	0.54%
ZIONS BANCORPORATION	5.650	05/15/14	4,000,000	3,936,177	4,235,728	0.23%
<b>Corporate Bonds (Rated)</b>	<b>127 Issue(s)</b>		<b>874,682,207</b>	<b>838,067,187</b>	<b>894,556,479</b>	<b>48.72%</b>
FIRST INTERSTATE BANC SYSTEM, MONTANA	7.500	10/01/06	6,230,000	6,230,000	6,230,000	0.34%
AMERICAN PRESIDENT COS LTD	8.000	01/15/24	5,000,000	4,751,614	5,000,000	0.27%
MERIDIAN TRAILER TRAIN EQUIPMENT TRUST	9.850	01/29/10	998,305	998,305	998,305	0.05%
MERIDIAN TRAILER TRAIN EQUIPMENT TRUST	9.850	01/29/08	736,725	736,725	736,725	0.04%
WILMINGTON TRUST TUCSON ELECTRIC	10.211	01/01/09	6,572,623	6,572,623	6,572,623	0.36%
<b>Corporate Bonds (Unrated)</b>	<b>5 Issue(s)</b>		<b>19,537,653</b>	<b>19,289,266</b>	<b>19,537,653</b>	<b>1.06%</b>
UNITED MEXICAN STATES	5.875	01/15/14	5,000,000	4,962,105	5,217,500	0.28%
<b>Foreign Government Bonds</b>	<b>1 Issue(s)</b>		<b>5,000,000</b>	<b>4,962,105</b>	<b>5,217,500</b>	<b>0.28%</b>
ASTRO OFFSHORE CORP USGG XI	6.000	12/20/19	11,691,000	11,691,000	11,691,000	0.64%
ENSCO OFFSHORE CO USGG XI	6.360	12/01/15	7,000,158	7,000,158	7,649,703	0.42%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	8,000,000	8,000,000	8,000,000	0.44%
TUNISIA AID USGG XI	6.710	02/01/24	3,900,522	3,721,376	3,900,522	0.21%
USGG SHIPPING + CENAC TOWING USGG XI	7.000	05/15/21	9,655,000	9,655,000	9,655,000	0.53%
VESSEL MANAGEMENT SERVICES INC USGG XI	6.080	05/20/24	11,400,000	11,400,000	12,589,932	0.69%
VESSEL MANAGEMENT SERVICES INC USGG XI	6.750	06/15/25	8,200,000	8,200,000	9,502,734	0.52%
GNMA II POOL 001254	9.500	09/20/19	27,952	27,845	30,966	0.00%
GNMA POOL 046249	10.000	12/15/10	4,682	4,664	5,149	0.00%
GNMA POOL 135544	10.000	01/15/16	68,180	67,910	77,993	0.00%
UNITED STATES TREASURY BONDS	7.250	05/15/16	21,000,000	21,656,877	26,906,250	1.47%
UNITED STATES TREASURY NOTES	3.000	02/15/09	15,000,000	14,596,525	14,649,615	0.80%
UNITED STATES TREASURY NOTES	1.500	03/31/06	25,000,000	24,703,922	24,637,700	1.34%
UNITED STATES TREASURY NOTES	2.750	06/30/06	30,000,000	30,072,095	29,769,150	1.62%
UNITED STATES TREASURY NOTES	3.000	12/31/06	30,000,000	29,897,033	29,724,600	1.62%
<b>U.S. Government Direct-Backed Bonds</b>	<b>16 Issue(s)</b>		<b>180,947,494</b>	<b>180,694,406</b>	<b>188,790,314</b>	<b>10.28%</b>
FEDERAL HOME LOAN POOL B13150	4.000	03/01/19	25,551,689	25,551,689	25,020,019	1.36%
FEDERAL HOME LOAN POOL C01523	5.000	03/01/33	10,935,352	10,846,922	10,971,234	0.60%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	882,843	881,304	906,811	0.05%
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	661,853	661,440	685,406	0.04%
FEDERAL HOME LOAN POOL E01376	4.000	04/01/18	23,788,130	23,622,397	23,312,367	1.27%
FEDERAL HOME LOAN POOL E01418	4.000	07/01/18	23,901,787	23,352,410	23,404,448	1.27%
FEDERAL HOME LOAN POOL E01425	4.500	08/01/18	24,092,467	24,032,830	24,002,967	1.31%
FEDERAL HOME LOAN POOL E99081	4.500	09/01/18	22,209,825	22,083,113	22,127,319	1.20%
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	717,401	716,560	742,482	0.04%
FEDERAL HOME LOAN POOL G11670	4.000	03/01/15	33,306,281	32,770,727	32,615,075	1.78%
FEDERAL HOME LOAN POOL G30006	7.000	07/01/13	475,526	478,024	496,247	0.03%
FEDERAL HOME LOAN BANKS	6.395	06/03/14	4,000,000	3,771,139	4,593,770	0.25%
FEDERAL HOME LOAN BANKS	7.000	08/26/19	8,000,000	7,976,543	10,185,336	0.55%
FEDERAL HOME LOAN BANKS	7.450	02/03/20	15,000,000	15,089,515	19,925,475	1.09%
FEDERAL HOME LOAN BANKS	3.750	02/07/28	5,000,000	4,996,093	4,973,915	0.27%
FEDERAL HOME LOAN BANKS	4.125	08/13/10	25,000,000	25,265,891	25,052,425	1.36%
FEDERAL HOME LOAN BANKS	5.000	08/28/19	15,000,000	15,000,000	15,000,000	0.82%
FEDERAL HOME LOAN BANKS	VAR	05/26/10	15,000,000	15,000,000	14,993,640	0.82%
FEDERAL HOME LOAN MORTGAGE CORP	5.125	11/07/13	13,000,000	12,925,082	13,049,504	0.71%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
FEDERAL HOME LOAN MORTGAGE CORP	5.000	06/18/18	15,000,000	15,000,000	14,798,040	0.81%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	06/12/13	13,000,000	11,999,674	12,639,900	0.69%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	07/18/18	15,000,000	15,000,000	14,694,932	0.80%
FEDERAL HOME LOAN MORTGAGE CORP	4.500	04/02/14	11,000,000	10,961,482	10,895,940	0.59%
FEDERAL HOME LOAN MORTGAGE CORP	4.100	01/28/14	35,000,000	35,000,000	34,911,065	1.90%
FEDERAL HOME LOAN MORTGAGE CORP	5.000	01/30/14	13,000,000	12,996,315	13,034,931	0.71%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/21/32	100,000,000	15,631,516	16,220,000	0.88%
FEDERAL HOME LOAN MORTGAGE CORP	8.250	06/01/26	8,000,000	8,300,734	11,399,280	0.62%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/05/28	150,000,000	31,602,050	33,199,650	1.81%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	09/14/29	100,000,000	19,270,393	20,532,500	1.12%
FEDERAL HOME LOAN MORTGAGE CORP	3.500	09/15/07	10,000,000	10,092,889	9,938,590	0.54%
FEDERAL HOME LOAN MORTGAGE PC REMIC	9.300	11/15/20	123,348	120,376	122,935	0.01%
FEDERAL HOME LN MTG PC REMIC IO	VAR	08/15/07	739,043	1	5,462	0.00%
FEDERAL HOME LN MTG PC REMIC IO	VAR	09/15/07	516,380	1	3,814	0.00%
FEDERAL NATIONAL MTG ASSN REMIC	9.500	03/25/20	439,053	433,930	480,416	0.03%
FEDERAL NATIONAL MTG ASSN REMIC IO	VAR	08/25/07	735,175	1	35,423	0.00%
FEDERAL NATIONAL MORTGAGE ASSN	6.000	05/15/08	30,000,000	29,625,051	31,706,103	1.73%
FEDERAL NATIONAL MORTGAGE ASSN	7.250	01/15/10	17,000,000	16,997,319	19,270,840	1.05%
FEDERAL NATIONAL MORTGAGE ASSN	6.625	11/15/10	5,000,000	5,116,827	5,612,292	0.31%
FEDERAL NATIONAL MORTGAGE ASSN	2.800	03/01/19	10,000,000	9,923,478	9,936,390	0.54%
FNMA POOL 109031	6.695	08/01/05	122,492	122,461	122,478	0.01%
FNMA POOL 303125	7.500	01/01/10	438,256	437,386	454,478	0.02%
FNMA POOL 303202	6.500	05/01/14	822,491	816,563	852,155	0.05%
FNMA POOL 303365	6.500	05/01/09	1,289,313	1,279,121	1,344,360	0.07%
FNMA POOL 303590	7.000	11/01/10	497,776	497,776	522,101	0.03%
FNMA POOL 313999	6.000	02/01/13	914,575	911,107	947,263	0.05%
FNMA POOL 572220	6.000	03/01/16	1,031,888	1,029,472	1,068,125	0.06%
FNMA POOL 592327	5.500	06/01/16	2,083,466	2,043,513	2,143,773	0.12%
FNMA POOL 725346	4.000	03/01/19	26,250,466	25,987,870	25,750,076	1.40%
FNMA POOL 780956	4.500	05/01/19	26,653,431	26,645,585	26,552,967	1.45%
U S ARMY HOSPITALITY FUND	7.467	05/01/32	14,546,111	14,546,111	14,546,111	0.79%
<b>U.S. Government Indirect-Backed Bonds</b>		<b>49 Issue(s)</b>	<b>875,726,417</b>	<b>587,410,682</b>	<b>605,800,830</b>	<b>32.99%</b>
<b>RFBP Total</b>		<b>200 Issue(s)</b>	<b>2,078,295,365</b>	<b>1,752,825,241</b>	<b>1,836,304,371</b>	<b>100.00%</b>

# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

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

**STATEMENT OF NET ASSET VALUE JUNE 30, 2005 AND 2004**

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 0	\$ 1,068,110
Security lending cash collateral (Notes 3 and 4)	159,415,025	174,252,479
Interest receivable	16,775,208	17,996,911
Investments managed at fair value (amortized cost of \$1,270,289,093 in 2005 and \$1,228,326,752 in 2004) (Notes 2 and 4)	<u>1,331,695,138</u>	<u>1,272,454,411</u>
<b>Total assets</b>	<b>\$ <u>1,507,885,371</u></b>	<b>\$ <u>1,465,771,911</u></b>
 <u>Liabilities</u>		
Income due participants (Note 2)	\$ 8,228,520	\$ 8,651,899
Broker payable for securities purchased but not settled (Note 2)	9,000,000	20,008,860
Security lending obligations (Notes 3 and 4)	159,415,025	174,252,479
Security lending expense payable	<u>401,325</u>	<u>167,835</u>
<b>Total liabilities</b>	<b><u>177,044,870</u></b>	<b><u>203,081,073</u></b>
<b>Net asset value</b>	<b>\$ <u>1,330,840,501</u></b>	<b>\$ <u>1,262,690,838</u></b>
Units Outstanding (Note 2)	13,130,701	12,623,470
Unit Value (Note 2)	\$ 101.35	\$ 100.03

**STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net asset value, beginning of year	\$ 1,262,690,838	\$ 1,272,660,299
Value of units purchased by participants	68,871,431	67,599,046
Value of units sold by participants	(17,143,652)	(9,509,724)
Changes in fair value of investments managed	<u>16,421,884</u>	<u>(68,058,783)</u>
<b>Net asset value, end of year</b>	<b>\$ <u>1,330,840,501</u></b>	<b>\$ <u>1,262,690,838</u></b>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Interest income (Note 2)	\$ 67,804,006	\$ 68,116,393
Amortization/accretion	5,102,743	6,403,105
Net realized gains (Note 2)	12,452,243	12,315,173
Security lending income	3,217,273	1,510,514
Security lending expense	(3,040,824)	(1,334,702)
Administrative expenses	(218,667)	(203,928)
Income due participants, beginning of year	<u>8,651,899</u>	<u>7,509,196</u>
<b>Income available for distribution</b>	<b>93,968,673</b>	<b>94,315,751</b>
<b>Distribution</b>	<b><u>85,740,153</u></b>	<b><u>85,663,852</u></b>
<b>Income due participants, end of year (Note 2)</b>	<b>\$ <u>8,228,520</u></b>	<b>\$ <u>8,651,899</u></b>

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

**STATE OF MONTANA BOARD OF INVESTMENTS  
TRUST FUNDS BOND POOL**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**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:

**Note 1. HISTORY AND ORGANIZATION**

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
Montana State University	July 2004

\*In October 2003, the University of Montana Other Fund withdrew from the TFBP. In July 2005, the University of Montana requested the University of Montana Endowment Fund and the University of Montana Designated Fund be closed and transferred, at cost, into the University of Montana Other Fund.

Per House Bill 249, the Big Sky Economic Development Fund became the newest TFBP participant on July 1, 2005.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Investments**

The TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The TFBP portfolio includes securities classified as corporate, foreign government bonds, municipals, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

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 U.S. government indirect-backed securities in

the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 9 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 variable-rate securities float with LIBOR (London Interbank Offered Rate). As of June 30, 2005, three variable-rate securities, with a total amortized cost of \$29,000,000, are identified and reported as corporate or U.S. government indirect-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 9 for the Year End Portfolio.) The TFBP did not hold any variable rate securities as of June 30, 2004.

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, 2005 unit value of \$101.35 increased from a June 30, 2004 unit value of \$100.03. The yield on longer term bonds decreased during the fiscal year, which has the effect of increasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a four to six percent (4%-6%) 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.

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 2005 and 2004, 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 2005 and 2004 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 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2005 and 2004, 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 which has a weighted average maturity of 35 and 49 days, respectively as of June 30, 2005 and 2004. 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. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2005, the carrying and fair value of the underlying securities on loan for the Trust Funds Bond Pool was \$151,184,341 and \$157,922,586, respectively. The collateral provided for the securities on loan totaled \$162,631,521 representing \$159,415,025 in cash and \$3,216,496 in securities collateral. The carrying value of the underlying securities on loan is categorized as \$20,985,615 corporate, \$2,628,923 foreign government bonds, \$52,176,907 U.S. government direct-backed, and \$75,392,895 U.S. government indirect-backed.

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. The carrying value of the underlying securities on loan is categorized as \$13,195,489 corporate, \$3,990,926 foreign government bonds, \$14,449,754 U.S. government direct-backed, and \$132,572,751 U.S. government indirect-backed.

#### 4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The financial statement disclosures for the year ended June 30, 2004 have been restated to compare with the financial statement disclosures for the year ended June 30, 2005. The investment risk disclosures are described in the following paragraphs.

##### Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the TFBP fixed income instruments have credit risk as measured by major credit rating services. This risk is 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 fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

##### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

##### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. According to the TFBP Investment Policy, "with the exception of U.S. government indirect-backed (agency) securities, additional TFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2005, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 8.19%. As of June 30, 2004, there were no single issuer investments that exceeded 5% of the TFBP portfolio.

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP investment policy does not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our custodial bank, is “An option-adjusted measure of a bond’s (or portfolio’s) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond’s value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs).”

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.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling \$113,944 and \$429,878, respectively, at amortized cost, as of June 30, 2005 and June 30, 2004. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The TFBP holds one inverse variable rate corporate \$15 million par bond. The quarterly coupon is calculated at a set rate less the 12 month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2005 and June 30, 2004. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

### Credit Quality Rating and Effective Duration as of June 30, 2005

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 665,536,568	A-	5.42
Corporate Bonds (Unrated)	5,956,312	NR	2.12
Foreign Government Bonds	10,435,000	BBB	6.67
Municipal Government Bonds (Unrated)	6,123,270	NR	2.58
U.S. Government Direct-Backed	120,326,386	AAA	6.14
U.S. Government Indirect-Backed	455,262,802	AAA	3.86
State Street Repurchase Agreement* (Rated)	3,307,867	AA-	NA
Short Term Investment Pool (STIP)	<u>64,746,933</u>	<u>NR</u>	NA
Total Investments	\$ <u>1,331,695,138</u>	<u>AA-</u>	<u>4.91</u>
Securities Lending Collateral Investment Pool	\$ <u>159,415,025</u>	NR	NA

\* At June 30, 2005, the State Street Bank repurchase agreement was collateralized at \$3,389,890 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.



Credit Quality Rating and Effective Duration as of June 30, 2004

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 667,384,491	A-	6.01
Corporate Bonds (Unrated)	7,867,682	NR	2.82
Foreign Government Bonds	9,610,000	BBB-	6.96
Municipal Government Bonds (Unrated)	9,894,283	NR	2.77
U.S. Government Direct-Backed	94,022,947	AAA	8.47
U.S. Government Indirect-Backed	439,171,293	AAA	6.71
Short Term Investment Pool (STIP)	<u>44,503,715</u>	NR	NA
Total Investments	\$ <u>1,272,454,411</u>	<u>AA-</u>	<u>6.41</u>
Securities Lending Collateral Investment Pool	\$ <u>174,252,479</u>	NR	NA

**Specific Legal and Credit Risk**

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the Board. The TFBP holds a \$2 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013 and a \$3 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the Board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the Board received the interest due in June 2005 and August 2005. The combined book value of these securities was \$4,994,602 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to \$1 million and \$1.5 million, respectively.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the Board. The TFBP held a \$10,757,539 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a \$3,901,307 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp insured bond maturing April 1, 2019 and a \$9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was \$23,611,399 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the Board stopped the interest income accruals for the 6.81% bond maturing February 1, 2020 after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of \$809,221. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bond maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the Board did not stop the interest income accrual or reduce book value. The 4.64% bond maturing July 7, 2010 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005 and June 30, 2004, 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. In February 2005 and May 2005, the Board received an additional \$139,180 and \$129,498, respectively, for its unsecured claim. The Board is expected to receive additional claim proceeds over the next two to three years.

As of June 30, 2004, Winn Dixie presented a higher credit risk to the Board. The TFBP held a Winn Dixie Trust, \$64.509 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the Board stopped accruing income and reduced the book value to \$4.8 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the Board sold the bond and recorded a \$4.231 million gain.

**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. In 2005, the Trust and Legacy Fund paid principal of \$2,650,063 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 436,973 TFBP shares with a corresponding book value of \$41,896,024.

#### **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 September 23, 2005, this matter is still pending.

#### **7. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)**

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

The trading system will serve the Board’s internally managed portfolios and will be phased in as training is completed. Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Electronic trading for the Short Term Investment Pool will be next followed by the other fixed income portfolios managed by Board Staff.

#### **8. CLASS ACTION LITIGATION**

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board’s behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board’s investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board’s fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

#### **9. YEAR END PORTFOLIO**

The June 30, 2005 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.

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
STATE STREET REPURCHASE AGREEMENT SHORT TERM INVESTMENT POOL	2.250	07/01/05	3,307,867 64,746,933	3,307,867 64,746,933	3,307,867 64,746,933	0.25% 4.86%
<b>Cash Equivalents</b>	<b>2</b>	<b>Issue(s)</b>	<b>68,054,800</b>	<b>68,054,800</b>	<b>68,054,800</b>	<b>5.11%</b>
AA / FT WORTH HQ FINANCIAL TRUST	5.500	10/05/10	10,303,757	10,303,757	10,026,586	0.75%
AERO 1 HQ FINANCE TRUST	4.640	07/07/10	9,255,000	9,255,000	9,044,079	0.68%
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.930	01/02/19	3,171,130	3,171,130	3,507,745	0.26%
AMERICAN AIRLINES 1991 EQUIPMENT TRUST	9.730	09/29/14	5,000,000	4,981,617	3,500,000	0.26%
AMERICAN AIRLINES EQUIPMENT TRUST	6.977	05/23/21	5,710,754	5,699,518	5,253,894	0.39%
AMERICAN EXPRESS CO	4.750	06/17/09	2,000,000	1,997,353	2,040,626	0.15%
AMERICAN GEN FINANCIAL CORP	4.625	05/15/09	4,000,000	4,014,828	4,020,448	0.30%
ARCHER DANIELS MIDLAND CO	10.250	01/15/06	5,000,000	4,999,064	5,178,102	0.39%
BANK ONE TEXAS NA	6.250	02/15/08	4,000,000	3,914,200	4,200,769	0.32%
BANKBOSTON NA	6.375	03/25/08	4,000,000	3,917,974	4,228,864	0.32%
BAYERISCHE LANDESBANK	VAR	09/27/11	15,000,000	15,000,000	15,000,000	1.13%
BELLSOUTH CORP	4.750	11/15/12	3,000,000	2,993,251	3,015,747	0.23%
BELLSOUTH TELECOMM INC	6.300	12/15/15	10,100,850	11,001,321	10,799,687	0.81%
BISHOPSGATE CDO LTD	5.180	06/30/10	10,000,000	10,000,000	10,000,000	0.75%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	1,000,000	1,004,895	1,035,937	0.08%
BURLINGTON INDUSTRIES INC	7.250	09/15/05	4,000,000	0	40	0.00%
BURLINGTON NORTHERN CO EQUIPMENT TRUST	7.970	01/01/15	3,533,016	3,533,016	4,349,425	0.33%
BURLINGTON NORTHERN SANTA FE EQUIP TRST	7.160	01/02/20	13,120,569	13,120,569	15,057,638	1.13%
CIT GROUP EQUIPMENT TRUST	6.490	01/05/21	11,006,787	11,006,787	12,173,399	0.91%
CIT GROUP INC	7.375	04/02/07	5,000,000	5,205,136	5,267,745	0.40%
CIT GROUP INC	4.750	12/15/10	3,000,000	3,105,369	3,034,674	0.23%
CNA FINANCIAL CORP	6.450	01/15/08	5,000,000	5,034,407	5,226,340	0.39%
CSX CORP	7.450	05/01/07	2,000,000	1,999,446	2,116,906	0.16%
CSX CORP	7.900	05/01/17	4,588,000	4,586,425	5,848,013	0.44%
CANADIAN NATIONAL RAILWAY CO	6.800	07/15/18	4,000,000	3,982,162	4,782,958	0.36%
CAPITAL ONE BANK	5.000	06/15/09	4,000,000	3,994,021	4,087,068	0.31%
CENTEX CORP	4.550	11/01/10	6,000,000	5,991,670	5,928,954	0.45%
CHAMPION INTERNATIONAL CORP	7.150	12/15/27	3,000,000	2,942,511	3,523,932	0.26%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	3,899,471	3,899,471	4,674,626	0.35%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,870,922	5,343,475	0.40%
CITICORP CAPITAL II	8.015	02/15/27	6,000,000	5,957,562	6,581,803	0.49%
CLEVELAND ELECTRIC ILLUM CO	7.130	07/01/07	5,000,000	4,994,668	5,265,120	0.40%
CONAGRA INC	9.875	11/15/05	5,000,000	5,025,797	5,119,405	0.38%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.545	02/02/19	5,766,300	5,766,300	5,578,895	0.42%
CORPORATE PROPERTY REIT	7.875	03/15/16	3,000,000	2,994,404	3,644,495	0.27%
COX COMMUNICATIONS INC	4.625	01/15/10	5,000,000	4,995,354	4,986,800	0.37%
DOT HEADQUARTERS II LEASE MTG	1.000	12/07/21	20,000,000	17,174,535	17,804,600	1.34%
DEER PARK REFINING L P	6.470	12/15/08	2,074,850	2,056,032	2,153,748	0.16%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	1,000,000	1,000,000	425,000	0.03%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	2,000,000	1,994,602	850,000	0.06%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/13	2,000,000	2,000,000	860,000	0.06%
EASTERN ENERGY LTD	7.250	12/01/16	10,000,000	9,897,332	12,381,664	0.93%
ENTERGY ARKANSAS INC	4.500	06/01/10	5,000,000	4,978,236	5,000,978	0.38%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,861,834	4,286,644	0.32%
FIRST UNION BANK N C CHARLOTTE	5.800	12/01/08	4,000,000	3,846,883	4,209,364	0.32%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	5,000,000	5,000,000	6,363,263	0.48%
FLORIDA GAS TRANSMISSION CO	7.000	07/17/12	3,000,000	2,996,936	3,348,980	0.25%
FORD MOTOR CREDIT CO	7.375	10/28/09	7,000,000	7,004,944	6,912,809	0.52%
FORD MOTOR CREDIT CO	7.000	10/01/13	5,000,000	4,884,854	4,797,395	0.36%
FORD MOTOR CREDIT CO	5.700	01/15/10	3,000,000	2,973,529	2,762,204	0.21%
GTE CORP	7.900	02/01/27	6,000,000	6,000,000	6,524,178	0.49%
GTE SOUTH INC	7.500	03/15/26	6,000,000	5,927,879	6,317,629	0.47%
GALENA CDO TRUST	VAR	01/11/13	9,000,000	9,000,000	9,000,000	0.68%
GENERAL AMERICAN TRANSN CORP EQUIPMENT TR	8.420	01/01/15	7,444,367	7,444,367	8,582,520	0.64%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,008,377	4,937,581	0.37%
GENERAL MOTORS ACCEPTANCE CORP	6.875	08/28/12	15,000,000	12,952,221	13,704,203	1.03%
GENERAL MOTORS ACCEPTANCE CORP	5.625	05/15/09	4,000,000	4,074,231	3,716,942	0.28%
HOUSEHOLD FINANCE CORP	6.875	03/01/07	3,000,000	2,982,578	3,136,930	0.24%
HOUSEHOLD FINANCE CORP	6.500	11/15/08	5,000,000	4,895,867	5,345,256	0.40%
IBP FINANCIAL CO CANADA	7.450	06/01/07	3,000,000	2,999,603	3,124,710	0.23%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
ING SECURITY LIFE INSTITUTIONAL FUNDING	4.250	01/15/10	5,000,000	4,990,068	4,986,440	0.37%
ILLINOIS BELL TELEPHONE CO	6.625	02/01/25	2,000,000	1,814,963	2,030,414	0.15%
INTERNATIONAL LEASE FINANCE CORP	4.550	10/15/09	3,000,000	3,010,129	3,027,645	0.23%
INTERNATIONAL PAPER CO	6.875	11/01/23	2,000,000	1,978,190	2,230,086	0.17%
INTERNATIONAL PAPER CO	4.000	04/01/10	6,000,000	5,999,827	5,798,442	0.44%
J P MORGAN CAPITAL TRUST	7.540	01/15/27	4,000,000	3,802,399	4,304,119	0.32%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRST	4.555	06/12/41	8,000,000	7,999,922	8,063,182	0.61%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRST	3.053	01/15/38	8,017,116	8,040,081	7,802,312	0.59%
KCT INTERMODAL TRANSPORTATION CORP	6.884	08/01/18	1,736,267	1,736,267	1,925,662	0.14%
KELLWOOD CO	7.625	10/15/17	8,000,000	7,925,694	8,591,240	0.65%
KERR MCGEE CORP	7.125	10/15/27	3,000,000	3,035,091	3,108,750	0.23%
KERR MCGEE CORP	6.950	07/01/24	3,000,000	2,977,826	3,099,819	0.23%
KEYCORP	4.700	05/21/09	5,000,000	4,999,495	5,079,160	0.38%
LEHMAN BROTHERS HOLDINGS INC	3.950	11/10/09	5,000,000	4,991,309	4,930,715	0.37%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	5,000,000	4,897,976	6,019,076	0.45%
MARSH + MCLENNAN COS INC	7.125	06/15/09	5,000,000	5,048,227	5,409,267	0.41%
MEAD CORP	7.350	03/01/17	4,000,000	3,997,395	4,727,269	0.35%
MED MAP L L C MONTANA	7.060	12/01/15	4,260,000	4,260,000	4,260,000	0.32%
MED MAP L L C MONTANA	7.000	06/01/21	4,570,000	4,570,000	4,570,000	0.34%
METLIFE INC	5.000	11/24/13	5,000,000	4,959,645	5,086,030	0.38%
METROPOLITAN LIFE GOLBAL MTN	4.250	07/30/09	2,000,000	1,999,186	2,006,936	0.15%
MILLENIUM AMERICAN INC	7.000	11/15/06	1,000,000	995,860	1,028,750	0.08%
MOBIL CORP	5.940	01/15/19	8,422,738	8,422,738	9,190,754	0.69%
MORGAN J P + CO INC	0.000	04/15/27	70,000,000	13,582,834	13,497,463	1.01%
NATIONWIDE FINANCIAL SERVICES INC	8.000	03/01/27	4,000,000	3,945,667	4,355,873	0.33%
NORFOLK SOUTHERN CORP	7.700	05/15/17	4,000,000	4,011,666	5,002,933	0.38%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	02/01/20	10,757,539	10,494,411	9,291,825	0.70%
NORTHWEST AIRLINES EQUIPMENT TRUST	7.935	04/01/19	3,901,307	3,861,988	4,242,671	0.32%
OCCIDENTAL PETROLEUM CORP	7.200	04/01/28	7,000,000	6,883,046	8,713,520	0.65%
OCCIDENTAL PETROLEUM CORP	8.750	01/15/23	4,000,000	4,000,000	5,594,498	0.42%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	3,000,000	2,999,683	3,159,126	0.24%
PNC FUNDING CORP	4.200	03/10/08	5,000,000	4,997,892	5,001,510	0.38%
PPL MONTANA LLC	8.903	07/02/20	20,561,686	20,642,287	24,630,834	1.85%
PACIFIC BELL	7.250	11/01/27	4,000,000	3,974,880	4,285,632	0.32%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	7,000,000	6,988,829	7,631,257	0.57%
PHILLIPS PETROLEUM CO	7.125	03/15/28	4,000,000	3,947,727	4,341,499	0.33%
SECURITY CAP GROUP INC	7.700	06/15/28	2,000,000	2,336,632	2,673,099	0.20%
SONAT INC	7.000	02/01/18	2,000,000	1,999,809	1,850,000	0.14%
SOUTHERN UNION CO	7.600	02/01/24	8,000,000	7,455,669	9,803,402	0.74%
SOUTHWEST GAS CORP	7.500	08/01/06	4,000,000	4,084,273	4,140,343	0.31%
SOUTHWEST GAS CORP	8.375	02/15/11	8,000,000	8,006,764	9,370,346	0.70%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	2,000,000	1,997,942	2,124,240	0.16%
SUNAMERICA INC	8.125	04/28/23	7,000,000	7,036,596	9,365,593	0.70%
SUPERVALU INC	7.875	08/01/09	7,000,000	6,990,999	7,803,344	0.59%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	2,000,000	1,852,989	2,502,792	0.19%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	2,000,000	2,010,467	2,160,000	0.16%
TRISTATE GENERATION TRANSPORTATION ASSOC	6.040	01/31/18	7,000,000	7,051,962	7,274,890	0.55%
TYSON FOODS INC	8.250	10/01/11	5,000,000	5,503,390	5,902,618	0.44%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	2,000,000	1,988,642	2,275,485	0.17%
UNION PACIFIC RESOURCES GROUP INC	7.050	05/15/18	6,000,000	5,945,070	6,861,012	0.52%
UNION TANK CAR CO	7.125	02/01/07	2,000,000	1,999,661	2,091,435	0.16%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	5,540,716	0.42%
WASHINGTON MUTUAL INC	4.200	01/15/10	6,000,000	5,991,777	5,952,048	0.45%
WESTERN PROPERTIES TRUST	7.200	09/15/08	1,000,000	981,031	1,081,054	0.08%
WESTVACO CORP	7.650	03/15/27	6,000,000	5,977,684	7,156,826	0.54%
WEYERHAEUSER CO	8.500	01/15/25	8,000,000	9,183,753	10,309,028	0.77%
WILLAMETTE INDUSTRIES INC	7.000	02/01/18	1,000,000	942,772	1,106,000	0.08%
XANTERRA SOUTH RIM LLC	5.690	12/15/11	8,000,000	8,000,000	8,000,000	0.60%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,952,133	3,176,796	0.24%
<b>Corporate Bonds (Rated)</b>	<b>119 Issue(s)</b>		<b>689,201,505</b>	<b>624,287,960</b>	<b>665,536,568</b>	<b>49.98%</b>
FIRST INTERSTATE BANC SYSTEM MONTANA	7.500	10/01/06	2,670,000	2,670,000	2,670,000	0.20%
WILMINGTON TRUST TUCSON ELECTRIC	10.211	01/01/09	3,286,312	3,286,312	3,286,312	0.25%
<b>Corporate Bonds (Unrated)</b>	<b>2 Issue(s)</b>		<b>5,956,312</b>	<b>5,956,312</b>	<b>5,956,312</b>	<b>0.45%</b>

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
UNITED MEXICAN STATES	5.875	01/15/14	10,000,000	9,924,211	10,435,000	0.78%
<b>Foreign Government Bonds</b>	<b>1 Issue(s)</b>		<b>10,000,000</b>	<b>9,924,211</b>	<b>10,435,000</b>	<b>0.78%</b>
BUTTE SILVER BOW MONTANA TAX INDL	6.890	07/01/05	1,535,000	1,535,000	1,535,000	0.12%
MONTANA STATE TAXABLE RENEW (3 ISSUES)	7.35-7.40	08/01/09-12	420,000	419,219	420,000	0.03%
MONTANA STATE BOARD HOUSING	8.450	08/01/39	1,140,000	1,140,000	1,140,000	0.09%
CRP (69 issues)	6.00-8.00	11/15/05-15	3,028,270	3,028,270	3,028,270	0.23%
<b>Municipal Government Bonds (Unrated)</b>	<b>74 Issue(s)</b>		<b>6,123,270</b>	<b>6,122,489</b>	<b>6,123,270</b>	<b>0.46%</b>
BENDER SHIPBUILDING + REPAIR USGG XI	6.200	09/30/12	9,957,643	9,957,643	9,957,643	0.75%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	8,000,000	8,000,000	8,000,000	0.60%
REINAUER MARITIME CO LLC USGG XI	6.500	06/30/28	18,952,000	18,952,000	18,952,000	1.42%
T T BARGE SERVICES USGG XI	6.450	12/16/12	1,528,500	1,528,500	1,528,500	0.11%
TUNISIA AID USGG XI	6.710	02/01/24	3,900,522	3,721,376	3,900,522	0.29%
VESSEL MANAGEMENT SERVICES INC USGG XI	6.080	05/20/24	18,472,000	18,472,000	20,400,107	1.53%
GNMA POOL 032974	9.500	09/15/09	23,905	23,109	25,461	0.00%
GNMA POOL 038164	10.000	01/15/10	60,728	60,598	65,988	0.00%
GNMA POOL 039321	10.000	12/15/09	16,332	16,298	17,728	0.00%
GNMA POOL 042547	10.000	10/15/10	4,192	4,182	4,583	0.00%
GNMA POOL 065459	11.500	04/15/13	5,352	5,305	6,213	0.00%
GNMA POOL 281467	9.000	09/15/19	8,469	8,439	9,430	0.00%
UNITED STATES TREASURY BONDS	7.250	05/15/16	14,000,000	14,411,895	17,937,500	1.35%
UNITED STATES TREASURY NOTES	3.000	02/15/09	10,000,000	9,731,017	9,766,410	0.73%
UNITED STATES TREASURY NOTES	2.750	06/30/06	20,000,000	20,048,063	19,846,100	1.49%
UNITED STATES TREASURY NOTES	3.000	12/31/06	10,000,000	9,965,678	9,908,200	0.74%
<b>U.S. Government Direct-Backed</b>	<b>16 Issue(s)</b>		<b>114,929,643</b>	<b>114,906,104</b>	<b>120,326,386</b>	<b>9.04%</b>
FEDERAL HOME LOAN MORTGAGE CORP	5.125	11/07/13	12,000,000	11,930,845	12,045,696	0.90%
FEDERAL HOME LOAN MORTGAGE CORP	5.000	06/18/18	20,000,000	20,000,000	19,730,720	1.48%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	06/12/13	12,000,000	11,076,622	11,667,600	0.88%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	07/18/18	15,000,000	15,000,000	14,694,932	1.10%
FEDERAL HOME LOAN MORTGAGE CORP	4.500	04/02/14	9,000,000	8,968,485	8,914,860	0.67%
FEDERAL HOME LOAN MORTGAGE CORP	4.100	01/28/14	30,000,000	30,000,000	29,923,770	2.25%
FEDERAL HOME LOAN MORTGAGE CORP	5.000	01/30/14	12,000,000	11,996,599	12,032,244	0.90%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/21/32	100,000,000	15,631,516	16,220,000	1.22%
FEDERAL HOME LOAN MORTGAGE CORP	8.250	06/01/26	7,000,000	7,263,142	9,974,370	0.75%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/05/28	50,000,000	10,534,017	11,066,550	0.83%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	09/14/29	100,000,000	19,270,393	20,532,500	1.54%
FEDERAL HOME LOAN MORTGAGE CORP	3.500	09/15/07	20,000,000	20,185,778	19,877,180	1.49%
FEDERAL HOME LOAN PC REMIC	9.150	10/15/20	115,137	113,944	115,029	0.01%
FEDERAL HOME LOAN POOL B13150	4.000	03/01/19	17,034,459	17,034,459	16,680,013	1.25%
FEDERAL HOME LOAN POOL C01523	5.000	03/01/33	7,290,235	7,231,281	7,314,156	0.55%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	370,224	369,579	380,275	0.03%
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	926,595	926,017	959,568	0.07%
FEDERAL HOME LOAN POOL E01376	4.000	04/01/18	15,858,753	15,748,264	15,541,578	1.17%
FEDERAL HOME LOAN POOL E01418	4.000	07/01/18	15,934,525	15,408,301	15,602,965	1.17%
FEDERAL HOME LOAN POOL E01425	4.500	08/01/18	16,061,644	16,021,887	16,001,978	1.20%
FEDERAL HOME LOAN POOL E99081	4.500	09/01/18	17,450,577	17,351,017	17,385,751	1.31%
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	307,458	307,097	318,207	0.02%
FEDERAL HOME LOAN POOL G10814	5.500	05/01/13	651,358	650,974	670,670	0.05%
FEDERAL HOME LOAN POOL G11670	4.000	03/01/15	14,274,120	14,044,597	13,977,889	1.05%
FEDERAL HOME LOAN POOL G30006	7.000	07/01/13	373,627	373,627	389,908	0.03%
FEDERAL HOME LOAN BANKS	6.395	06/03/14	6,000,000	5,656,708	6,890,655	0.52%
FEDERAL HOME LOAN BANKS	7.000	08/26/19	7,000,000	6,965,352	8,912,169	0.67%
FEDERAL HOME LOAN BANKS	7.450	02/03/20	10,000,000	10,059,677	13,283,650	1.00%
FEDERAL HOME LOAN BANKS	4.125	08/13/10	15,000,000	15,159,535	15,031,455	1.13%
FEDERAL HOME LOAN BANKS	5.000	08/28/19	10,000,000	10,000,000	10,000,000	0.75%
FEDERAL HOME LOAN BANKS	VAR	05/26/10	5,000,000	5,000,000	4,997,880	0.38%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.000	05/15/08	15,000,000	14,812,526	15,853,052	1.19%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	7.250	01/15/10	15,000,000	14,965,534	17,003,682	1.28%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	2.800	03/01/19	7,000,000	6,946,434	6,955,473	0.52%
FNMA POOL 254233	5.000	03/01/17	6,753,336	6,560,710	6,847,513	0.51%
FNMA POOL 254631	5.000	02/01/18	8,330,567	8,404,120	8,433,717	0.63%
FNMA POOL 303202	6.500	05/01/14	1,233,736	1,224,846	1,278,231	0.10%
FNMA POOL 313999	6.000	02/01/13	457,287	455,554	473,632	0.04%
FNMA POOL 572220	6.000	03/01/16	1,031,888	1,029,472	1,068,125	0.08%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
FNMA POOL 592327	5.500	06/01/16	1,602,666	1,571,933	1,649,056	0.12%
FNMA POOL 725346	4.000	03/01/19	17,500,311	17,325,247	17,166,718	1.29%
FNMA POOL 780956	4.500	05/01/19	17,768,954	17,763,724	17,701,978	1.33%
U S ARMY HOSPITALITY FUND	7.467	05/01/32	9,697,407	9,697,407	9,697,407	0.73%
<b>U.S. Government Indirect-Backed</b>	<b>43 Issue(s)</b>		<b>648,024,864</b>	<b>441,037,218</b>	<b>455,262,802</b>	<b>34.19%</b>
<b>Total TFBP</b>	<b>257 Issue(s)</b>		<b>1,542,290,393</b>	<b>1,270,289,093</b>	<b>1,331,695,138</b>	<b>100.00%</b>

# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**B-24**

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

**STATEMENT OF NET ASSET VALUE JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Cash	\$ 528,828	\$ 203,235
Interest receivable	1,385,382	403,650
Security lending cash collateral (Notes 3 and 4)	0	0
Unrealized loss (Note 2)	435,083	37,638
Investments managed at fair value (amortized cost of \$1,742,735,519 in 2005 and \$1,479,812,941 in 2004)(Notes 2 and 4)	<u>1,742,300,436</u>	<u>1,479,775,303</u>
<b>Total assets</b>	<b>\$ <u>1,744,649,729</u></b>	<b>\$ <u>1,480,419,826</u></b>
<b><u>Liabilities</u></b>		
Security lending expense payable	\$ 0	\$ 0
Income due participants	528,829	203,236
Broker payable for securities purchases but not settled (Note 2)	3,000,000	0
Security lending obligations(Notes 3 and 4)	<u>0</u>	<u>0</u>
<b>Total liabilities</b>	<b>\$ <u>3,528,829</u></b>	<b>\$ <u>203,236</u></b>
<b>Net asset value</b>	<b>\$ <u>1,741,120,900</u></b>	<b>\$ <u>1,480,216,590</u></b>
Units Outstanding (Note 2)	1,741,120,900	1,480,216,590
Unit Value (Note 2)	\$ 1	\$ 1

**STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net asset value, beginning of year	\$ 1,480,216,590	\$ 1,421,022,795
Value of units purchased by participants	6,123,148,064	6,284,553,085
Value of units sold by participants	<u>(5,862,243,754)</u>	<u>(6,225,359,290)</u>
<b>Net asset value, end of year</b>	<b>\$ <u>1,741,120,900</u></b>	<b>\$ <u>1,480,216,590</u></b>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Investment income (Note 2)	\$ 35,536,850	\$ 16,110,043
Security lending income	0	0
Security lending expense	0	0
Administrative expenses	(260,729)	(310,392)
Income due participants, beginning of year	<u>203,236</u>	<u>252,441</u>
<b>Income available for distribution</b>	<b>35,479,357</b>	<b>16,052,092</b>
<b>Distribution</b>	<b><u>34,950,528</u></b>	<b><u>15,848,856</u></b>
<b>Income due participants, end of year</b>	<b>\$ <u>528,829</u></b>	<b>\$ <u>203,236</u></b>

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



STATE OF MONTANA BOARD OF INVESTMENTS  
SHORT TERM INVESTMENT POOL - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

**1. HISTORY AND ORGANIZATION**

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. 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 with accounts that retain their interest earnings 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 as of June 30, 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 2005 and 2004, income was distributed on the first calendar day of each month, with the exception of the June distribution. Income for June 2005 and June 2004 was distributed on the last calendar day of the month. Participants may automatically reinvest their income in additional units.

During fiscal years 2005 and 2004, 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 2005 and 2004, 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. 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 2005 and 2004 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 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street.

During fiscal years 2005 and 2004, 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 which has a weighted average maturity of 35 and 49 days, respectively, as of June 30, 2005 and 2004. 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. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2005 and June 30, 2004, there were no securities on loan.

### 4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

#### Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade 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.

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

The short term credit ratings presented in the table below are provided by S& P's rating services. An A1+ rating is the highest short term rating by the S&P rating service. If a STIP security received a long term rating, such as AAA, this rating was converted to a short term rating. If an S&P rating is not available, a Moody's rating has been used.

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP

Investment Policy, “repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account.”

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for “minimum three (3%) percent or \$15 million, whichever is higher, to be invested in Repurchase Agreements.” As of June 30, 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, “interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool”.

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.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value 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.

STIP investments are categorized below to disclose credit rate risk as of June 30, 2005 Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

#### Credit Quality Ratings as of June 30, 2005

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>
Commercial Paper	\$ 1,249,527,386	A1
Corporate Fixed	49,821,250	A1+
Corporate Variable-Rate	414,951,800	A1+
Municipal Variable-Rate	6,000,000	NR
Repurchase Agreement*	<u>22,000,000</u>	<u>A3</u>
<b>Total Investments</b>	<b>\$ <u>1,742,300,436</u></b>	<b><u>A1+</u></b>
Securities Lending Collateral Investment Pool	\$ <u>0</u>	NR

\* At June 30, 2005, the State Street Bank repurchase agreement was collateralized at a fair value of \$22 million by a \$17.1 million par, 6.375% coupon, U.S. government Treasury bond maturing August 15, 2027.

### Legal Risk

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

#### 5. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

The trading system will serve the Board's internally managed portfolios and will be phased in as training is completed. Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Electronic trading for the Short Term Investment Pool will be next followed by the other fixed income portfolios managed by Board Staff.

## 6. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

## 7. YEAR END PORTFOLIO

The June 30, 2005 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.

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
AUTOBAHN FUNDING CO LLC	discount	09/23/05	17,500,000	17,359,125	17,360,000	1.00%
BEETHOVEN FUNDING CORP	discount	07/11/05	20,000,000	19,982,833	19,980,000	1.15%
BELMONT FUNDING LLC	discount	07/01/05	20,000,000	20,000,000	19,998,000	1.15%
BRITANNIA BUILDING SOCIETY	discount	08/31/05	20,000,000	19,890,878	19,885,400	1.14%
BRITANNIA BUILDING SOCIETY	discount	08/31/05	20,000,000	19,890,200	19,885,400	1.14%
BRYANT PARK FUNDING LLC	discount	08/08/05	20,000,000	19,932,656	19,927,800	1.14%
CAFCO LLC	discount	07/19/05	20,000,000	19,968,900	19,965,400	1.15%
CHECK POINT CHARLIE, INC	discount	08/09/05	20,000,000	19,930,233	19,926,000	1.14%
CHECK POINT CHARLIE, INC	discount	09/14/05	20,100,000	19,959,300	19,956,084	1.15%
CHECK POINT CHARLIE, INC	discount	09/15/05	20,000,000	19,858,133	19,855,000	1.14%
CLIPPER RECEIVABLES CORP	discount	07/20/05	20,000,000	19,967,278	19,963,600	1.15%
COBBLER FUNDING LTD	discount	07/28/05	20,000,000	19,953,350	19,949,200	1.14%
COBBLER FUNDING LTD	discount	09/28/05	20,000,000	19,828,922	19,830,600	1.14%
DAVIS SQUARE FUNDING III LTD	discount	09/06/05	20,000,000	19,874,561	19,935,200	1.14%
DNA FINANCE CORP	discount	07/12/05	20,000,000	19,980,811	19,872,000	1.14%
DNA FINANCE CORP	discount	08/04/05	20,000,000	19,938,989	19,978,200	1.15%
EIFFEL FUNDING	discount	09/19/05	20,000,000	19,850,222	19,847,400	1.14%
GOLDEN FISH LTD	discount	07/06/05	20,000,000	19,991,306	19,989,200	1.15%
GOLDEN FISH LTD	discount	08/05/05	20,000,000	19,937,389	19,933,400	1.14%
GRAMPIAN FUNDING LTD / LLC	discount	09/27/05	20,000,000	19,834,756	19,832,400	1.14%
GREYHAWK FUND CORP	discount	08/12/05	20,000,000	19,924,867	19,896,400	1.14%
GREYHAWK FUND CORP	discount	08/16/05	20,000,000	19,917,711	19,913,000	1.14%
GREYHAWK FUND CORP	discount	08/25/05	20,000,000	19,902,222	19,920,400	1.14%
HERTZ FLEET FUNDING LLC	discount	07/01/05	20,000,000	20,000,000	19,998,200	1.15%
HERTZ FLEET FUNDING LLC	discount	08/02/05	19,865,000	19,808,495	19,804,412	1.14%
IXIS CP CORP	discount	09/26/05	20,000,000	19,836,633	19,834,200	1.14%
KAISERPLATZ DELAWARE	discount	08/24/05	20,000,000	19,902,500	19,898,200	1.14%
LAKE CONSTANCE FUNDING	discount	08/18/05	20,000,000	19,914,667	19,909,400	1.14%
LEGACY CAPITAL CORP	discount	08/11/05	20,000,000	19,927,339	19,922,400	1.14%
LIBERTY HARBOUR	discount	07/13/05	20,000,000	19,979,267	19,976,400	1.15%
LIBERTY HARBOUR	discount	08/10/05	20,000,000	19,928,667	19,924,200	1.14%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>%</u>
LOCKHART FUNDING LLC	discount	07/01/05	20,000,000	20,000,000	19,947,400	1.14%
LOCKHART FUNDING LLC	discount	07/29/05	20,000,000	19,951,311	19,998,200	1.15%
MANHATTAN ASSET FUND	discount	09/29/05	20,000,000	19,828,000	19,828,600	1.14%
MANHATTAN ASSET FUND	discount	09/30/05	20,000,000	19,825,583	19,826,800	1.14%
MAXIMILLIAN CAPITAL CORP	discount	07/15/05	20,000,000	19,975,889	19,972,800	1.15%
MAXIMILLIAN CAPITAL CORP	discount	08/15/05	20,000,000	19,919,500	19,915,000	1.14%
MICA FUNDING LLC	discount	07/18/05	20,000,000	19,970,722	19,967,400	1.15%
MILLSTONE FUNDING LTD	discount	08/03/05	20,000,000	19,941,333	19,937,200	1.14%
MONT BLANC CAPITAL CORP	discount	07/14/05	19,783,000	19,760,854	19,757,876	1.13%
NEPTUNE FUNDING CORP	discount	07/08/05	20,000,000	19,987,983	19,985,400	1.15%
NORTH SEA FUNDING	discount	07/27/05	20,000,000	19,954,933	19,951,000	1.15%
NORTH SEA FUNDING	discount	08/23/05	20,000,000	19,905,778	19,900,200	1.14%
PB FINANCE DEL INC	discount	07/25/05	20,000,000	19,958,400	19,954,600	1.15%
PERRY FUNDING CORP	discount	08/01/05	20,000,000	19,945,233	19,940,800	1.14%
PREFERRED RECEIVABLES FUNDING	discount	08/29/05	20,000,000	19,894,128	19,889,000	1.14%
PRIME ASSET VEHICLE	discount	09/20/05	20,000,000	19,848,350	19,845,600	1.14%
QUATRO PMX LTD/CORP	discount	07/05/05	20,000,000	19,993,156	19,991,000	1.15%
RHINELAND FUNDING	discount	09/13/05	20,000,000	19,861,044	19,858,800	1.14%
RHINELAND FUNDING	discount	09/16/05	20,000,000	19,854,556	19,853,200	1.14%
ROMULUS FUNDING CORP	discount	07/26/05	20,000,000	19,956,389	19,952,800	1.15%
SCALDIS CAPITAL LTD	discount	08/25/05	21,165,000	21,061,527	21,122,670	1.21%
SCALDIS CAPITAL LTD	discount	08/30/05	20,000,000	19,892,667	19,840,000	1.14%
ST GERMAIN HOLDINGS	discount	07/22/05	20,000,000	19,963,833	19,896,400	1.14%
ST GERMAIN HOLDINGS	discount	09/23/05	20,000,000	19,842,733	19,887,200	1.14%
STARBIRD FUNDING CORP	discount	07/28/05	20,000,000	19,953,200	19,947,400	1.14%
STARBIRD FUNDING CORP	discount	07/29/05	20,000,000	19,951,467	19,949,200	1.14%
SUNBELT FUNDING CORP	discount	07/07/05	20,000,000	19,989,700	19,987,200	1.15%
SYDNEY CAPITAL INC	discount	07/21/05	20,000,000	19,965,556	19,961,800	1.15%
SYDNEY CAPITAL INC	discount	08/19/05	19,868,000	19,780,923	19,770,647	1.13%
SYDNEY CAPITAL INC	discount	08/22/05	20,000,000	19,907,267	19,907,600	1.14%
THREE CROWNS FUNDING	discount	08/26/05	20,189,000	20,088,504	20,082,604	1.15%
WINDMILL FUNDING CORP	discount	08/17/05	16,105,000	16,037,717	16,033,494	0.92%
<b>COMMERCIAL PAPER</b>			<b>1,254,575,000</b>	<b>1,249,740,444</b>	<b>1,249,527,386</b>	<b>71.72%</b>
SIGMA FINANCE INC	3.735	04/21/06	25,000,000	24,998,872	24,926,250	1.43%
TOYOTA MOTOR CREDIT CORP	3.650	04/13/06	25,000,000	25,000,000	24,895,000	1.43%
<b>CORPORATE FIXED</b>			<b>50,000,000</b>	<b>49,998,872</b>	<b>49,821,250</b>	<b>2.86%</b>
GOLDMAN SACHS PROMISSORY NOTE	3.220	02/08/06	40,000,000	40,000,000	39,974,800	2.29%
HARRIER FINANCE FUNDING	3.200	07/15/05	50,000,000	50,000,000	49,998,500	2.87%
LIBERTY LIGHTHOUSE US CAP CO	3.110	04/05/06	25,000,000	24,997,523	24,998,000	1.43%
LIQUID FUNDING LTD	3.280	10/17/05	50,000,000	50,000,000	50,000,000	2.87%
PARKLAND USA L L C	3.240	04/19/06	25,000,000	25,000,000	24,997,000	1.43%
PARKLAND USA LLC	3.230	05/22/06	25,000,000	25,000,000	24,995,750	1.43%
PREMIER ASSET ENTITY LTD	3.180	09/15/05	50,000,000	50,000,000	49,998,500	2.87%
SEDNA FINANCE INC	3.279	02/27/06	25,000,000	25,000,000	24,998,000	1.43%
SIGMA FINANCE INC	2.970	03/10/06	25,000,000	24,998,679	24,997,500	1.43%
TANGO FINANCE CORP	3.175	03/13/06	25,000,000	25,000,000	24,997,250	1.43%
THETA CORP	3.175	03/13/06	25,000,000	25,000,000	24,999,000	1.43%
WHITE PINE FINANCE	3.090	07/11/05	50,000,000	50,000,000	49,997,500	2.87%
<b>CORPORATE VARIABLE-RATE (FLOATING RATE)</b>			<b>415,000,000</b>	<b>414,996,202</b>	<b>414,951,800</b>	<b>23.82%</b>
MT HIGHER ED STUDENT ASSOCIATION	3.610	01/15/06	6,000,000	6,000,000	6,000,000	0.34%
<b>MUNICIPAL VARIABLE-RATE (FLOATING RATE)</b>			<b>6,000,000</b>	<b>6,000,000</b>	<b>6,000,000</b>	<b>0.34%</b>
REPURCHASE AGREEMENT	2.700	07/01/05	22,000,000	22,000,000	22,000,000	1.26%
<b>REPURCHASE AGREEMENT</b>			<b>22,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>1.26%</b>
<b>STIP TOTAL</b>			<b>1,747,575,000</b>	<b>1,742,735,519</b>	<b>1,742,300,436</b>	<b>100.00%</b>

# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**STATE OF MONTANA BOARD OF INVESTMENTS  
MONTANA DOMESTIC EQUITY POOL FINANCIAL STATEMENTS  
STATEMENT OF NET ASSET VALUE JUNE 30, 2005 AND 2004**

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 0	\$ 0
Security lending cash collateral (Notes 3 and 4)	28,995,031	20,641,660
Dividend receivable	1,472,227	2,047,731
Interest receivable	92,951	26,061
Investments managed at fair value (carrying value of \$2,609,202,578 in 2005 and \$2,479,060,702 in 2004)(Notes 2 and 4)	<u>3,011,913,931</u>	<u>2,902,284,868</u>
<b>Total assets</b>	<b>\$ <u>3,042,474,140</u></b>	<b>\$ <u>2,925,000,320</u></b>
 <u>Liabilities</u>		
Income due participants	\$ 1,988,934	\$ 2,611,096
Security lending expense payable	88,165	21,517
Security lending obligations (Notes 3 and 4)	<u>28,995,031</u>	<u>20,641,660</u>
<b>Total liabilities</b>	<b><u>31,072,130</u></b>	<b><u>23,274,273</u></b>
<b>Net asset value</b>	<b>\$ <u>3,011,402,010</u></b>	<b>\$ <u>2,901,726,047</u></b>
Units Outstanding (Note2)	23,404,482	23,600,184
Unit Value (Note 2)	\$ 128.67	\$ 122.95

**STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net asset value, beginning of year	\$ 2,901,726,047	\$ 2,577,332,014
Value of MDEP units purchased by participants (Note 2)	599,999	62,463,000
Value of MDEP units sold by participants (Note 2)	(13,396,698)	(86,459,939)
Changes in fair value of investments managed (Note 2)	<u>122,472,662</u>	<u>348,390,972</u>
<b>Net asset value, end of year</b>	<b>\$ <u>3,011,402,010</u></b>	<b>\$ <u>2,901,726,047</u></b>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Investment income (Note 2)	\$ 39,004,072	\$ 33,950,029
Security lending income	560,697	356,505
Security lending expense	(531,967)	(264,065)
Administrative expenses (Note 2)	(2,460,957)	(1,657,067)
Income due participants, beginning of year	<u>2,611,096</u>	<u>2,041,555</u>
<b>Income available for distribution</b>	<b>39,182,941</b>	<b>34,426,957</b>
<b>Distribution (Note 2)</b>	<b><u>37,194,007</u></b>	<b><u>31,815,861</u></b>
<b>Income due participants, end of year</b>	<b>\$ <u>1,988,934</u></b>	<b>\$ <u>2,611,096</u></b>

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, 2005 AND 2004

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. 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 Depository Receipts (ADR's)

The Board authorized creation of the Montana Domestic Equity Pool (MDEP) in April 2003. The 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 their 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 Depository 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 depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository 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.

As a liquidity option, the Board approved investment by MTCP in Board's Short Term Investment Pool (STIP) in October 2004. STIP, as 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.

The MDEP, as an internal investment pool, invested its excess cash, on pool creation, in STIP. 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.

Based on Board approval, staff made an initial investment of \$10 million in the Barclays Global Investors (BGI) S&P 400 Mid Cap Equity Index fund in December 2004. Investments in this fund totaled \$100 million on June 30, 2005.

As directed by the Board to rebalance the MDEP portfolio, staff exchanged 893,504 MTCP units at a gain of \$207,282,346 for shares valued at \$338,356,609 in the BGI US Equity Restructure Account in February 2005. The Restructure Account was closed and shares were transferred to the BGI S&P 500 Equity Index Account Fund A at a loss of \$2,822,974. This rebalancing transaction represented the transfer of over 8.4 million shares in 114 positions held in MTCP. Subsequent sales of MTCP units for \$160 million generated MDEP realized gains of \$97.3 million. MTCP sale proceeds were invested in the BGI S&P 500 Equity Index Account Fund A.

Other MDEP rebalancing actions in fiscal year 2005 included the \$110 million sale of DFA Small Cap Subtrust shares. These sales resulted in MDEP realized gains of \$27.2 million.

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 and sold by participants in fiscal years 2005 and 2004 are the result of asset allocation decisions and pool participant's cash needs. The fiscal year 2005 Change in Fair Value of Investments Managed of \$122.5 million reflects equity market depreciation of \$(196.1) million, participant gain distribution of \$(12.7) million and net pool realized gains of \$331.3 million. The fiscal year 2004 Change in Fair Value of Investments Managed of \$348.4 million represents equity market appreciation of \$314.8 million, participant gain distribution of \$(67.0) million and net pool realized gains of \$100.6 million.

#### 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 years 2005 and 2004, these expenses include \$1,313,197 and \$1,038,000, respectively, for the Board and the custodial bank contract and \$1,147,760 and \$619,067, respectively, in external manager fees.

### 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 2005 and 2004, 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 2005 and 2004 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 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street.

During fiscal years 2005 and 2004, 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 which has a weighted average maturity of 35 and 49 days, respectively, as of June 30, 2005 and 2004. 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. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2005, the carrying and fair values of the underlying securities on loan of the MTCP for the MDEP were \$28,062,757 and \$28,402,082 respectively. The collateral provided for the securities on loan totaled \$28,995,031 in cash.

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

### 4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all the MDEP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The BGI S&P 500 Equity Index Fund A, S&P 400 MidCap Equity Index Fund and the DFA Small Cap Subtrust are registered in the name of the Montana Board of Investments.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in pooled investments, such as the BGI Equity Index and DFA Small Cap Subtrust investments, are excluded

from this requirement. As of June 30, 2005 and 2004, there were no single issuer investments that exceeded 5% of the MDEP portfolio.

The MDEP investments are disclosed by investment type in the following table and in Note 8 Year End Portfolio for 2005.

<u>Security Investment Type</u>	<u>2005</u>		<u>2004</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Montana Stock Pool (MTCP)	\$ 1,264,857,181	\$ 1,501,726,262	\$ 1,635,260,778	\$ 1,941,940,158
BGI S&P 500 Equity Index Fund A	1,039,695,685	1,132,427,186	544,162,050	596,835,124
DFA Small Cap Subtrust	177,282,131	243,808,328	260,000,000	323,104,286
BGI S&P 400 MidCap Equity Index Fund	100,000,000	106,616,769	0	0
Short Term Investment Pool (STIP)	0	0	0	0
Stock Performance Index Futures Fund (SPIFF)	<u>27,367,581</u>	<u>27,335,386</u>	<u>39,637,874</u>	<u>40,405,300</u>
<b>Total Investment</b>	<b>\$ <u>2,609,202,578</u></b>	<b>\$ <u>3,011,913,931</u></b>	<b>\$ <u>2,479,060,702</u></b>	<b>\$ <u>2,902,284,868</u></b>
Securities Lending Collateral Investment Pool	\$ <u>28,995,031</u>	\$ <u>28,995,031</u>	\$ <u>20,641,660</u>	\$ <u>20,641,660</u>

## 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. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

The trading system will serve the Board’s internally managed portfolios and will be phased in as training is completed. Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Electronic trading for the Short Term Investment Pool will be next followed by the other fixed income portfolios managed by Board Staff.

## 7. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board’s behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board’s investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board’s fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

## 8. YEAREND PORTFOLIO

The June 30, 2005 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.

<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
GENERAL ELECTRIC CO	2,138,200	46,061,381	74,088,630	2.46%
EXXON MOBIL CORP	1,136,612	31,681,611	65,321,092	2.17%
CITIGROUP INC	1,063,366	18,155,198	49,159,410	1.63%
JOHNSON + JOHNSON	667,300	12,553,948	43,374,500	1.44%
MICROSOFT CORP	1,680,000	59,471,835	41,731,200	1.39%
PFIZER INC	1,475,960	57,161,613	40,706,977	1.35%
BANK AMERICA CORP	809,100	32,104,371	36,903,051	1.23%
INTEL CORP	1,281,500	10,691,206	33,395,890	1.11%
CHEVRON CORP	594,500	21,474,653	33,244,440	1.10%
WAL MART STORES INC	626,000	31,211,664	30,173,200	1.00%
J P MORGAN CHASE + CO	827,000	28,915,619	29,209,640	0.97%
AMERICAN INTERNATIONAL GROUP INC	490,000	25,230,450	28,469,000	0.95%
WELLS FARGO + CO	442,400	7,571,043	27,242,992	0.90%
ALTRIA GROUP INC	398,400	16,760,490	25,760,544	0.86%
ABBOTT LABS	460,000	4,018,014	22,544,600	0.75%
CISCO SYSTEMS INC	1,100,000	15,899,136	21,021,000	0.70%
INTERNATIONAL BUSINESS MACHINES	278,000	12,611,647	20,627,600	0.68%
UNITED TECHNOLOGIES CORP	400,000	6,773,503	20,540,000	0.68%
TYCO INTERNATIONAL LTD	697,000	13,585,473	20,352,400	0.68%
AMGEN INC	331,300	17,614,753	20,030,398	0.67%
PEPSICO INC	357,000	17,242,558	19,253,010	0.64%
CONOCOPHILLIPS	329,760	11,655,067	18,957,902	0.63%
BANK NEW YORK INC	639,000	23,681,520	18,390,420	0.61%
MORGAN STANLEY	346,000	17,533,214	18,154,620	0.60%
MERRILL LYNCH + CO INC	323,700	18,415,304	17,806,737	0.59%
TEXAS INSTRUMENTS INC	603,500	23,524,853	16,940,245	0.56%
DELL INC	412,000	15,044,915	16,278,120	0.54%
UNITED PARCEL SERVICE INC	229,100	15,097,673	15,844,556	0.53%
3M CO	215,000	13,373,753	15,544,500	0.52%
LILLY ELI + CO	279,000	16,557,074	15,543,090	0.52%
MEDTRONIC INC	300,000	13,882,683	15,537,000	0.52%
TARGET CORP	283,000	11,597,309	15,398,030	0.51%
GOLDMAN SACHS GROUP INC	149,400	13,226,928	15,241,788	0.51%
ORACLE CORP	1,132,500	16,192,081	14,949,000	0.50%
SCHLUMBERGER LTD	194,100	11,107,641	14,739,954	0.49%
DISNEY WALT CO	580,600	17,068,193	14,619,508	0.49%
FEDERAL NATIONAL MORTGAGE ASSN	250,000	15,869,549	14,600,000	0.48%
WYETH	326,200	18,356,447	14,515,900	0.48%
PROCTER + GAMBLE CO	265,600	11,133,515	14,010,400	0.47%
ALLTEL CORP	220,000	13,396,679	13,701,600	0.45%
QUALCOMM INC	415,000	13,915,262	13,699,150	0.45%
UNITEDHEALTH GROUP INC	249,000	7,900,074	12,982,860	0.43%
HEWLETT PACKARD CO	548,200	11,165,362	12,888,182	0.43%
MELLON FINANCIAL CORP	445,200	18,697,097	12,772,788	0.42%
DU PONT E I DE NEMOURS + CO	278,900	10,860,531	11,995,489	0.40%
COMCAST CORP	388,000	10,358,359	11,911,600	0.40%
FEDERAL HOME LOAN MTG CORP	182,600	9,802,220	11,910,998	0.40%
DOW CHEM CO	257,300	12,213,022	11,457,569	0.38%
HALLIBURTON CO	233,900	6,633,990	11,185,098	0.37%
TIME WARNER INC	649,100	20,422,348	10,846,461	0.36%
GILLETTE CO	209,000	10,659,328	10,581,670	0.35%

<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BIOMET INC	300,000	12,776,010	10,392,000	0.35%
APPLE COMPUTER	280,000	10,483,363	10,306,800	0.34%
BEST BUY CO INC	150,000	5,418,984	10,282,500	0.34%
EMC CORP	700,000	11,517,372	9,597,000	0.32%
MOTOROLA INC	522,900	8,250,696	9,548,154	0.32%
TEVA PHARMACEUTICAL INDS LTD	300,000	8,504,312	9,342,000	0.31%
TJX COS INC	378,900	8,841,371	9,226,215	0.31%
APACHE CORP	140,000	8,203,124	9,044,000	0.30%
HOME DEPOT INC	230,000	8,328,193	8,947,000	0.30%
TRANSOCEAN INC	160,000	7,573,873	8,635,200	0.29%
HONEYWELL INTERNATIONAL INC	230,000	7,303,670	8,424,900	0.28%
SYSCO CORP	231,100	7,662,563	8,363,509	0.28%
SYMANTEC CORP	383,000	9,696,839	8,326,420	0.28%
VERIZON COMMUNICATIONS	240,000	7,089,277	8,292,000	0.28%
EBAY INC	250,000	9,956,929	8,252,500	0.27%
WACHOVIA CORP	166,000	6,065,806	8,233,600	0.27%
AVON PRODUCTS INC	216,000	8,712,723	8,175,600	0.27%
SIEBEL SYSTEMS INC	850,000	7,882,405	7,565,000	0.25%
FIRST DATA CORP	187,600	6,801,873	7,530,264	0.25%
AIR PRODUCTS + CHEMICALS INC	124,500	6,136,682	7,507,350	0.25%
CINTAS CORP	190,000	7,744,240	7,334,000	0.24%
STRYKER CORP	154,000	7,174,324	7,324,240	0.24%
YAHOO INC	207,500	6,276,730	7,189,875	0.24%
ACCENTURE LTD	316,000	8,151,976	7,163,720	0.24%
OMNICOM GROUP	89,600	5,934,114	7,155,456	0.24%
VIACOM INC	218,000	8,739,655	6,980,360	0.23%
CAREMARK RX INC	152,000	4,975,027	6,767,040	0.22%
GUIDANT CORP	100,000	6,345,140	6,730,000	0.22%
BOSTON SCIENTIFIC CORP	249,000	7,697,497	6,723,000	0.22%
ZIMMER HOLDINGS INC	85,000	6,086,391	6,474,450	0.21%
EMERSON ELECTRIC CO	100,000	3,587,647	6,263,000	0.21%
FISHER SCIENTIFIC INTL INC	93,100	5,308,213	6,042,190	0.20%
MBNA CORP	230,000	4,296,939	6,016,800	0.20%
WALGREEN CO	130,000	3,863,561	5,978,700	0.20%
US BANCORP	202,000	5,714,725	5,898,400	0.20%
BED BATH + BEYOND INC	140,000	5,419,756	5,849,200	0.19%
ANADARKO PETE CORP	70,000	5,272,113	5,750,500	0.19%
GENENTECH INC	70,000	5,599,601	5,619,600	0.19%
AMERICAN EXPRESS CO	100,000	1,643,961	5,323,000	0.18%
COLGATE PALMOLIVE CO	100,000	4,992,010	4,991,000	0.17%
NEWS CORP	302,900	5,165,395	4,900,922	0.16%
PAYCHEX INC	150,000	5,311,486	4,881,000	0.16%
LEXMARK INTERNATIONAL INC	74,500	4,563,825	4,829,835	0.16%
FORTUNE BRANDS INC	53,900	2,339,925	4,786,320	0.16%
MCCORMICK + CO INC	135,000	4,737,133	4,411,800	0.15%
CITRIX SYS INC	200,000	4,496,100	4,332,000	0.14%
WASHINGTON MUTUAL INC	103,700	4,342,012	4,219,553	0.14%
COCA COLA CO	100,000	5,122,197	4,175,000	0.14%
FLEXTRONICS INTERNATIONAL LTD	310,000	4,918,866	4,095,100	0.14%
BRISTOL MYERS SQUIBB CO	158,000	6,482,036	3,946,840	0.13%
APPLIED MATERIALS INC	238,000	3,569,392	3,850,840	0.13%
VISHAY INTERTECHNOLOGY INC	310,000	5,130,115	3,679,700	0.12%
XILINX INC	140,000	4,407,456	3,570,000	0.12%
SAP AKTIENGESELLSCHAFT	80,000	2,993,312	3,464,000	0.12%
ADOBE SYSTEMS INC	100,000	3,116,090	2,862,000	0.10%

<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
<b>MONTANA STOCK POOL TOTAL</b>	<b>39,680,498</b>	<b>1,264,857,181</b>	<b>1,501,726,262</b>	<b>49.86%</b>
BGI S&P 500 EQUITY INDEX FUND A	3,488,920	1,039,695,684	1,132,427,185	37.60%
BGI CASH	1	1	1	0.00%
<b>BGI EQUITY INDEX FUND</b>	<b>3,488,921</b>	<b>1,039,695,685</b>	<b>1,132,427,186</b>	<b>37.60%</b>
DIMENSIONAL FUND ADVISORS INC	263,374	177,282,131	243,808,328	8.09%
<b>DFA SMALL CAP SUBTRUST</b>	<b>263,374</b>	<b>177,282,131</b>	<b>243,808,328</b>	<b>8.09%</b>
BGI S&P 400 MIDCAP EQUITY INDEX FUND	6,289,916	100,000,000	106,616,769	3.54%
<b>BGI S&amp;P 400 MIDCAP EQUITY INDEX FUND</b>	<b>6,289,916</b>	<b>100,000,000</b>	<b>106,616,769</b>	<b>3.54%</b>
STATE STREET SPIFF	127,710	19,849,144	19,859,236	0.66%
STATE STREET SPIFF	48,077	7,518,437	7,476,150	0.25%
<b>TOTAL EQUITY FUTURES</b>	<b>175,787</b>	<b>27,367,581</b>	<b>27,335,386</b>	<b>0.91%</b>
<b>MDEP TOTAL</b>	<b><u>49,898,496</u></b>	<b><u>2,609,202,578</u></b>	<b><u>3,011,913,931</u></b>	<b><u>100.00%</u></b>

# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**B-40**

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

**STATEMENT OF NET ASSET VALUE JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Cash at fair value (carrying value of \$1,996,217 in 2005 and \$1,803,332 in 2004) (Notes 2, 4 and 7)	\$ 1,968,498	\$ 1,791,399
Security lending cash collateral (Notes 3 and 4)	34,537,173	43,804,312
Broker receivable for securities sold but not settled (Note 2)	735,494	6,267,489
Dividend and interest receivable	1,419,646	1,057,520
Investments managed at fair value (carrying value of \$840,131,984 in 2005 and \$786,482,403 in 2004) (Notes 2 and 4)	<u>993,518,620</u>	<u>853,937,359</u>
<b>Total assets</b>	<b>\$ <u>1,032,179,431</u></b>	<b>\$ <u>906,858,079</u></b>
<b><u>Liabilities</u></b>		
Income due participants	\$ 1,459,877	\$ 926,817
Broker payable for securities purchased but not settled (Note 2)	837,394	3,743,798
Security lending obligations (Note 3)	34,537,173	43,804,312
Security lending expense payable	113,089	37,056
Unrealized foreign exchange market gain (loss) (Note 7)	(1,670,430)	17,403
Administrative fee payable	<u>445,565</u>	<u>413,882</u>
<b>Total liabilities</b>	<b><u>35,722,668</u></b>	<b><u>48,943,268</u></b>
<b>Net asset value</b>	<b>\$ <u>996,456,763</u></b>	<b>\$ <u>857,914,811</u></b>
<b>Units Outstanding (Note 2)</b>	<b>8,192,033</b>	<b>7,966,121</b>
<b>Unit Value (Note 2)</b>	<b>\$ 121.64</b>	<b>\$ 107.70</b>

**STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net asset value, beginning of year	\$ 857,914,811	\$ 446,667,840
Value of units purchased by participants (Note 2)	25,000,000	253,000,000
Value of units sold by participants	0	0
Changes in current value of investments managed	<u>113,541,952</u>	<u>158,246,971</u>
<b>Net asset value, end of year</b>	<b>\$ <u>996,456,763</u></b>	<b>\$ <u>857,914,811</u></b>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Investment income (Note 2)	\$ 11,001,773	\$ 9,158,659
Security lending income	1,317,472	716,276
Security lending expense	(1,106,889)	(447,343)
Administrative expenses (Note 2)	(2,641,330)	(2,280,171)
Income due participants, beginning of year	<u>926,817</u>	<u>771,639</u>
<b>Income available for distribution</b>	<b>9,497,843</b>	<b>7,919,060</b>
<b>Distribution (Note 2)</b>	<b><u>8,037,966</u></b>	<b><u>6,992,243</u></b>
<b>Income due participants, end of year</b>	<b>\$ <u>1,459,877</u></b>	<b>\$ <u>926,817</u></b>

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, 2005 and 2004**

**1. HISTORY AND ORGANIZATION**

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. 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 five externally managed funds, Pymco International, Schroder Investment Management NA, Nomura Asset Management U.S.A. Inc., Barclays Global Investors and Dimensional Fund Advisors, Inc. (DFA).

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 \$15 million in the BGI All Country Pacific Index Strategy Fund.

On October 30, 2003, the Board retained Schroder Investment Management NA, hired Nomura Asset Management U.S.A, Inc. and terminated 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.

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.

The internally managed fund, BOI Internal International, was closed in January 2004 and its assets 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.

On October 21, 2004, the Board authorized the investment in the Dimensional Fund Advisors, Inc. (DFA) International Small Company Portfolio. In fiscal year 2005, the Board funded \$75 million to DFA International Small Company Portfolio, \$29.5 million to the Barclays Global Investors (BGI) MSCI Europe Index Fund and withdrew \$29.5 million from the State Street SPIFF account. In February and June 2005, the Board requested the sale of \$10 million and \$15 million respectively of BGI MSCI Europe Index Fund resulting in a combined gain of \$4.1 million. In March 2005, the Board sold \$25 million in units held by Schroders Investment Management NA and recorded a gain of \$5.6 million.

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

The DFA International Small Company Portfolio invests in the European countries detailed above and the Pacific Basin countries of Australia, Hong Kong, Japan, New Zealand and Singapore.

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, the BGI All Country Pacific Index Strategy Fund and DFA International Small Company Portfolio. 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, DFA International Small Company Portfolio 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, Barclays Global Investors and Dimensional Fund Advisors. 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 2005 administrative expense of \$2,641,330 represents \$2,126,429 in quarterly fees accrued and paid to the external managers per their contracts and \$514,901 in monthly charges accrued and paid to the Board of Investments.

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.

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 2005 and 2004, 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 2005 and 2004 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 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street.

During fiscal years 2005 and 2004, 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 which has a weighted average maturity of 35 and 49 days, respectively as of June 30, 2005 and 2004. 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. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

The carrying amount and fair value of the underlying securities on loan for MTIP are detailed, by external investment manager, in the following table:

Carrying Amount and Fair Value of Securities on Loan

<u>External Investment Manager</u>	2005		2004	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Schroder Investment Mgmt.	\$ 6,217,820	\$ 7,804,614	\$ 13,211,062	\$ 15,558,175
Pyford International	8,367,610	11,720,776	19,179,273	25,316,583
Nomura Asset Management U.S.A., Inc	<u>11,360,634</u>	<u>14,147,953</u>	<u>717,352</u>	<u>872,784</u>
Total Investments on Loan	\$ <u>25,946,064</u>	\$ <u>33,673,344</u>	\$ <u>33,107,687</u>	\$ <u>41,747,542</u>
Securities Lending Collateral Investment Pool	\$ <u>34,537,173</u>	\$ <u>34,537,173</u>	\$ <u>43,804,312</u>	\$ <u>43,804,312</u>

As of June 30, 2005, the collateral provided for the securities on loan totaled \$34,537,173 in cash and \$779,936 in securities collateral. As of June 30, 2004, the collateral provided for the securities on loan totaled \$43,804,312 in cash collateral.

#### 4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The financial statement disclosures for the year ended June 30, 2004 have been restated to compare with the financial statement disclosures for the year ended June 30, 2005. The investment risk disclosures are described in the following paragraphs.

##### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all the MTIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The BGI MSCI Europe and Pacific Index and the DFA Small Company Portfolio are registered in the name of the Montana Board of Investments.

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The U.S. dollar balances of the MTIP cash and investments are disclosed by currency and investment type in the following table and Note 8 Year End Portfolio for 2005.

### MTIP Cash by Currency

<u>Cash</u>	2005		2004	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Australian Dollar	\$ 132,457	\$ 129,655	\$ 341,641	\$ 337,246
Hong Kong Dollar	124,923	124,949	94,269	94,237
France Euro	54	54	123	123
Japanese Yen	1,458,770	1,437,714	1,081,579	1,074,658
South Korean Won	4,185	4,085	4,043	4,047
Malaysian Ringgit	7,189	7,189	6,503	6,503
New Zealand Dollar	69,938	67,755	0	0
Philippine Peso	2,728	2,664	0	0
Singapore Dollar	1,233	1,219	34,154	33,981
Swiss Franc	0	0	87,862	88,171
New Taiwan Dollar	<u>194,741</u>	<u>193,214</u>	<u>153,158</u>	<u>152,433</u>
Total Cash	\$ <u>1,996,217</u>	\$ <u>1,968,498</u>	\$ <u>1,803,332</u>	\$ <u>1,791,399</u>

### MTIP Investment by Security Type

<u>Security Investment Type</u>	2005		2004	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
BGI MSCI Europe Index	\$ 384,025,081	\$ 466,246,669	\$ 375,433,656	\$ 389,187,569
BGI MSCI Pacific Index	40,005,322	50,628,249	40,005,322	46,167,852
BGI Cash and Money Market	1	1	781	781
DFA International Small Company	75,484,090	76,554,040	0	0
SPIFF	2,123,299	2,111,305	31,374,029	31,685,217
Schroder Investment Management	120,403,317	137,133,726	131,738,148	150,236,944
Pyford International	124,335,445	149,790,197	119,716,997	133,028,120
Nomura Asset Management U.S.A., Inc.	<u>93,755,428</u>	<u>111,054,432</u>	<u>88,213,470</u>	<u>103,630,876</u>
Total Investments	\$ <u>840,131,984</u>	\$ <u>993,518,620</u>	\$ <u>786,482,403</u>	\$ <u>853,937,359</u>
Securities Lending Collateral Investment Pool	<u>34,537,173</u>	<u>34,537,173</u>	<u>43,804,312</u>	<u>43,804,312</u>

The MTIP, through the above funds, has significant investments in 19 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 August 1, 2005, the Board sold Schroders Investment Management NA units for \$25 million generating a gain of \$5.1 million. The Board subsequently purchased \$10 million in the DFA International Small Company Portfolio.

## 6. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

## 7. RESTATEMENT

The June 30, 2004 Cash balance has been restated from the previously stated carrying amount of \$1,803,332 to \$1,791,399 to reflect the fair value of the U.S. dollar cash deposits. The June 30, 2004 Unrealized Foreign Exchange Market Gain (Loss) of \$29,339 has been restated to \$17,403 to recognize the reporting of cash at fair value.

## 8. YEAR END PORTFOLIO

The combined investment portfolios for the six funds, as of June 30, 2005 are listed below by currency. The percent is based on the total fair value of each security/country to the combined total portfolio fair value.

<u>Country</u>	<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
AUSTRALIAN DOLLAR	ALUMINA LIMITED	107,899	441,381	457,750	0.05%
AUSTRALIAN DOLLAR	AMCOR LIMITED	132,833	580,662	678,388	0.07%
AUSTRALIAN DOLLAR	AUSTRALIA / NEW ZEALAND BANK	77,797	934,989	1,288,776	0.13%
AUSTRALIAN DOLLAR	BHP BILLITON LTD	306,410	1,660,020	4,237,464	0.43%
AUSTRALIAN DOLLAR	BRADKEN LTD	62,948	122,193	138,559	0.01%
AUSTRALIAN DOLLAR	BRAMBLES INDUSTRIES LTD	107,170	551,485	667,410	0.07%
AUSTRALIAN DOLLAR	CFS GANDEL	448,421	557,370	572,079	0.06%
AUSTRALIAN DOLLAR	COCA COLA AMATIL	95,600	360,050	574,953	0.06%
AUSTRALIAN DOLLAR	COMMONWEALTH BK OF AUSTRALIA	76,700	1,634,876	2,217,970	0.22%
AUSTRALIAN DOLLAR	FOODLAND ASSOC	14,920	203,854	308,528	0.03%
AUSTRALIAN DOLLAR	FOSTERS GROUP	395,300	1,407,876	1,603,008	0.16%
AUSTRALIAN DOLLAR	INSURANCE AUSTRALIA GROUP	211,252	741,513	967,010	0.10%
AUSTRALIAN DOLLAR	LEND LEASE CORP	52,241	372,267	516,076	0.05%
AUSTRALIAN DOLLAR	MACQUARIE INFRASTRUCTURE	236,700	460,885	750,566	0.08%
AUSTRALIAN DOLLAR	MIRVAC GROUP	66,000	173,682	179,460	0.02%
AUSTRALIAN DOLLAR	NATIONAL AUSTRALIA BANK	127,849	2,711,857	2,997,144	0.30%
AUSTRALIAN DOLLAR	NEWCREST MINING	11,334	150,390	150,034	0.02%
AUSTRALIAN DOLLAR	ORIGIN ENERGY	56,000	322,930	324,585	0.03%
AUSTRALIAN DOLLAR	PUBLISHING + BROADCASTING LTD	38,173	465,750	431,756	0.04%
AUSTRALIAN DOLLAR	RINKER GROUP	166,983	1,012,376	1,781,014	0.18%
AUSTRALIAN DOLLAR	RIO TINTO LIMITED	92,319	2,102,604	3,152,959	0.32%
AUSTRALIAN DOLLAR	SONIC HEALTHCARE LTD	37,900	340,004	363,138	0.04%
AUSTRALIAN DOLLAR	TABCORP HOLDINGS LTD	113,591	1,190,544	1,419,349	0.14%
AUSTRALIAN DOLLAR	TELSTRA CORP	161,394	520,327	622,004	0.06%
AUSTRALIAN DOLLAR	WESTFIELD GROUP	44,176	420,908	596,892	0.06%
AUSTRALIAN DOLLAR	WESTPAC BANKING CORP	291,200	3,049,057	4,426,629	0.45%
AUSTRALIAN DOLLAR	WOODSIDE PETROLEUM	20,024	198,765	446,100	0.04%
AUSTRALIAN DOLLAR	WOOLWORTHS LTD	131,800	1,232,540	1,658,333	0.17%
<b>AUSTRALIAN DOLLAR</b>	<b>28 ISSUE(S)</b>	<b>3,684,934</b>	<b>23,921,155</b>	<b>33,527,931</b>	<b>3.37%</b>
FRANCE EURO	AIR LIQUIDE	11,881	1,993,586	2,026,667	0.20%
FRANCE EURO	CNP ASSURANCES	46,200	2,081,081	2,958,803	0.30%
FRANCE EURO	DEXIA	203,340	2,495,673	4,482,818	0.45%

<u>Country</u>	<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
FRANCE EURO	DEXIA STRIPS	129,140	0	1,563	0.00%
FRANCE EURO	TOTAL SA	24,900	3,538,744	5,857,206	0.59%
FRANCE EURO	VALEO	47,499	1,858,468	2,133,422	0.21%
FRANCE EURO	VEOLIA ENVIRONNEMENT	18,300	364,903	688,352	0.07%
<b>FRANCE EURO 7 ISSUE(S)</b>		<b>481,260</b>	<b>12,332,455</b>	<b>18,148,832</b>	<b>1.83%</b>
GERMANY EURO	HENKEL	6,900	396,625	618,325	0.06%
GERMANY EURO	SCHERING AG	42,600	2,054,357	2,624,068	0.26%
<b>GERMANY EURO 2 ISSUE(S)</b>		<b>49,500</b>	<b>2,450,982</b>	<b>3,242,393</b>	<b>0.33%</b>
HONG KONG DOLLAR	CHINA LIFE INSURANCE	430,000	288,955	293,226	0.03%
HONG KONG DOLLAR	CHINA MOBILE	202,500	562,682	754,280	0.08%
HONG KONG DOLLAR	CHINA OILFIELD SERVICE	740,000	248,723	273,734	0.03%
HONG KONG DOLLAR	CHINA TELECOM CORP	1,652,000	503,476	595,063	0.06%
HONG KONG DOLLAR	COSCO PACIFIC LTD	558,000	1,059,054	1,083,993	0.11%
HONG KONG DOLLAR	LI + FUNG	646,000	994,917	1,342,170	0.14%
HONG KONG DOLLAR	MTR CORP	218,243	339,199	421,202	0.04%
HONG KONG DOLLAR	PING AN INSURANCE	430,500	575,734	692,274	0.07%
HONG KONG DOLLAR	ZIJIN MINING GROUP CO LTD	500,000	90,296	110,008	0.01%
HONG KONG DOLLAR	CHEUNG KONG HOLDINGS	263,000	2,204,636	2,563,082	0.26%
HONG KONG DOLLAR	CHINA OVERSEAS LAND	1,248,000	244,537	231,226	0.02%
HONG KONG DOLLAR	CHINA PETROLEUM + CHEMICAL	740,000	220,529	290,396	0.03%
HONG KONG DOLLAR	CHINA ST CONSTRUCTION INTL	69,333	0	0	0.00%
HONG KONG DOLLAR	CLP HOLDINGS	131,736	609,312	755,959	0.08%
HONG KONG DOLLAR	CNOOC LTD	1,339,000	512,326	801,027	0.08%
HONG KONG DOLLAR	HANG SENG BANK	62,598	829,594	853,739	0.09%
HONG KONG DOLLAR	HOPEWELL HIGHWAY	392,000	248,014	282,444	0.03%
HONG KONG DOLLAR	SUN HUNG KAI PROPS	180,520	1,469,447	1,782,505	0.18%
HONG KONG DOLLAR	SWIRE PACIFIC	193,500	1,077,774	1,711,462	0.17%
HONG KONG DOLLAR	WHARF HOLDINGS	348,000	976,990	1,222,218	0.12%
<b>HONG KONG DOLLAR 20 ISSUE(S)</b>		<b>10,344,930</b>	<b>13,056,195</b>	<b>16,060,009</b>	<b>1.62%</b>
INDONESIAN RUPIAH	TELEKOMUNIKASI IND	1,948,500	696,380	998,207	0.10%
<b>INDONESIAN RUPIAH 1 ISSUE(S)</b>		<b>1,948,500</b>	<b>696,380</b>	<b>998,207</b>	<b>0.10%</b>
IRELAND EURO	ANGLO IRISH BANK	109,800	1,402,809	1,362,525	0.14%
IRELAND EURO	BANK OF IRELAND	307,100	3,847,507	4,989,427	0.50%
IRELAND EURO	IRISH LIFE + PERM	96,200	1,743,339	1,685,241	0.17%
<b>IRELAND EURO 3 ISSUE(S)</b>		<b>513,100</b>	<b>6,993,655</b>	<b>8,037,194</b>	<b>0.81%</b>
JAPANESE YEN	AISIN SEIKI CO	55,000	848,954	1,192,634	0.12%
JAPANESE YEN	AJINOMOTO CO INC	99,000	1,033,447	1,103,375	0.11%
JAPANESE YEN	ALPS ELECTRIC CO	15,000	200,105	229,646	0.02%
JAPANESE YEN	AMADA CO	59,000	343,161	401,632	0.04%
JAPANESE YEN	ASAHI GLASS CO	92,000	1,003,656	968,071	0.10%
JAPANESE YEN	ASAHI KASEI CORP	200,000	943,225	952,123	0.10%
JAPANESE YEN	ASTELLAS PHARMA INC	97,300	3,214,518	3,327,922	0.33%
JAPANESE YEN	BANDAI CO	9,700	245,623	195,907	0.02%
JAPANESE YEN	BANK OF YOKOHAMA	94,000	405,767	543,760	0.05%
JAPANESE YEN	BRIDGESTONE CORP	162,000	2,207,735	3,120,698	0.31%
JAPANESE YEN	CANON INC	25,500	1,274,217	1,343,922	0.14%
JAPANESE YEN	CANON SALES CO INC	26,000	202,301	438,373	0.04%
JAPANESE YEN	CENTRAL GLASS CO	76,000	446,881	474,872	0.05%
JAPANESE YEN	CITIZEN WATCH CO	31,000	225,354	280,624	0.03%
JAPANESE YEN	CREDIT SAISON CO	30,000	585,916	998,107	0.10%
JAPANESE YEN	DAICEL CHEM INDS	27,000	138,627	142,169	0.01%
JAPANESE YEN	DAIDO STEEL CO	164,000	269,292	739,338	0.07%
JAPANESE YEN	DAIKIN INDUSTRIES	63,300	1,398,001	1,584,265	0.16%
JAPANESE YEN	DENKI KAGAKU KOGYO	220,000	656,793	791,453	0.08%

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JAPANESE YEN	DOWA MINING CO	182,000	858,252	1,214,318	0.12%
JAPANESE YEN	EAST JAPAN RAILWAY	807	3,931,250	4,151,160	0.42%
JAPANESE YEN	ELECTRIC POWER DEVELOPMENT	38,700	1,059,142	1,121,081	0.11%
JAPANESE YEN	ELPIDA MEMORY INC	8,600	289,131	277,594	0.03%
JAPANESE YEN	FANUC	13,800	869,084	877,198	0.09%
JAPANESE YEN	FAST RETAILING CO	15,600	873,337	810,170	0.08%
JAPANESE YEN	FUJI PHOTO FILM CO	126,100	3,730,863	4,060,279	0.41%
JAPANESE YEN	FUJI SEAL INTERNATIONAL INC	9,300	298,546	295,425	0.03%
JAPANESE YEN	FUJIKURA	101,000	453,894	493,571	0.05%
JAPANESE YEN	FUJITSU	172,000	1,020,026	903,384	0.09%
JAPANESE YEN	FUNAI ELECTRIC CO	11,200	1,341,545	1,149,703	0.12%
JAPANESE YEN	GLORY	7,000	76,276	112,192	0.01%
JAPANESE YEN	HISAMITSU PHARMACEUTICALS CO	9,000	103,814	239,789	0.02%
JAPANESE YEN	HITACHI CHEMICAL	8,600	127,091	157,795	0.02%
JAPANESE YEN	HITACHI HIGH TECH	13,300	207,729	203,020	0.02%
JAPANESE YEN	HITACHI METALS	50,000	213,231	350,284	0.04%
JAPANESE YEN	HITACHI TRANSPORT SYSTEM	135,000	759,476	1,175,661	0.12%
JAPANESE YEN	HONDA MOTOR CO	97,000	3,820,449	4,786,012	0.48%
JAPANESE YEN	HOYA CORP	3,700	423,992	427,398	0.04%
JAPANESE YEN	ITO YOKADO CO	20,600	657,840	684,126	0.07%
JAPANESE YEN	ITOCHU CORP	229,000	565,836	1,158,318	0.12%
JAPANESE YEN	ITOCHU TECHNO SCIE	5,500	149,631	192,904	0.02%
JAPANESE YEN	JAPAN AIRPORT TERMINAL	103,000	791,446	955,546	0.10%
JAPANESE YEN	JFE HOLDING INC	84,000	1,482,460	2,075,196	0.21%
JAPANESE YEN	JS GROUP CORP	51,600	845,378	873,725	0.09%
JAPANESE YEN	KAKEN PHARM	9,000	61,290	61,834	0.01%
JAPANESE YEN	KAMIGUMI CO	84,000	565,380	648,309	0.07%
JAPANESE YEN	KANEKA CORP	94,000	807,329	1,056,132	0.11%
JAPANESE YEN	KDDI CORP	215	1,166,319	995,352	0.10%
JAPANESE YEN	KEIHIN CORP	29,000	275,998	474,835	0.05%
JAPANESE YEN	KEYENCE CORP	2,000	424,491	448,291	0.05%
JAPANESE YEN	KONICA MINOLTA HOLDINGS INC	87,500	934,384	817,329	0.08%
JAPANESE YEN	KURARAY CO	121,000	935,209	1,147,649	0.12%
JAPANESE YEN	KYORIN PHARMACEUTICALS	23,000	296,803	276,846	0.03%
JAPANESE YEN	LEOPALACE21	15,900	305,396	264,212	0.03%
JAPANESE YEN	MABUCHI MOTOR CO	9,700	698,555	559,363	0.06%
JAPANESE YEN	MARUI CO	66,000	1,007,492	890,443	0.09%
JAPANESE YEN	MATSUSHITA ELECTRIC IND	71,000	1,065,365	1,078,359	0.11%
JAPANESE YEN	MISUMI GROUP INC	3,800	116,911	120,945	0.01%
JAPANESE YEN	MITSUBISHI CORP	73,100	683,792	994,809	0.10%
JAPANESE YEN	MITSUBISHI ELECTRIC	199,000	661,834	1,055,970	0.11%
JAPANESE YEN	MITSUBISHI ESTATE	124,000	1,433,721	1,366,339	0.14%
JAPANESE YEN	MITSUBISHI TOKYO FINANCIAL	512	4,713,822	4,345,461	0.44%
JAPANESE YEN	mitsui + co	264,000	1,592,620	2,501,579	0.25%
JAPANESE YEN	mitsui fudosan co	102,000	898,473	1,144,982	0.12%
JAPANESE YEN	mitsui mining + sm	20,000	92,905	93,950	0.01%
JAPANESE YEN	mitsui sumitomo insurance co	89,000	498,854	801,650	0.08%
JAPANESE YEN	mitsukoshi ltd	67,000	340,916	302,047	0.03%
JAPANESE YEN	MURATA MFG CO	35,800	1,909,306	1,825,377	0.18%
JAPANESE YEN	NAMCO	28,800	375,419	383,273	0.04%
JAPANESE YEN	NGK SPARK PLUG CO	59,000	460,278	680,995	0.07%
JAPANESE YEN	NICHICON CORP	18,400	1,108,388	256,648	0.03%
JAPANESE YEN	NIHON UNISYS	3,500	32,728	34,808	0.00%
JAPANESE YEN	NINTENDO CO	8,000	671,005	836,714	0.08%
JAPANESE YEN	NIPPON CABLE SYSTEM	16,000	142,971	199,549	0.02%



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JAPANESE YEN	NIPPON ELECTRIC GLASS	80,000	707,045	1,208,908	0.12%
JAPANESE YEN	NIPPON OIL CORP	179,000	894,444	1,215,283	0.12%
JAPANESE YEN	NIPPON PAPER GROUP INC	345	1,735,995	1,267,169	0.13%
JAPANESE YEN	NIPPON SHEET GLASS	143,000	602,936	559,571	0.06%
JAPANESE YEN	NIPPON SUISAN	59,000	118,217	222,360	0.02%
JAPANESE YEN	NIPPON TEL+TEL	810	4,865,577	3,470,625	0.35%
JAPANESE YEN	NIPPON TV NETWORK	6,140	1,179,798	836,139	0.08%
JAPANESE YEN	NIPPON YUSEN	108,000	391,720	621,260	0.06%
JAPANESE YEN	NIPPON ZEON CO	41,000	320,274	354,513	0.04%
JAPANESE YEN	NISHIMATSUYA CHAIN	6,100	150,924	163,349	0.02%
JAPANESE YEN	NISSAN MOTOR CO	295,600	3,128,852	2,926,416	0.29%
JAPANESE YEN	NISSIN CO LTD	120,480	148,262	225,948	0.02%
JAPANESE YEN	NITTO DENKO CORP	13,000	628,047	746,142	0.08%
JAPANESE YEN	NOMURA HOLDINGS	119,800	1,655,202	1,434,659	0.14%
JAPANESE YEN	NTT DOCOMO	560	1,382,919	828,806	0.08%
JAPANESE YEN	OMRON CORP	75,800	1,353,432	1,672,512	0.17%
JAPANESE YEN	ONO PHARMACEUTICAL	7,600	309,178	360,436	0.04%
JAPANESE YEN	ORIENTAL LAND CO LTD	6,400	418,138	380,038	0.04%
JAPANESE YEN	ORIX CORP	10,400	631,057	1,560,328	0.16%
JAPANESE YEN	PARIS MIKI INC	9,000	141,089	194,753	0.02%
JAPANESE YEN	PROMISE CO	24,400	1,296,591	1,565,599	0.16%
JAPANESE YEN	RICOH CO	139,000	2,450,426	2,173,874	0.22%
JAPANESE YEN	ROHM CO	43,300	5,248,377	4,178,709	0.42%
JAPANESE YEN	SANKEN ELECTRIC CO	44,000	396,850	574,051	0.06%
JAPANESE YEN	SANKYO CO	13,900	242,956	266,946	0.03%
JAPANESE YEN	SANKYO TATETAMA HO	87,000	288,308	215,715	0.02%
JAPANESE YEN	SANYO SHOKAI	55,000	357,116	284,645	0.03%
JAPANESE YEN	SAPPORO HOKUYO HOLDINGS	25	169,916	192,724	0.02%
JAPANESE YEN	SEIKO CORPORATION	19,000	90,125	103,129	0.01%
JAPANESE YEN	SEKISUI CHEMICAL	140,000	944,002	965,256	0.10%
JAPANESE YEN	SEVEN ELEVEN JAPAN	28,000	840,190	777,567	0.08%
JAPANESE YEN	SHIMACHU CO	12,500	292,539	314,444	0.03%
JAPANESE YEN	SHIMADZU CORP	62,000	314,856	390,190	0.04%
JAPANESE YEN	SHIMANO INC	13,800	266,345	391,939	0.04%
JAPANESE YEN	SHIN ETSU CHEMICAL CO	42,200	1,559,171	1,603,303	0.16%
JAPANESE YEN	SHIONOGI + CO	45,000	625,306	580,606	0.06%
JAPANESE YEN	SHOWA DENKO	338,000	697,275	801,497	0.08%
JAPANESE YEN	SHOWA SHELL SEKIYU	73,500	480,412	736,260	0.07%
JAPANESE YEN	SMC CORP	11,400	1,109,509	1,244,834	0.13%
JAPANESE YEN	SOHGO SECURITY SERVICES	26,400	331,722	349,905	0.04%
JAPANESE YEN	SOMPO JAPAN INSURANCE	134,000	762,599	1,354,390	0.14%
JAPANESE YEN	STANLEY ELECTRIC	52,800	869,163	856,911	0.09%
JAPANESE YEN	SUMITOMO BAKELITE	52,000	296,107	336,937	0.03%
JAPANESE YEN	SUMITOMO ELEC INDS	216,000	1,842,340	2,213,877	0.22%
JAPANESE YEN	SUMITOMO MITSUI	597	3,890,519	4,038,424	0.41%
JAPANESE YEN	SUMITOMO TRUST+BKG	194,000	1,105,049	1,180,687	0.12%
JAPANESE YEN	SUZUKEN CO LTD	19,600	525,263	494,378	0.05%
JAPANESE YEN	T+D HOLDINGS INC	30,950	1,386,779	1,457,466	0.15%
JAPANESE YEN	TAIYO YUDEN CO	56,000	605,390	621,044	0.06%
JAPANESE YEN	TAKASHIMAYA CO	80,000	567,089	716,903	0.07%
JAPANESE YEN	TAKEDA PHARMACEUTICAL CO LTD	84,500	3,344,781	4,194,116	0.42%
JAPANESE YEN	TANABE SEIYAKU CO	27,000	222,836	260,481	0.03%
JAPANESE YEN	TDK CORP	8,100	513,570	552,123	0.06%
JAPANESE YEN	THK CO	60,800	1,102,181	1,255,960	0.13%
JAPANESE YEN	TIS INC	8,400	253,317	287,044	0.03%

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JAPANESE YEN	TOHO CO	58,500	509,371	844,689	0.09%
JAPANESE YEN	TOKAI RUBBER I	12,000	157,504	161,320	0.02%
JAPANESE YEN	TOKYO GAS CO	147,000	512,025	550,041	0.06%
JAPANESE YEN	TOKYO SEIMITSU CO	27,800	834,763	1,122,929	0.11%
JAPANESE YEN	TOYO SEIKAN KAISHA	27,600	382,058	436,235	0.04%
JAPANESE YEN	TOYO SUISAN KAISHA	24,000	247,875	375,656	0.04%
JAPANESE YEN	TOYOTA INDUSTRIES	22,200	414,667	607,039	0.06%
JAPANESE YEN	TOYOTA MOTOR CORP	135,700	3,827,176	4,861,736	0.49%
JAPANESE YEN	TOYS R US	9,000	154,576	131,539	0.01%
JAPANESE YEN	UNITED ARROWS LTD	10,000	195,374	314,670	0.03%
JAPANESE YEN	USHIO INC	11,000	186,807	195,880	0.02%
JAPANESE YEN	VICTOR CO OF JAPAN	134,000	1,128,875	925,471	0.09%
JAPANESE YEN	YAMAHA CORP	71,600	1,208,506	1,116,833	0.11%
JAPANESE YEN	YAMATO TRANSPORT	37,000	417,311	514,063	0.05%
JAPANESE YEN	YORK BENIMARU CO	21,600	498,263	592,582	0.06%
<b>JAPANESE YEN 144 ISSUE(S)</b>		<b>9,040,641</b>	<b>131,598,475</b>	<b>143,770,620</b>	<b>14.47%</b>
MALAYSIAN RINGGIT	GENTING BERHAD	137,722	602,677	684,986	0.07%
MALAYSIAN RINGGIT	IOI CORP	60,000	114,598	165,789	0.02%
MALAYSIAN RINGGIT	LAFARGE MALAYAN CEMENT	3,584,500	773,803	570,690	0.06%
MALAYSIAN RINGGIT	MALAYAN BANK	122,300	310,850	350,808	0.04%
MALAYSIAN RINGGIT	MALAYSIA INTERNATIONAL SHIP	52,000	165,672	244,947	0.02%
MALAYSIAN RINGGIT	MAXIS COMMUN	74,000	147,957	188,895	0.02%
MALAYSIAN RINGGIT	PLUS EXPRESSWAYS B	180,000	121,195	155,368	0.02%
MALAYSIAN RINGGIT	PUBLIC BANK	135,900	209,673	239,613	0.02%
MALAYSIAN RINGGIT	SP SETIA	230,000	219,721	246,947	0.02%
MALAYSIAN RINGGIT	TELEKOM MALAYSIA	376,100	1,014,982	989,737	0.10%
MALAYSIAN RINGGIT	YTL POWER INTL	180,000	94,161	94,737	0.01%
<b>MALAYSIAN RINGGIT 11 ISSUE(S)</b>		<b>5,132,522</b>	<b>3,775,289</b>	<b>3,932,518</b>	<b>0.40%</b>
NETHERLANDS EURO	AEGON NV	105,423	1,701,931	1,366,920	0.14%
NETHERLANDS EURO	REED ELSEVIER NV	195,900	2,507,993	2,732,155	0.27%
NETHERLANDS EURO	ROYAL DUTCH PETROL	105,900	5,151,755	6,923,219	0.70%
NETHERLANDS EURO	TNT NV	122,300	2,333,240	3,101,908	0.31%
NETHERLANDS EURO	VNU NV	103,000	2,830,187	2,876,757	0.29%
<b>NETHERLANDS EURO 5 ISSUE(S)</b>		<b>632,523</b>	<b>14,525,106</b>	<b>17,000,959</b>	<b>1.71%</b>
NEW TAIWAN DOLLAR	ACER INC	277,000	449,700	547,595	0.06%
NEW TAIWAN DOLLAR	ADVANCED SEMICONDUCTOR	380,000	269,210	284,595	0.03%
NEW TAIWAN DOLLAR	ADVANTECH	152,975	343,181	362,557	0.04%
NEW TAIWAN DOLLAR	AU OPTRONICS CORP	58,590	817,331	992,515	0.10%
NEW TAIWAN DOLLAR	AU OPTRONICS CORP	168,000	275,604	281,103	0.03%
NEW TAIWAN DOLLAR	CATHAY FINANCIAL	237,000	422,926	478,265	0.05%
NEW TAIWAN DOLLAR	CATHAY FINANCIAL HLDG LTD	68,099	1,020,746	1,370,833	0.14%
NEW TAIWAN DOLLAR	CHINA STEEL	6,000	121,200	120,600	0.01%
NEW TAIWAN DOLLAR	CHINA STEEL	29,462	376,047	592,186	0.06%
NEW TAIWAN DOLLAR	CHINA TRUST FINANCE	1,409,800	1,567,826	1,537,837	0.15%
NEW TAIWAN DOLLAR	DELTA ELECTRONICS	178,200	229,628	276,775	0.03%
NEW TAIWAN DOLLAR	FAR EASTONE TELECOMMUNIC	45,500	808,204	864,500	0.09%
NEW TAIWAN DOLLAR	FORMOSA PLASTIC	490,500	712,170	802,904	0.08%
NEW TAIWAN DOLLAR	FUBON FINANCIAL HOLDING CO LTD	117,275	1,143,780	1,131,704	0.11%
NEW TAIWAN DOLLAR	GIANT MANUFACTURING	188,000	327,308	303,580	0.03%
NEW TAIWAN DOLLAR	HON HAI PRECISION	77,049	298,885	400,897	0.04%
NEW TAIWAN DOLLAR	HON HAI PRECISION IND LTD	144,635	1,015,988	1,496,972	0.15%
NEW TAIWAN DOLLAR	MERRY ELECTRONICS	80,723	188,146	215,550	0.02%
NEW TAIWAN DOLLAR	POLARIS SECURITIES	1,353,000	702,547	674,029	0.07%
NEW TAIWAN DOLLAR	QUANTA COMPUTER	214,000	369,575	409,133	0.04%
NEW TAIWAN DOLLAR	TAISHIN FINANCIAL	350,000	316,660	293,648	0.03%

<u>Country</u>	<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
NEW TAIWAN DOLLAR	TAIWAN SECOM CO	290,000	320,808	449,044	0.05%
NEW TAIWAN DOLLAR	TAIWAN SEMICONDUCTOR	1,065,980	1,675,607	1,857,104	0.19%
NEW TAIWAN DOLLAR	UNITED MICRO	1,546,000	1,058,146	1,124,438	0.11%
NEW TAIWAN DOLLAR	UNITED MICROELECTRONICS CORP	83,896	273,812	344,813	0.03%
<b>NEW TAIWAN DOLLAR 25 ISSUE(S)</b>		<b>9,011,684</b>	<b>15,105,035</b>	<b>17,213,176</b>	<b>1.73%</b>
NEW ZEALAND DOLLAR	FLETCHER BUILDING	43,000	124,336	206,713	0.02%
NEW ZEALAND DOLLAR	TELECOM CORP OF NZ	138,676	554,491	579,826	0.06%
<b>NEW ZEALAND DOLLAR 2 ISSUE(S)</b>		<b>181,676</b>	<b>678,827</b>	<b>786,540</b>	<b>0.08%</b>
PHILIPPINE PESO	AYALA LAND INC	7,987,976	988,387	1,114,530	0.11%
PHILIPPINE PESO	BANK OF PHILIPPINES ISLANDS	1,023,800	873,298	888,164	0.09%
<b>PHILIPPINE PESO 2 ISSUE(S)</b>		<b>9,011,776</b>	<b>1,861,685</b>	<b>2,002,694</b>	<b>0.20%</b>
PORTUGAL EURO	BRISA AUTO ESTRADA	166,900	1,327,808	1,311,352	0.13%
<b>PORTUGAL EURO 1 ISSUE(S)</b>		<b>166,900</b>	<b>1,327,808</b>	<b>1,311,352</b>	<b>0.13%</b>
POUND STERLING	ASTRO ALL ASIA	457,800	646,678	656,582	0.07%
POUND STERLING	BOOTS GROUP	78,000	836,223	851,449	0.09%
POUND STERLING	BP PLC	402,000	3,111,603	4,186,479	0.42%
POUND STERLING	BRITISH SKY BROADCAST	262,600	3,133,480	2,482,927	0.25%
POUND STERLING	COMPASS GROUP	906,000	5,182,577	3,808,183	0.38%
POUND STERLING	EXEL	142,100	1,673,505	2,162,462	0.22%
POUND STERLING	GALLAHER GROUP	281,900	2,634,417	4,188,865	0.42%
POUND STERLING	GLAXOSMITHKLINE	211,000	4,754,206	5,109,572	0.51%
POUND STERLING	HSBC HLDGS	83,600	1,127,403	1,344,380	0.14%
POUND STERLING	LEGAL + GENERAL	2,265,740	4,008,489	4,670,406	0.47%
POUND STERLING	RENTOKIL INITIAL	407,300	1,219,753	1,166,278	0.12%
POUND STERLING	SCOTTISH + SOUTHERN ENERGY	122,000	1,163,096	2,215,216	0.22%
POUND STERLING	TANJONG	70,800	200,904	244,074	0.02%
POUND STERLING	TOMKINS	405,837	1,608,059	1,902,261	0.19%
POUND STERLING	UNILEVER	130,064	1,142,243	1,255,422	0.13%
POUND STERLING	UNITED UTILITIES	296,000	2,636,756	3,501,728	0.35%
POUND STERLING	VODAFONE GROUP	1,889,544	3,619,694	4,606,199	0.46%
<b>POUND STERLING 17 ISSUE(S)</b>		<b>8,412,285</b>	<b>38,699,087</b>	<b>44,352,481</b>	<b>4.46%</b>
SINGAPORE DOLLAR	OVERSEAS CHINESE BANK	5,600	0	21,410	0.00%
SINGAPORE DOLLAR	CITY DEVELOPMENTS	48,000	174,196	213,390	0.02%
SINGAPORE DOLLAR	DBS GROUP HOLDINGS	181,266	1,434,022	1,536,292	0.15%
SINGAPORE DOLLAR	KEPPEL LAND LTD	156,000	156,381	231,173	0.02%
SINGAPORE DOLLAR	MOBILEONE	520,560	418,704	672,566	0.07%
SINGAPORE DOLLAR	OVERSEAS CHINESE BANK	28,000	188,157	192,525	0.02%
SINGAPORE DOLLAR	SINGAPORE AIRLINES	24,000	164,308	159,331	0.02%
SINGAPORE DOLLAR	SINGAPORE PRESS	351,768	952,062	896,491	0.09%
SINGAPORE DOLLAR	SINGAPORE TECH	120,000	144,839	172,135	0.02%
SINGAPORE DOLLAR	SINGAPORE TELECOMM	657,580	929,234	1,079,576	0.11%
SINGAPORE DOLLAR	SMRT CORPORATION	147,000	73,574	102,819	0.01%
SINGAPORE DOLLAR	UNITED OVERSEAS BANK	175,576	1,188,079	1,477,700	0.15%
SINGAPORE DOLLAR	UTD OVERSEAS LAND	17,557	18,694	23,726	0.00%
SINGAPORE DOLLAR	VENTURE CORP LTD	27,888	253,246	264,490	0.03%
<b>SINGAPORE DOLLAR 14 ISSUE(S)</b>		<b>2,460,795</b>	<b>6,095,494</b>	<b>7,043,624</b>	<b>0.71%</b>
SOUTH KOREAN WON	CHEIL COMMUNICATION	1,200	188,302	225,835	0.02%
SOUTH KOREAN WON	DAEWOO SHIPBUILDING + MARINE	28,790	474,931	552,957	0.06%
SOUTH KOREAN WON	HANA BANK	13,950	336,358	373,890	0.04%
SOUTH KOREAN WON	HANKOOK TIRE	101,410	1,182,454	1,226,536	0.12%
SOUTH KOREAN WON	HYUNDAI MOTOR CO	20,079	746,945	1,117,119	0.11%
SOUTH KOREAN WON	KOOKMIN BANK	25,600	1,181,407	1,165,438	0.12%
SOUTH KOREAN WON	KT + G CORPORATION	19,862	338,308	778,337	0.08%
SOUTH KOREAN WON	KT CORPORATION	4,069	160,486	165,358	0.02%

<u>Country</u>	<u>Security Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
SOUTH KOREAN WON	LG CHEMICAL	12,320	551,790	450,601	0.05%
SOUTH KOREAN WON	POSCO	3,261	346,568	575,842	0.06%
SOUTH KOREAN WON	SAMSUNG	1,000	104,693	93,953	0.01%
SOUTH KOREAN WON	SAMSUNG ELECTRONIC	12,235	2,941,521	5,848,176	0.59%
SOUTH KOREAN WON	SAMSUNG FIRE + MARINE	15,520	1,152,716	1,259,921	0.13%
SOUTH KOREAN WON	SEOUL SECURITIES	513,450	356,002	403,904	0.04%
SOUTH KOREAN WON	SHINHAN FINANCIAL	22,516	350,320	586,048	0.06%
SOUTH KOREAN WON	SHINSEGAE CO LTD	2,110	361,947	667,605	0.07%
SOUTH KOREAN WON	SK TELECOM	2,703	474,998	476,000	0.05%
<b>SOUTH KOREAN WON</b>	<b>17 ISSUE(S)</b>	<b>800,075</b>	<b>11,249,747</b>	<b>15,967,519</b>	<b>1.61%</b>
SPAIN EURO	BBVA	302,900	3,419,211	4,679,165	0.47%
SPAIN EURO	ENAGAS SA	122,200	1,068,080	2,167,341	0.22%
SPAIN EURO	ENDESA S.A.	182,700	2,393,443	4,293,213	0.43%
SPAIN EURO	RED ELECTRICA DE ESPANA	94,100	1,628,435	2,607,677	0.26%
SPAIN EURO	TELEFONICA SA	422,093	5,009,893	6,919,030	0.70%
SPAIN EURO	TPI TELEPHONE	200,700	1,400,156	1,756,726	0.18%
<b>SPAIN EURO</b>	<b>6 ISSUE(S)</b>	<b>1,324,693</b>	<b>14,919,219</b>	<b>22,423,151</b>	<b>2.26%</b>
SWISS FRANC	NESTLE SA	28,130	6,240,598	7,202,123	0.72%
SWISS FRANC	NOVARTIS AG	185,600	7,185,530	8,844,649	0.89%
SWISS FRANC	ROCHE HOLDINGS AG	43,710	3,837,287	5,534,121	0.56%
SWISS FRANC	SWATCH GROUP	7,000	744,771	983,530	0.10%
SWISS FRANC	SWISS REINSURANCE	96,600	7,250,055	5,941,831	0.60%
SWISS FRANC	SWISSCOM AG	3,700	1,181,506	1,207,244	0.12%
SWISS FRANC	SYNTHESE INC	9,250	601,526	1,015,904	0.10%
SWISS FRANC	ZURICH FIN SVS GRP	16,790	4,125,167	2,893,788	0.29%
<b>SWISS FRANC</b>	<b>8 ISSUE(S)</b>	<b>390,780</b>	<b>31,166,439</b>	<b>33,623,190</b>	<b>3.38%</b>
THAILAND BAHT	BANGKOK BANK	97,600	198,245	238,452	0.02%
THAILAND BAHT	BANGKOK BANK	332,300	894,612	868,548	0.09%
THAILAND BAHT	KASIKORNBANK PCL	120,000	169,110	159,652	0.02%
THAILAND BAHT	KASIKORNBANK PCL	253,100	253,804	336,732	0.03%
THAILAND BAHT	PTT EXPLORTION + PRODUCTION	65,800	305,832	557,088	0.06%
THAILAND BAHT	SIAM CEMENT CO	55,000	262,917	303,338	0.03%
THAILAND BAHT	THAI OIL PLC	283,300	295,856	411,375	0.04%
THAILAND BAHT	TRUE CORPORATION PUBLIC CO LTD	130,895	0	0	0.00%
<b>THAILAND BAHT</b>	<b>8 ISSUE(S)</b>	<b>1,337,995</b>	<b>2,380,376</b>	<b>2,875,184</b>	<b>0.29%</b>
US DOLLAR	BGI CASH	1	1	1	0.00%
US DOLLAR	BGI EQUITY INDEX FUND EUROPE	45,849,990	384,025,081	466,246,669	46.93%
US DOLLAR	BGI PACIFIC INDEX STRATEGY FUND	3,578,423	40,005,322	50,628,249	5.10%
US DOLLAR	DFA INTERNATIONAL SMALL CO	5,218,408	75,484,090	76,554,040	7.71%
<b>US DOLLAR</b>	<b>4 ISSUE(S)</b>	<b>54,646,822</b>	<b>499,514,494</b>	<b>593,428,959</b>	<b>59.73%</b>
<b>EQUITY TOTAL</b>	<b>325 ISSUE(S)</b>	<b>119,573,391</b>	<b>832,347,904</b>	<b>985,746,533</b>	<b>99.22%</b>
US DOLLAR	STATE STREET SPIFF	13,577	2,123,299	2,111,305	0.21%
<b>EQUITY FUTURES TOTAL</b>	<b>1 ISSUE(S)</b>	<b>13,577</b>	<b>2,123,299</b>	<b>2,111,305</b>	<b>0.21%</b>
US DOLLAR	STATE STREET BANK + TRUST CO	5,660,782	5,660,782	5,660,782	0.57%
<b>CASH TOTAL</b>	<b>1 ISSUE(S)</b>	<b>5,660,782</b>	<b>5,660,782</b>	<b>5,660,782</b>	<b>0.57%</b>
<b>MTIP GRAND TOTALS</b>	<b>327 ISSUE(S)</b>	<b>125,247,750</b>	<b>840,131,984</b>	<b>993,518,620</b>	<b>100.00%</b>

# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**B-54**

**STATE OF MONTANA BOARD OF INVESTMENTS  
MONTANA PRIVATE EQUITY POOL FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSET VALUE JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Cash	\$ 0	\$ 0
Dividend/interest receivable	28	1,172,950
Investments managed at fair value (carrying value of \$272,828,932 in 2005 and \$236,711,043 in 2004)(Notes 2 and 4)	<u>297,638,172</u>	<u>258,478,490</u>
<b>Total assets</b>	<b>\$ <u>297,638,200</u></b>	<b>\$ <u>259,651,440</u></b>
<b><u>Liabilities</u></b>		
Income due participants	\$ 209,681	\$ 5,273,616
<b>Total liabilities</b>	<b><u>209,681</u></b>	<b><u>5,273,616</u></b>
<b>Net asset value</b>	<b>\$ <u>297,428,519</u></b>	<b>\$ <u>254,377,824</u></b>
Units Outstanding (Note 2)	2,562,719	2,562,719
Unit Value (Note 2)	\$ 116.06	\$ 99.26

**STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net asset value, beginning of year	\$ 254,377,824	\$ 298,187,576
Value of units purchased by participants (Notes 1 and 2)	0	0
Value of units sold by participants	0	(33,130,061)
Changes in fair value of investments managed	<u>43,050,695</u>	<u>(10,679,691)</u>
<b>Net asset value, end of year</b>	<b>\$ <u>297,428,519</u></b>	<b>\$ <u>254,377,824</u></b>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Net realized gains (Note 2)	\$ 0	\$ 76,554,966
Dividend/interest income	2,846,253	5,260,917
Administrative expenses (Note 2)	(3,734,605)	(2,681,882)
Other expenses (Note 2)	(67,925)	0
Income due participants, beginning of year	<u>5,273,616</u>	<u>7,361,863</u>
<b>Income available for distribution</b>	<b>4,317,339</b>	<b>86,495,864</b>
Distribution (Note 2)	<u>4,107,658</u>	<u>81,222,248</u>
<b>Income due participants, end of year</b>	<b>\$ <u>209,681</u></b>	<b>\$ <u>5,273,616</u></b>

STATE OF MONTANA BOARD OF INVESTMENTS  
MONTANA PRIVATE EQUITY POOL

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. The Montana Private Equity Pool (MPEP) was created by the Board to allow retirement funds, per section 17-6-201, MCA, the opportunity to participate in 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 MPEP. These investments were previously reported in the All Other Funds financial statements.

Due to the complexity and specialization of private equity investment, the Board contracts with external private equity managers to invest in venture capital, leveraged buyout and other private equity investments. The ten external managers as of June 30, 2005, by Board approval date, are:

Kohlberg, Kravis, Roberts and Company (KKR)	August 1987
Adams Street Partners, formerly Brinson Partners	January 1988
Welsh Carson Anderson and Stowe	September 2000
Madison Dearborn Partners	January 2001
Lexington Partners	May 2001
Oaktree Capital Management	September 2002
ArcLight Energy Partners	April 2004
Inter Mountain Private Equity Partners	October 2004
Odyssey Investment Partners	December 2004
Carlyle Partners	January 2005

In April 2005, the Board approved the staff recommendation that the "Board permanently delegate discretionary investment authority to Staff to negotiate and make binding commitments for MPEP private equity manager participation".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MPEP 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.

MPEP cash is invested in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Cash is swept daily into SPIFF so MPEP can maintain 100% equity exposure.

Investments are presented in the Statement of Net Asset Value at fair value. Because a recognized market does not exist for private equity investment, 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.

### Participant Units

The nine 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. MPEP dividends are recorded on the ex-dividend date. For fiscal year 2005, the net realized gains totaled zero as compared to the fiscal year 2004 net realized gains of \$76.6 million. This difference is attributed to a policy change. Effective July 1, 2004, the MPEP net realized gains and losses were retained in the pool rather than distributed to the MPEP participants. This policy change also affected an increase in the Unit Value from \$99.26 as of June 30, 2004 to \$116.06 as of June 30, 2005. The fiscal year 2005 Investment Income reflects only the distribution of ordinary income. The fiscal year 2004 Investment Income includes the distribution of both ordinary income and net realized gains.

The MPEP Income Available for Distribution is distributed or reinvested, on behalf of the nine retirement fund participants 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 Board administrative expenses.

The fiscal year 2005 administrative expense of \$3,734,605 represents fees paid to the external managers of \$3,498,261 per their contracts and \$236,344 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 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 2005 other expenses represent interest paid in subscribing to a new partnership.

### 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, 2005, are listed on the next page.



<u>Security Investment</u>	<u>Original Commitment Date</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Separate Account Partnerships	Jan 1988-Apr 1990	\$ 14,000,000	\$ 25,000	\$ 2,320,515	\$ 871,970
Venture Partnership Acquisition Fund II	April 1990	4,000,000	0	190,080	48,756
Brinson Venture Capital/Partners Fund III	March 1992	10,000,000	0	2,783,546	1,984,407
Brinson Venture Capital/Partners Fund III	October 1999	10,000,000	0	3,264,253	1,984,817
Brinson Venture Capital Fund IV	May 1999	15,000,000	891,667	12,844,288	9,174,546
Brinson Non-US Partnership Trust	January 1999	10,000,000	3,430,211	5,470,927	6,606,763
Brinson Partnership Trust 1996-2003	March 1996	103,940,867	30,928,433	61,044,091	57,048,755
Adams Street Non-US Partnership Trust	Aug 2001-Dec 2004	16,000,000	12,879,500	2,904,195	3,162,369
Adams Street Partnership Fund	Aug 2001-Dec 2004	94,000,000	75,488,000	17,325,831	17,773,738
Adams Street Partners Fund V	August 2001	40,000,000	24,800,000	15,200,000	13,289,360
Adams Street Global Opportunities	September 2003	25,000,000	23,687,500	1,018,781	1,456,433
Adams Street Total		341,940,867	172,130,311	124,366,507	113,401,916
ArcLight Energy Partners Fund II	April 2004	25,000,000	19,929,911	4,202,766	4,712,780
ArcLight Total		25,000,000	19,929,911	4,202,766	4,712,780
Carlyle Partners Fund IV	January 2005	35,000,000	34,643,001	7,000	7,000
Carlyle Total		35,000,000	34,643,001	7,000	7,000
Inter Mountain Private Equity Partners LP	October 2004	25,000,000	25,000,000	83,333	83,333
Inter Mountain Private Equity Total *		25,000,000	25,000,000	83,333	83,333
KKR 1986, 1987 Fund	August 1987	25,300,000	0	2,021,493	1,803,590
KKR 1993 Fund	December 1990	25,000,000	0	1,285,300	698,882
KKR 1996 Fund	July 1996	100,000,000	0	38,720,252	40,821,058
KKR European Fund	August 1999	25,000,000	3,866,346	16,260,936	18,864,832
KKR Total		175,300,000	3,866,346	58,287,981	62,188,362
Lexington Capital Partners Fund V	May 2001	50,000,000	14,947,423	21,520,090	32,388,833
Lexington Capital Partners Total		50,000,000	14,947,423	21,520,090	32,388,833
Madison Dearborn Partners Fund IV	January 2001	22,509,475	9,061,566	7,792,944	7,366,529
Madison Dearborn Global Fund IV	September 2002	2,490,525	0	3,550,648	4,203,432
Madison Dearborn Total		25,000,000	9,061,566	11,343,592	11,569,961
Oaktree Capital Fund IVB	September 2002	75,000,000	0	1	16,896,984
Oaktree Total		75,000,000	0	1	16,896,984
Odyssey Investment Partners Fund III	December 2004	25,000,000	20,149,852	4,464,155	4,127,031
Odyssey Total		25,000,000	20,149,852	4,464,155	4,127,031
Welsh Carson Anderson & Stowe Fund IX	September 2000	25,000,000	4,250,000	12,954,898	16,634,646
WCAS Capital Partners Fund IV	June 2004	25,000,000	22,000,000	3,000,000	3,000,000
Welsh Carson Total		50,000,000	26,250,000	15,954,898	19,634,646
Total Private Equity Commitments		\$ 827,240,867	\$ 325,978,410	\$ 240,230,324	\$ 265,010,847

\* Commitment contingent upon Intermountain Private Equity Partners raising an additional \$15 million capital.

#### 4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

##### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all MPEP investments were recorded in the name of the Montana Board of Investments. The State Street Bank repurchase agreement for \$447,174, as of June 30, 2005, was purchased in the State of Montana Board of Investments name. This repurchase agreement was collateralized at \$458,263 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

##### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement No. 40, no foreign currency risk disclosure is required for these limited partnership investments.

As provided for in the partnership agreements, 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.

## Specific 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 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 contribute to the reduction of portfolio risk and the enhancement of expected returns on a total investment portfolio basis. Specific risks associated with MPEP are further described in the MPEP Investment Policy Statement.

### 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 faced potential liability. O'Donnell & Masur L.P. 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. PRIVATE EQUITY COMMITMENT

In August 2005, the staff committed \$25 million to Oak Hill Capital Partnership Fund II (OHCP II), a buyout fund focused on middle-markets companies located in the United States and Canada. On August 24, 2005, the Board made the initial investment of \$2,979,762 which included investment, interest, and related fees.

### 7. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

### 8. YEAR END PORTFOLIO

The June 30, 2005 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.

<u>Security Name</u>	<u>Par</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
ALTA SUB DEBT PARTNERS III	74,258	74,258	75,694	0.03%
AUSTIN VENTURES III	235,584	235,584	209,925	0.07%
CAPITAL PARTNERS HOLDINGS II A	9,599	9,599	241,023	0.08%
GATEWAY VENTURE PARTNERS III	263,454	263,454	1,408	0.00%
INTERWEST PARTNERS IV	275,177	275,177	2,795	0.00%
MATRIX PARTNERS III L P	68,064	68,064	15,577	0.01%
NEW ENTERPRISE ASSOC V LP	253,338	253,338	51,154	0.02%
O DONNELL + MASUR L P	352,319	352,319	175,164	0.06%
SPROUT CAPITAL VI	244,756	244,756	362	0.00%
SUMMIT VENTURE II	128,881	128,881	1,644	0.00%
WCAS CAPITAL PARTNERS II	261,611	261,611	96,984	0.03%
WILLIAM BLAIR PARTNERS III LP	153,476	153,476	240	0.00%

<u>Security Name</u>	<u>Par</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
<b>SEPARATE PARTNERSHIPS</b>	<b>2,320,515</b>	<b>2,320,515</b>	<b>871,970</b>	<b>0.29%</b>
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	48,756	0.02%
<b>VENTURE PARTNER ACQUISITION II</b>	<b>190,080</b>	<b>190,080</b>	<b>48,756</b>	<b>0.02%</b>
BRINSON VENTURE CAPITAL III SECONDARY	635,144	635,144	391,811	0.13%
BRINSON VENTURE PARTNERS III SECONDARY	2,629,109	2,629,109	1,593,006	0.54%
BRINSON VENTURE CAPITAL FUND III	555,556	555,556	391,811	0.13%
BRINSON VENTURE PARTNER FUND III	2,227,990	2,227,990	1,592,596	0.54%
<b>INSTITUTIONAL VENTURE CAP FUND III</b>	<b>6,047,799</b>	<b>6,047,799</b>	<b>3,969,225</b>	<b>1.33%</b>
BRINSON VENTURE CAPITAL FUND IV	12,844,288	12,844,288	9,174,546	3.08%
<b>BRINSON VENTURE CAPITAL FUND IV</b>	<b>12,844,288</b>	<b>12,844,288</b>	<b>9,174,546</b>	<b>3.08%</b>
BRINSON NON US PARTNERSHIP FUND	5,470,927	5,470,927	6,606,763	2.22%
BRINSON PARTNERSHIP FUND TRUST	61,044,091	61,044,091	57,048,755	19.17%
<b>BRINSON PARTNERSHIP TRUST</b>	<b>66,515,018</b>	<b>66,515,018</b>	<b>63,655,518</b>	<b>21.39%</b>
ADAMS NON US PARTNERSHIP FUND	2,904,195	2,904,195	3,162,369	1.06%
ADAMS STREET PARTNERSHIP FUND	17,325,831	17,325,831	17,773,738	5.97%
<b>ADAMS STREET PARTNERS TRUST</b>	<b>20,230,026</b>	<b>20,230,026</b>	<b>20,936,108</b>	<b>7.03%</b>
ADAMS STREET FUND V	15,200,000	15,200,000	13,289,360	4.46%
<b>ADAMS STREET FUND V</b>	<b>15,200,000</b>	<b>15,200,000</b>	<b>13,289,360</b>	<b>4.46%</b>
ADAMS STREET GLOBAL OPPORTUNITES	1,018,781	1,018,781	1,456,433	0.49%
<b>ADAMS STREET GLOBAL OPPORTUNITES</b>	<b>1,018,781</b>	<b>1,018,781</b>	<b>1,456,433</b>	<b>0.49%</b>
<b>ADAMS STREET TOTAL</b>	<b>124,366,507</b>	<b>124,366,507</b>	<b>113,401,916</b>	<b>38.10%</b>
ARCLIGHT ENERGY PARTNERS FD II	4,202,766	4,202,766	4,712,780	1.58%
<b>ARCLIGHT CAPITAL TOTAL</b>	<b>4,202,766</b>	<b>4,202,766</b>	<b>4,712,780</b>	<b>1.58%</b>
CARLYLE PARTNERS IV, L.P.	7,000	7,000	7,000	0.00%
<b>CARLYLE TOTAL</b>	<b>7,000</b>	<b>7,000</b>	<b>7,000</b>	<b>0.00%</b>
INTER MOUNTAIN PRIVATE EQUITY PARTNERS TOTAL	83,333	83,333	83,333	0.03%
<b>INTER MOUNTAIN TOTAL</b>	<b>83,333</b>	<b>83,333</b>	<b>83,333</b>	<b>0.03%</b>
KKR 1986 1987	2,021,493	2,021,493	1,803,590	0.61%
KKR 1993	1,285,300	1,285,300	698,882	0.23%
KKR 1996	38,720,252	38,720,252	40,821,058	13.71%
KKR EUROPEAN FUND	16,260,936	16,260,936	18,864,832	6.34%
<b>KKR TOTAL</b>	<b>58,287,981</b>	<b>58,287,981</b>	<b>62,188,362</b>	<b>20.89%</b>
LEXINGTON CAPITAL PARTNERSHIP V LP	21,520,090	21,520,090	32,388,833	10.88%
<b>LEXINGTON CAPITAL TOTAL</b>	<b>21,520,090</b>	<b>21,520,090</b>	<b>32,388,833</b>	<b>10.88%</b>
MADISON DEARBORN CAPITAL PARTNERS IV	7,792,944	7,792,944	7,366,529	2.47%
MDP IV GLOBAL INVESTMENTS LP	3,550,648	3,550,648	4,203,432	1.41%
<b>MADISON DEARBORN TOTAL</b>	<b>11,343,592</b>	<b>11,343,592</b>	<b>11,569,961</b>	<b>3.89%</b>
OCM OPPORTUNITIES FUND IVB LP	1	1	16,896,984	5.68%
<b>OAKTREE CAPITAL TOTAL</b>	<b>1</b>	<b>1</b>	<b>16,896,984</b>	<b>5.68%</b>
ODYSSEY INVESTMENT PARTNERS FUND III	4,464,155	4,464,155	4,127,031	1.39%
<b>ODYSSEY PARTNERS TOTAL</b>	<b>4,464,155</b>	<b>4,464,155</b>	<b>4,127,031</b>	<b>1.39%</b>
WCAS CAPITAL PARTNERS FUND IV	3,000,000	3,000,000	3,000,000	1.01%
WCAS IX	12,954,898	12,954,898	16,634,646	5.59%
<b>WCAS TOTAL</b>	<b>15,954,898</b>	<b>15,954,898</b>	<b>19,634,646</b>	<b>6.60%</b>
<b>TOTAL PRIVATE EQUITIES</b>	<b>240,230,324</b>	<b>240,230,324</b>	<b>265,010,847</b>	<b>89.04%</b>
STATE STREET SPIFF	206,943	32,151,434	32,180,151	10.81%
STATE STREET REPURCHASE AGREEMENT	447,174	447,174	447,174	0.15%
<b>STATE STREET TOTAL</b>	<b>654,117</b>	<b>32,598,608</b>	<b>32,627,325</b>	<b>10.96%</b>
<b>MPEP TOTAL</b>	<b>240,884,441</b>	<b>272,828,932</b>	<b>297,638,172</b>	<b>100.00%</b>

# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**B-61**

**STATE OF MONTANA BOARD OF INVESTMENTS  
ALL OTHER FUNDS FINANCIAL STATEMENTS**

**STATEMENT OF NET INVESTMENTS MANAGED, JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Investments managed at fair value (amortized cost of \$1,455,078,161 in 2005 and \$1,324,087,590 in 2004) (Notes 2 and 12)	\$ 1,477,780,667	\$ 1,341,236,868
Security lending cash collateral (Notes 3 and 6)	200,025,086	226,699,848
Interest receivable	14,147,103	13,924,158
Broker receivable for securities sold but not settled (Note 2)	<u>150,249</u>	<u>384,976</u>
<b>Total assets</b>	<b>\$ <u>1,692,103,105</u></b>	<b>\$ <u>1,582,245,850</u></b>
<b><u>Liabilities</u></b>		
Unrealized gain (loss)	\$ 22,702,506	\$ 17,149,278
Security lending obligations	200,025,086	226,699,848
Security lending expense payable	468,041	186,928
Broker payable for securities purchased but not settled (Note 2)	7,000,000	0
Accounts payable	<u>10,628</u>	<u>10,287</u>
<b>Total liabilities</b>	<b>\$ <u>230,206,261</u></b>	<b>\$ <u>244,046,341</u></b>
<b>Net investments managed</b>	<b>\$ <u>1,461,896,844</u></b>	<b>\$ <u>1,338,199,509</u></b>

**STATEMENT OF NET INVESTMENT INCOME  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

<b><u>Income</u></b>		
Investment income (Note 2)	\$ 67,036,824	\$ 65,361,798
Realized gain on sales (Note 2)	14,582,969	76,319,791
Amortization/accretion	(686,441)	(458,413)
Security lending income	<u>4,905,282</u>	<u>1,593,123</u>
<b>Total income</b>	<b>\$ <u>85,838,634</u></b>	<b>\$ <u>142,816,299</u></b>
<b><u>Expenses</u></b>		
Administrative expenses	1,041,912	1,303,746
Security lending expense	<u>4,707,900</u>	<u>1,410,223</u>
<b>Total expenses</b>	<b>\$ <u>5,749,812</u></b>	<b>\$ <u>2,713,969</u></b>
<b>Net investment income</b>	<b>\$ <u>80,088,822</u></b>	<b>\$ <u>140,102,330</u></b>

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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Total net investments managed, beginning of year	\$ 1,338,199,509	\$ 1,372,637,201
Net investment income	80,088,822	140,102,330
Income remitted to agencies	<u>80,311,768</u>	<u>141,104,587</u>
Increase (decrease) in interest receivable	222,946	1,002,257
Increase (decrease) in broker receivable (Note 2)	(234,728)	(891,995)
Increase (decrease) in security lending cash collateral (Notes 3 and 6)	(26,674,762)	170,056,448
Investments purchased	2,935,049,627	1,172,224,997
Investments sold, matured and called (Note 10)	<u>(2,803,372,615)</u>	<u>(1,207,786,541)</u>
Increase (decrease) in book value of investments	131,677,012	(35,561,544)
Increase (decrease) in book value of investments due to net amortization of discounts and premiums	(686,441)	(458,413)
(Increase) decrease in broker payable (Note 2)	(7,000,000)	1,592,849
(Increase) decrease in accounts payable	(341)	(857)
(Increase) decrease in security lending obligations (Notes 3 and 6)	26,674,762	(170,056,448)
(Increase) decrease in security lending expense payable	<u>(281,113)</u>	<u>(119,989)</u>
Net investments managed, end of year	\$ <u>1,461,896,844</u>	\$ <u>1,338,199,509</u>

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

STATE OF MONTANA BOARD OF INVESTMENTS  
ALL OTHER FUNDS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

**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, U.S. government direct-backed, U.S. government indirect-backed, equity index, real estate, mortgages and loans. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite.

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. As of June 30, 2005, the AOF portfolio held one variable rate corporate bond with an amortized cost of \$4 million. As of June 30, 2004, the AOF portfolio held one variable-rate security, with an amortized cost of \$15,585,949 reported as a government mortgage-backed security. This security paid off in March 2005. 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. (See Note 12 for the Year End Portfolio.)

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. In November and December 2004, the multifamily commercial loans held by the Public Employees' and Teachers' pension funds totaling \$3,334,969 were sold to 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. (See Note 7 for the Montana mortgages and loans portfolio).

In June 2005, the Board received notice that Positive Systems, Inc. has "ceased business operations". This borrower, funded by the MSTA, received \$200,000 and \$350,000 in May 1994 and March 1998, respectively. As of June 30, 2005, Positive Systems, Inc. had an outstanding loan balance of \$546,074. With the exception of this loan, there were no other uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2005. In February 2005, the Board charged off \$147, 156 in principal for Safe ShopTools, Inc. The MSTA funded a total of \$162,500 to Safe ShopTools, Inc. in February 1997 and June 1999. As of June 30, 2004, there were no uncollectible account balances for Montana mortgages and loans receivable.

In March 2005, the Monthly Mortgage Accounting Process related to remittances, payoffs and billing was transferred to the Montana Board of Housing accounting staff.

### 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. In fiscal year 2005, the sale of pool units from the Montana Domestic Equity Pool (MDEP) and the Trust Funds Bond Pool (TFBP), generated a net gain to participants of \$13,609,808. 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.

## 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 2005 and 2004, State Street Bank 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 2005 and 2004 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 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2005 and 2004, 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 which has a weighted average maturity of 35 and 49 days, respectively, as of June 30, 2005 and 2004. 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. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2005, the carrying and fair value of the underlying securities on loan for the All Other Funds was \$213,820,105 and \$217,153,315, respectively. The collateral provided for the securities on loan totaled \$200,025,086 in cash and \$23,616,389 in securities collateral. The carrying value of the underlying securities on loan is categorized as \$31,693,857 corporate, \$30,489,301, U.S. government direct-backed and \$151,636,947 U.S. government indirect-backed.

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. The carrying value of the underlying securities on loan is categorized as \$31,745,041 corporate, and \$187,300,356 U.S. government indirect-backed.

## 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, 2005, the Board had committed but not yet purchased \$78,813,735 in loans from Montana lenders, compared to \$69,281,764 as of June 30, 2004. In addition to the above commitments, lenders had reserved \$28,884,945 for loans as of June 30, 2005, compared to \$12,021,150 on the same date in 2004.



The Board makes firm commitments to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2005 and 2004, the Board had committed but not yet purchased from Montana lenders mortgages totaling \$2,145,343 and \$124,550, respectively. As of June 30, 2005, mortgage reservations totaled \$1,683,900. As of June 30, 2004, lenders had reserved no funding for mortgages.

## 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 \$6,024,526 as of June 30, 2005. During fiscal year 2005, building improvements for tenant remodeling, video conferencing, heating/cooling, parking lot resurfacing and leasing fees totaling \$151,567 were added to the cost of the building. Building improvements and leasing fees totaling \$453,209 were included in the cost of the building in fiscal year 2004. 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 2005, parking lot resurfacing and heating/cooling system improvements of \$48,838 were added to the building cost. For fiscal year 2004, \$55,287 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, 2005, the building carries a cost and fair value of \$7,090,594 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. In fiscal year 2005, telecommunication system payments were added to the building cost of \$10,238. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2005, 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 2005 and 2004, fire alarm system upgrades and parking lot improvements totaling \$12,600 and \$9,525, respectively, were added to the building cost for a year end book value of \$511,312. As of June 30, 2005, 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, 2005 and 2004:

#### Minimum future rentals for the year ending June 30, 2005:

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011+</u>	<u>Total</u>
\$705,654	\$404,495	\$295,823	\$243,861	\$248,731	\$731,656	\$2,630,222

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

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

### 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, 2005 the property carries a fair value of \$210,521.

## 6. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The financial statement disclosures for the year ended June

30, 2004 have been restated to compare with the financial statement disclosures for the year ended June 30, 2005. The investment risk disclosures are described in the following paragraphs.

### Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF fixed income instruments have credit risk as measured by major credit rating services. This risk is 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/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, all the fixed income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 19 remaining investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs)."

As of June 30, 2005, the AOF portfolio did not hold any 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. As of June 30, 2004, the AOF portfolio held a REMIC with an amortized cost of \$15,585,949 as reported in the U.S. government mortgage-backed category. This security paid off in March 2005. 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.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2005 and June 30, 2004. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

**Credit Quality Rating and Effective Duration as of June 30, 2005**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 344,153,594	A	3.83
U.S. Government Direct-Backed	72,631,014	AAA	3.35
U.S. Government Indirect-Backed	634,726,860	AAA	2.74
State Street Repurchase Agreement* (Rated)	10,350,520	AA-	NA
US Bank Sweep Repurchase Agreement**	<u>16,542,234</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>1,078,404,222</u>	<u>AA</u>	<u>2.99</u>
 <u>Direct Investments</u>			
Equity Index Fund	\$ 76,737,097		
Equity Other	140		
Real Estate	16,474,430		
MT Mortgages and Loans	<u>306,164,778</u>		
Total Direct Investments	\$ <u>399,376,445</u>		
 TOTAL INVESTMENTS	 \$ <u>1,477,780,667</u>		
 Securities Lending Collateral Investment Pool	 \$ <u>200,025,086</u>	 NR	 NA

\* At June 30, 2005, the State Street Bank repurchase agreement was collateralized at \$10,607,177 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

\*\*At June 30, 2005, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$16,874,485 by Federal Home Loan Mortgage Corporation REMICs maturing September 15, 2032 and November 15, 2033. These securities carry a AAA credit quality rating.

**Credit Quality Rating and Effective Duration as of June 30, 2004**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 346,945,807	A	4.09
U.S. Government Direct-Backed	77,292,383	AAA	4.54
U.S. Government Indirect-Backed	445,288,148	AAA	3.27
US Bank Sweep Repurchase Agreement	0	NA	NA
Municipal Investor Account*	<u>37,847,576</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>907,373,914</u>	<u>AA</u>	<u>3.71</u>
 <u>Direct Investments</u>			
Equity Index Fund	\$ 72,138,374		
Equity Other	23		
Real Estate	16,242,050		
MT Mortgages and Loans	<u>345,482,507</u>		
Total Direct Investments	\$ <u>433,862,954</u>		
 TOTAL INVESTMENTS	 \$ <u>1,341,236,868</u>		
 Securities Lending Collateral Investment Pool	 \$ <u>226,699,848</u>	 NR	 NA

\*At June 30, 2004, the Municipal Investor Account was collateralized at \$188,679,916 by AAA rated FNMA FNCL pools maturing on April 1, and May 1, 2033. This account, covered by \$100,000 from the FDIC (Federal Deposit Insurance Corporation), was closed February 28, 2005.

## Specific Legal and Credit Risk

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the Board. The AOF portfolio holds \$10 million par 6.417% Delta Airlines Corp. bond maturing July 2, 2012. The book value of this security was \$9,968,673 as of June 30, 2005. This issue is insured by MBIA Insurance Corp to support the payment of any interest due and outstanding principal balance. The company filed for Chapter 11 bankruptcy protection on September 14, 2005. Since this issue is insured, the Board did not stop interest income accrual or reduce the book value.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the Board. The AOF portfolio held a \$4,137,515 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020. The book value of this security was \$4,084,548 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the Board stopped the interest income accruals after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of \$358,311. The sale included accrued interest from August 1, 2005 to September 20, 2005.

### 7. MONTANA MORTGAGES AND LOANS

The Montana mortgages and loans portfolio is shown below.

<u>Montana Mortgages and Loans</u>	<u>2005 Book Value</u>	<u>2004 Book Value</u>
<b>Multifamily Commercial Loans</b>	<b>\$ 0</b>	<b>\$ 4,105,800</b>
<b>Residential Mortgages</b>	<b>92,939,453</b>	<b>119,513,572</b>
Science and Technology Alliance <sup>(1)</sup>	5,046,515	13,959,035
Department of Natural Resources <sup>(2)</sup>	41,896,024	44,546,088
Department of Justice	2,112,000	2,037,000
Montana Facility Finance	47,482	943,904
Local Government Infrastructure	5,659,452	8,298,805
Value-added Loans	11,104,002	9,202,821
Department of Revenue <sup>(3)</sup>	0	5,698,442
Commercial Loans	<u>146,488,105</u>	<u>137,175,547</u>
<b>Permanent Coal Trust Loans</b>	<b>212,353,581</b>	<b>221,861,642</b>
<b>Total Montana Mortgages and Loans</b>	<b>\$ <u>305,293,033</u></b>	<b>\$ <u>345,481,014</u></b>

(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. During fiscal year 2005, the Trust and Legacy Fund paid \$2,650,063 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 436,973 with a corresponding book value of \$41,896,024.

(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. The balance as of July 1, 2004 was \$5,698,442. During fiscal year 2005, the Board authorized \$8,738,505 in fundings and received principal payments of \$14,436,947. On June 15, 2005, the IRIS loan was paid off.

### 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 September 23, 2005, this matter is still pending.

## 9. LOAN GUARANTEES

As of June 30, 2005, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$130,476,641. Board of Investment exposure to bond issues of the Enterprise Fund is \$85,160,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$45,316,641.

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, surety bonds and designated loans of the Facility Finance Authority was \$34,734,276.

## 10. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

The trading system will serve the Board's internally managed portfolios and will be phased in as training is completed. Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Electronic trading for the Short Term Investment Pool will be next followed by the other fixed income portfolios managed by Board Staff.

## 11. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

## 12. YEAR END PORTFOLIO

The June 30, 2005 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.

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% of Total</u>
STATE STREET REPURCHASE AGREEMENT	2.250	07/01/05	10,350,520	10,350,520	10,350,520	0.70%
US BANK SWEEP REPURCHASE AGREEMENT	3.000	07/01/05	16,542,234	16,542,234	16,542,234	1.12%
<b>CASH EQUIVALENTS</b>			<b>26,892,754</b>	<b>26,892,754</b>	<b>26,892,754</b>	<b>1.82%</b>
AA / FT WORTH HQ FINANCE TRUST	5.500	10/05/10	10,462,276	10,462,276	10,180,841	0.69%
ABBOTT LABS	3.500	02/17/09	10,000,000	9,961,684	9,806,903	0.66%
AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	3,569,221	3,560,360	3,283,684	0.22%
AMERICAN GENERAL FINANCIAL CORP	4.875	05/15/10	5,000,000	4,999,319	5,067,910	0.34%
BANK AMERICA CORP	3.375	02/17/09	5,000,000	4,981,130	4,871,012	0.33%
BANK AMERICA CORP	5.375	06/15/14	5,000,000	4,959,012	5,300,506	0.36%
BANK ONE CORP	6.250	02/15/08	2,000,000	1,957,100	2,100,385	0.14%
BANKBOSTON NA	6.375	03/25/08	2,000,000	1,958,987	2,114,432	0.14%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	4,000,000	4,019,972	4,143,746	0.28%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% of Total</u>
BURLINGTON NORTHERN RR CO EQUIPMENT TRUST	6.940	01/02/14	3,194,089	3,194,089	3,727,671	0.25%
BURLINGTON NORTHERN SANTA FE EQUIPMENT TR	7.160	01/02/20	4,373,523	4,373,523	5,019,213	0.34%
CIT GROUP EQUIPMENT TRUST	6.490	01/05/21	7,337,858	7,337,858	8,115,599	0.55%
CIT GROUP INC	5.750	09/25/07	5,000,000	5,095,475	5,161,228	0.35%
CSX CORP	7.450	05/01/07	5,000,000	4,998,615	5,292,266	0.36%
CENTEX CORP	5.700	05/15/14	3,000,000	2,996,337	3,116,422	0.21%
CITIGROUP INC	5.750	05/10/06	1,000,000	999,985	1,017,547	0.07%
CITIGROUP INC	6.000	02/21/12	5,000,000	4,998,771	5,464,327	0.37%
CITIGROUP INC	3.625	02/09/09	5,000,000	4,991,337	4,908,479	0.33%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.563	08/15/13	5,000,000	5,018,716	5,313,981	0.36%
COUNTRYWIDE HOME LOANS INC	2.875	02/15/07	8,000,000	7,993,952	7,837,391	0.53%
COX COMMUNICATIONS INC	4.625	01/15/10	3,000,000	2,997,213	2,992,080	0.20%
DELTA AIR LINES INC EQUIPMENT TRUST	6.417	07/02/12	10,000,000	9,968,673	10,520,492	0.71%
DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,949,489	5,199,202	0.35%
DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,817,234	4,877,215	0.33%
ENTERGY ARKANSAS INC	4.500	06/01/10	3,000,000	2,986,942	3,000,587	0.20%
FIRST CHICAGO CORP	6.375	01/30/09	2,000,000	1,930,917	2,143,322	0.15%
FIRST UNION CORP	7.050	08/01/05	5,000,000	4,999,488	5,016,157	0.34%
FORD MOTOR CREDIT	5.800	01/12/09	5,000,000	5,062,588	4,748,047	0.32%
FORD MOTOR CREDIT	5.700	01/15/10	5,000,000	4,969,557	4,603,674	0.31%
GALENA CDO TRUST	VAR	01/11/13	4,000,000	4,000,000	4,000,000	0.27%
GENERAL ELECTRIC CAPITAL CORP	4.375	11/21/11	2,000,000	1,996,710	1,995,187	0.14%
GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	10,000,000	10,108,747	10,233,472	0.69%
GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	9,000,000	8,999,934	9,008,121	0.61%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,003,953	4,937,581	0.33%
GENERAL MOTORS ACCEPTANCE CORP	5.625	05/15/09	7,000,000	7,042,033	6,504,649	0.44%
GOLDMAN SACHS GROUP INC	3.875	01/15/09	5,000,000	5,040,135	4,928,119	0.33%
HOUSEHOLD FINANCE CORP	6.875	03/01/07	3,000,000	2,982,578	3,136,930	0.21%
HOUSEHOLD FINANCE CORP	4.750	05/15/09	1,000,000	999,330	1,015,617	0.07%
IBP FINANCIAL CO	7.450	06/01/07	4,000,000	3,999,471	4,166,280	0.28%
ING SECURITY LIFE INSTITUTIONAL FUND	4.250	01/15/10	3,000,000	2,994,041	2,991,864	0.20%
INTERNATIONAL LEASE FINANCE CORP	4.550	10/15/09	5,000,000	5,112,117	5,046,075	0.34%
J P MORGAN CHASE + CO	5.350	03/01/07	5,000,000	4,991,653	5,110,239	0.35%
J P MORGAN CHASE + CO	3.500	03/15/09	10,000,000	9,955,983	9,736,730	0.66%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRT	4.200	07/12/35	20,545,739	20,640,358	20,474,832	1.39%
J P MORGAN CHASE COMMERCIAL MORTGAGE TRT	3.053	01/15/38	2,672,372	2,680,027	2,600,771	0.18%
KCT INTERMODAL EQUIPMENT TRUST	6.884	08/01/18	3,472,533	3,472,533	3,851,325	0.26%
KEY BANK	4.412	03/18/08	5,000,000	5,000,000	5,021,160	0.34%
KRAFT FOODS INC	4.125	11/12/09	3,000,000	2,987,238	2,974,542	0.20%
LEHMAN BROTHERS HOLDINGS INC	3.950	11/10/09	3,000,000	2,994,785	2,958,429	0.20%
MARSH + MCLENNAN COS INC	7.125	06/15/09	3,000,000	2,997,057	3,245,560	0.22%
MERRILL LYNCH + CO INC	4.125	01/15/09	5,000,000	4,997,923	4,978,323	0.34%
METLIFE INC	5.000	11/24/13	5,000,000	4,959,645	5,086,030	0.34%
MORGAN STANLEY	4.000	01/15/10	5,000,000	4,963,572	4,915,081	0.33%
NATIONWIDE FINANCIAL SERVICES INC	6.250	11/15/11	5,000,000	5,261,827	5,446,327	0.37%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	02/01/20	4,137,515	4,084,548	3,573,779	0.24%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	3,000,000	2,999,683	3,159,126	0.21%
PNC FUNDING CORP	4.200	03/10/08	5,000,000	4,997,892	5,001,510	0.34%
PPL MONTANA LLC	8.903	07/02/20	4,112,337	4,112,337	4,926,167	0.33%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	2,000,000	1,975,727	2,180,359	0.15%
ALTRIA GROUP INC	7.650	07/01/08	5,000,000	5,365,479	5,420,418	0.37%
PRINCIPAL LIFE GLOBAL FUNDING	5.125	10/15/13	5,000,000	4,993,908	5,153,799	0.35%
SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,996,563	4,685,173	0.32%
UNION PACIFIC CORP	6.400	02/01/06	5,000,000	4,997,711	5,080,689	0.34%
UNION TANK CAR CO	7.125	02/01/07	2,000,000	1,999,661	2,091,435	0.14%
WACHOVIA CORP	4.950	11/01/06	3,000,000	2,998,243	3,044,399	0.21%
WASHINGTON MUTUAL INC	4.200	01/15/10	5,000,000	4,993,147	4,960,040	0.34%
WELLS FARGO + CO	5.900	05/21/06	1,000,000	999,781	1,019,382	0.07%
WELLS FARGO + CO	4.625	04/15/14	5,000,000	4,810,795	5,035,799	0.34%
WESTERN PROPERTIES REIT	7.200	09/15/08	1,000,000	981,031	1,081,054	0.07%
WYETH	5.500	02/01/14	5,000,000	4,991,691	5,256,112	0.36%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,996,545	3,176,796	0.21%
<b>CORPORATE BONDS (RATED)</b>			<b>337,877,465</b>	<b>338,016,993</b>	<b>344,153,594</b>	<b>23.29%</b>
ENSCO OFFSHORE CO XI USGG	6.360	12/01/15	10,500,237	10,500,237	11,474,554	0.78%
GLOBAL INDUSTRIES LTD XI USGG	7.710	02/15/25	4,000,000	4,000,000	4,000,000	0.27%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% of Total</u>
MAYBANK NAVIGATION LLC XI USGG	7.620	07/25/20	3,875,000	3,875,000	4,096,224	0.28%
NORTH AMERICAN SHIP BUILDING XI USGG	5.840	02/15/06	644,000	644,000	644,000	0.04%
ROWAN COS INC XI USGG	5.880	03/15/12	15,907,000	15,907,000	16,633,473	1.13%
TRICO MARINE INTERNATIONAL XI USGG	6.080	09/01/06	1,875,000	1,875,000	1,875,000	0.13%
MAY BANK NAVIGATION CO LLC XI USGG	5.900	09/16/13	2,258,000	2,258,000	2,258,000	0.15%
UNITED STATES TREASURY NOTES	3.000	02/15/09	2,000,000	1,946,203	1,953,282	0.13%
UNITED STATES TREASURY NOTES	2.500	09/30/06	10,000,000	9,895,865	9,867,188	0.67%
UNITED STATES TREASURY NOTES	3.000	12/31/06	10,000,000	9,965,678	9,908,200	0.67%
UNITED STATES TREASURY NOTES	3.125	01/31/07	10,000,000	9,958,128	9,921,094	0.67%
<b>U.S. GOVERNMENT DIRECT-BACKED</b>			<b>71,059,237</b>	<b>70,825,112</b>	<b>72,631,014</b>	<b>4.91%</b>
FEDERAL HOME LOAN MORTGAGE CORP	4.750	10/11/12	20,000,000	19,948,658	20,026,502	1.36%
FEDERAL HOME LOAN MORTGAGE CORP	5.125	05/13/13	20,000,000	20,000,000	19,899,992	1.35%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	07/18/18	5,000,000	5,000,000	4,898,311	0.33%
FEDERAL HOME LOAN MORTGAGE CORP	3.050	01/19/07	10,000,000	9,890,715	9,872,595	0.67%
FEDERAL HOME LOAN MORTGAGE CORP	4.100	01/28/14	15,000,000	15,000,000	14,961,885	1.01%
FEDERAL HOME LOAN MORTGAGE CORP	2.850	02/23/07	20,000,000	19,984,291	19,664,186	1.33%
FEDERAL HOME LOAN MORTGAGE CORP	3.625	02/15/07	10,000,000	9,979,557	9,955,714	0.67%
FEDERAL HOME LOAN MORTGAGE CORP	4.050	06/28/07	15,000,000	15,000,000	14,990,187	1.01%
FEDERAL HOME LOAN PC POOL E00247	5.500	10/01/08	199,352	197,773	204,764	0.01%
FEDERAL HOME LOAN PC POOL E00540	6.000	03/01/13	1,656,272	1,652,171	1,715,212	0.12%
FEDERAL HOME LOAN PC POOL E00659	6.000	04/01/14	1,720,819	1,719,745	1,782,056	0.12%
FEDERAL HOME LOAN PC POOL G10814	5.500	05/01/13	2,605,431	2,603,895	2,682,678	0.18%
FEDERAL HOME LOAN PC POOL G10173	6.000	01/01/09	256,215	255,708	265,172	0.02%
FEDERAL AGRICULTURE MORTGAGE CORP	5.300	04/24/06	20,000,000	20,437,532	20,238,782	1.37%
FEDERAL FARM CREDIT BANKS	3.100	01/22/08	10,000,000	9,783,013	9,792,552	0.66%
FEDERAL HOME LOAN BANKS	4.875	11/15/06	5,000,000	4,980,475	5,068,550	0.34%
FEDERAL HOME LOAN BANKS	4.875	02/15/07	5,000,000	4,999,642	5,078,711	0.34%
FEDERAL HOME LOAN BANKS	3.500	08/15/06	10,000,000	10,127,398	9,958,662	0.67%
FEDERAL HOME LOAN BANKS	2.500	03/15/06	10,000,000	10,015,975	9,913,340	0.67%
FEDERAL HOME LOAN BANKS	2.375	02/15/06	15,000,000	15,001,629	14,873,057	1.01%
FEDERAL HOME LOAN BANKS	2.250	05/15/06	10,000,000	9,990,323	9,865,126	0.67%
FEDERAL HOME LOAN BANKS	4.125	08/13/10	20,000,000	19,981,588	20,041,940	1.36%
FEDERAL HOME LOAN BANKS	3.625	11/14/08	10,000,000	9,984,413	9,916,919	0.67%
FEDERAL HOME LOAN BANKS	2.750	11/15/06	10,000,000	10,034,868	9,846,188	0.67%
FEDERAL HOME LOAN BANKS	3.250	02/26/07	10,000,000	10,001,980	9,909,400	0.67%
FEDERAL HOME LOAN BANKS	3.375	09/14/07	10,000,000	10,054,259	9,907,155	0.67%
FEDERAL HOME LOAN BANKS	3.750	09/29/06	20,000,000	19,947,220	19,961,464	1.35%
FEDERAL HOME LOAN BANKS	3.750	11/30/06	15,000,000	14,993,571	14,965,755	1.01%
FEDERAL HOME LOAN BANKS	4.000	03/30/07	25,000,000	25,000,000	24,958,150	1.69%
FEDERAL HOME LOAN MORTGAGE CORP	5.625	03/15/11	10,000,000	10,053,084	10,784,478	0.73%
FEDERAL HOME LOAN MORTGAGE CORP	6.000	06/15/11	15,000,000	14,992,083	16,504,604	1.12%
FEDERAL HOME LOAN MORTGAGE CORP	3.625	09/15/08	14,000,000	14,046,284	13,884,654	0.94%
FEDERAL HOME LOAN MORTGAGE CORP	2.125	11/15/05	7,000,000	6,999,520	6,961,554	0.47%
FEDERAL HOME LOAN MORTGAGE CORP	2.875	05/15/07	10,000,000	9,971,983	9,833,963	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.300	05/05/08	10,000,000	10,026,561	9,999,469	0.68%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.000	05/09/07	10,000,000	10,005,603	9,990,838	0.68%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.750	02/15/08	5,000,000	5,347,437	5,233,298	0.35%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.000	05/15/08	5,000,000	4,937,509	5,284,351	0.36%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	0.010	06/01/17	14,600,000	6,828,639	8,530,955	0.58%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	7.250	01/15/10	8,000,000	8,261,878	9,068,630	0.61%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.625	10/15/07	15,000,000	15,636,056	15,903,828	1.08%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.625	11/15/10	10,000,000	10,233,653	11,224,583	0.76%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.000	12/15/05	2,000,000	2,003,260	2,021,570	0.14%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.250	06/15/06	5,000,000	5,010,123	5,066,713	0.34%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.250	11/15/07	10,000,000	9,931,541	9,865,155	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.375	07/17/13	20,000,000	19,368,241	19,704,888	1.33%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.375	12/15/08	15,000,000	14,904,253	14,735,168	1.00%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.125	04/15/14	10,000,000	9,431,702	9,928,386	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.010	06/02/06	15,000,000	14,996,764	14,891,045	1.01%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.000	08/15/07	10,000,000	9,958,050	9,827,943	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.550	11/16/07	10,000,000	10,000,000	9,925,760	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.875	02/14/06	5,000,000	4,982,242	5,065,701	0.34%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	2.200	12/04/06	20,000,000	19,644,483	19,538,944	1.32%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.310	01/26/07	15,000,000	14,956,131	14,869,223	1.01%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.250	05/11/07	15,000,000	14,991,280	14,845,932	1.00%

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA POOL 190985	7.500	08/01/09	606,421	606,421	638,258	0.04%
FNMA POOL 254140	5.500	01/01/17	9,231,715	9,199,854	9,493,160	0.64%
FNMA POOL 254233	5.000	03/01/17	6,753,336	6,560,709	6,847,513	0.46%
FNMA POOL 254631	5.000	02/01/18	5,553,711	5,602,747	5,622,478	0.38%
FNMA POOL 303590	7.000	11/01/10	746,665	746,664	783,152	0.05%
FNMA POOL 313999	6.000	02/01/13	914,575	911,107	947,263	0.06%
FNMA POOL 572220	6.000	03/01/16	515,944	514,736	534,062	0.04%
FNMA POOL 592327	5.500	06/01/16	1,121,866	1,100,354	1,154,339	0.08%
<b>U.S. GOVERNMENT INDIRECT-BACKED</b>			<b>637,482,320</b>	<b>629,327,349</b>	<b>634,726,860</b>	<b>42.95%</b>
S&P 500 INDEX BGI FUND B	NA	NA	480,587	68,406,676	76,737,097	5.19%
<b>EQUITY INDEX FUND</b>			<b>480,587</b>	<b>68,406,676</b>	<b>76,737,097</b>	<b>5.19%</b>
MONOGENESIS CORP	NA	NA	1	0	0	0.00%
OCEAN WEST HOLDING CORP	NA	NA	100	15	140	0.00%
<b>EQUITY OTHER</b>			<b>101</b>	<b>15</b>	<b>140</b>	<b>0.00%</b>
MONTANA RESIDENTIAL MORTGAGES	NA	NA	92,939,453	92,939,453	93,811,197	6.35%
MONTANA PERMANENT COAL TAX TRUST LOANS	NA	NA	212,353,581	212,353,581	212,353,581	14.37%
<b>MORTGAGES/LOANS</b>			<b>305,293,033</b>	<b>305,293,033</b>	<b>306,164,778</b>	<b>20.72%</b>
2273 BOOT HILL COURT, BOZEMAN MONTANA	NA	NA	2,073,887	2,073,887	2,082,014	0.14%
CALIFORNIA STREET, HELENA MONTANA	NA	NA	204,835	204,835	210,521	0.01%
2401 COLONIAL DRIVE, HELENA MONTANA	NA	NA	7,090,594	7,090,594	7,581,000	0.51%
1712 NINTH AVENUE, HELENA MONTANA	NA	NA	511,312	511,312	576,369	0.04%
100 NORTH PARK AVENUE, HELENA MONTANA	NA	NA	6,435,601	6,435,601	6,024,526	0.41%
<b>EQUITY REAL ESTATE</b>			<b>16,316,230</b>	<b>16,316,230</b>	<b>16,474,430</b>	<b>1.11%</b>
<b>TOTAL ALL OTHER FUNDS</b>			<b>1,395,401,727</b>	<b>1,455,078,161</b>	<b>1,477,780,667</b>	<b>100.00%</b>



# 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

The Legislative Audit Committee  
of the Montana State Legislature:

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, 2005, and 2004, 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, 2005, and 2004, and the results of 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, 2005, and 2004, 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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 2, 2005

**B-74**

**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND  
STATEMENT OF NET ASSETS AS OF JUNE 30, 2005 AND 2004**

Assets	<u>2005</u>	<u>2004</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 1)	\$ 17,150,825	\$ 7,534,708
Interest receivable	837,279	735,782
Notes/loans receivable (Note 1)	9,472,930	9,176,128
Interfund notes/loans and interest receivable (Note 1)	3,695,207	3,141,523
Component Unit notes/loans and interest receivable (Note 1)	1,661,436	1,195,650
Short-term investments at fair value (Notes 1 and 2)	1,806,558	23,243,262
Prepaid expenses	<u>23</u>	<u>18</u>
<b>Total current assets</b>	<b><u>34,624,258</u></b>	<b><u>45,027,071</u></b>
<b>Noncurrent assets:</b>		
Restricted investments at fair value (Notes 1 and 2)	4,073,621	4,394,269
Notes/loans receivable (Note 1)	34,081,800	36,174,241
Interfund notes/loans and interest receivable (Note 1)	14,012,262	9,181,931
Component Unit notes/loans receivable (Note 1)	6,644,152	6,262,003
Investments at fair value (Notes 1 and 2)	17,910	236,974
Capitalized cost of issue (Note 1)	1,392,790	1,506,489
Equipment	2,990	12,240
Accumulated depreciation	<u>(2,686)</u>	<u>(8,078)</u>
<b>Total noncurrent assets</b>	<b><u>60,222,839</u></b>	<b><u>57,760,069</u></b>
<b>Total assets</b>	<b>\$ <u>94,847,097</u></b>	<b>\$ <u>102,787,140</u></b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Advances	\$ 415,450	\$ 98,687
Due to other funds	2,855	6,084
Accrued expenses	10,773	14,694
Accrued interest payable	904,426	612,771
Deferred cost of issue recovery	0	17,785
Arbitrage rebate tax payable	0	83,819
Compensated absences	19,312	11,343
Current bonds/notes payable (Note 4)	<u>85,753,517</u>	<u>92,227,028</u>
<b>Total current liabilities</b>	<b><u>87,106,333</u></b>	<b><u>93,072,211</u></b>
<b>Noncurrent liabilities</b>		
Bonds/notes payable (Note 4)	2,434,753	4,615,051
Compensated absences	23,509	13,609
Arbitrage rebate tax payable	<u>114,154</u>	<u>55,716</u>
<b>Total noncurrent liabilities</b>	<b><u>2,572,416</u></b>	<b><u>4,684,376</u></b>
<b>Total liabilities</b>	<b>\$ <u>89,678,749</u></b>	<b>\$ <u>97,756,587</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 304	\$ 4,162
Restricted (Note 1)	2,504,067	2,763,134
Unrestricted	<u>2,663,977</u>	<u>2,263,257</u>
<b>Total net assets (Note 7)</b>	<b>\$ <u>5,168,348</u></b>	<b>\$ <u>5,030,553</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>94,847,097</u></b>	<b>\$ <u>102,787,140</u></b>

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, 2005 AND 2004**

<b>Operating revenue</b>	<u><b>2005</b></u>	<u><b>2004</b></u>
Reimbursements	\$ 4,671	\$ 7,939
Investment income	636,922	82,642
Security lending income	0	0
Financing income	<u>2,125,548</u>	<u>2,161,416</u>
<b>Total operating revenue</b>	<u><b>2,767,141</b></u>	<u><b>2,251,997</b></u>
<b>Operating expenses</b>		
Personal services	252,489	186,075
Contracted services	31,059	33,431
Supplies and materials	3,406	6,602
Communications	6,359	6,344
Travel	4,299	3,988
Rent	40,243	39,231
Repair and maintenance	288	655
Indirect and other costs	29,872	26,591
Depreciation expense	913	1,958
Arbitrage rebate tax expense	66,646	40,127
Security lending expense	0	0
Debt service		
Interest expense	1,824,510	1,519,894
Trustee fee expense	61,628	49,849
Bond issuance cost amortization expense	114,903	131,473
Other debt service expense	189,786	150,346
<b>Total operating expenses</b>	<u><b>2,626,401</b></u>	<u><b>2,196,564</b></u>
<b>Operating income</b>	<u><b>140,740</b></u>	<u><b>55,433</b></u>
<b>Nonoperating (expense):</b>		
Loss on disposal of fixed assets	<u>(2,945)</u>	<u>0</u>
<b>Change in net assets</b>	<b>137,795</b>	<b>55,433</b>
Beginning net assets	<u>5,030,553</u>	<u>4,975,120</u>
Ending net assets (Note 8)	\$ <u>5,168,348</u>	\$ <u>5,030,553</u>

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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Receipts for sales and services	\$ 4,671	\$ 7,939
Payments to suppliers for goods and services	(118,993)	(117,308)
Payments to employees	<u>(238,308)</u>	<u>(188,127)</u>
Net cash (used for) operating activities	<u>(352,630)</u>	<u>(297,496)</u>
<b>Cash flows from non-capital financing activities:</b>		
Payment of principal and interest on bonds and notes	(10,616,278)	(4,987,227)
Proceeds from issuance of bonds and notes	176,996	18,600,621
Payment of bond issue costs	0	<u>(401,007)</u>
Net cash (used for) provided by non-capital financing activities	<u>(10,439,282)</u>	<u>13,212,387</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of fixed assets	0	0
Net cash (used for) capital and related financing activities	0	0
<b>Cash flows from investing activities:</b>		
Collections for principal and interest on loans	20,285,591	28,978,347
Cash payments for loans	(22,370,759)	(29,923,593)
Purchase of investments	(1,333,514)	(28,131,728)
Proceeds from security lending	0	0
Security lending costs	0	0
Proceeds from sales or maturities of investments	23,226,880	12,577,928
Interest on investments	691,858	373,014
Payments for arbitrage rebate tax	<u>(92,027)</u>	<u>(71,229)</u>
Net cash provided by (used for) investing activities	<u>20,408,029</u>	<u>(16,197,261)</u>
Net increase (decrease) in cash and cash equivalents	9,616,117	(3,282,369)
Cash and cash equivalents, July 1	<u>7,534,708</u>	<u>10,817,077</u>
Cash and cash equivalents, June 30	<u>17,150,825</u>	<u>7,534,708</u>
<b>Reconciliation of net income to net cash (used for) operating activities:</b>		
Net operating income	140,740	55,433
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	913	1,958
Interest on investments	(636,922)	(82,642)
Financing income	(2,125,548)	(2,161,416)
Interest expense	2,190,827	1,851,563
Security lending income	0	0
Security lending expense	0	0
Arbitrage rebate tax expense	66,646	40,127
Change in assets and liabilities:		
Increase/decrease in other assets	(5)	18
Increase/decrease in other payables	(3,921)	3,676
Increase/decrease in due to other funds	(3,229)	(196)
Increase/decrease in compensated absences payable	<u>17,869</u>	<u>(6,017)</u>
Total adjustments	<u>(493,370)</u>	<u>(352,929)</u>
Net cash (used for) operating activities	\$ <u>(352,630)</u>	\$ <u>(297,496)</u>
<b>Schedule of noncash transactions:</b>		
Increase/decrease in fair value of investments	\$ <u>(8,574)</u>	\$ <u>(234,794)</u>
Total noncash transactions	\$ <u>(8,574)</u>	\$ <u>(234,794)</u>

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, 2005 AND JUNE 30, 2004

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 Stand Alone Economic Development Bond Program 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. The Department of Health and Human Services pays the interest on the loans.

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. These bonds matured in January 2005.

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 \$69,225,770 as of June 30, 2005, and \$64,962,608 as of June 30, 2004, 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, 2005 and 2004, 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, 2005 and 2004 includes \$342,017 and \$168,868, respectively, in interest accruals from state agencies and university units.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of \$1,392,790 and \$1,506,489 as of June 30, 2005 and June 30, 2004, respectively, represents paid bond issuance costs which have been capitalized and are being amortized, using the straight-line method, over the life of the bonds.

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:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash in treasury	\$ 19,787	\$ 24,756
Cash with fiscal agent	0	2,490,280
Short Term Investment Pool (STIP)	196,544	186,263
First American Treasury Obligation Fund	<u>16,934,494</u>	<u>4,833,409</u>
Total Cash and Cash Equivalents	\$ <u>17,150,825</u>	\$ <u>7,534,708</u>

The Enterprise Fund invests its operational 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; or
- 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.

h. Investments

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.

2. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The financial statement disclosures for the year ended June 30, 2004 have been restated to compare with the financial statement disclosures for the year ended June 30, 2005. The investment risk disclosures are described in the following paragraphs.

The Enterprise Fund deposits and investments 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.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund’s U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S& P’s rating services.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005 and 2004, Enterprise Fund securities were recorded in book entry form in the name of U.S. Bank National Association as Trustee for the Montana Board of Investments by specific account.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Enterprise Fund investments represent investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds. These investments are excluded from the concentration of credit risk requirement.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Enterprise Funds’ bond indentures do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the duration method to disclose interest rate risk.

State of Montana Enterprise Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2005 and June 30, 2004. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using duration as calculated by Board staff. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

**Credit Quality Rating and Effective Duration as of June 30, 2005**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Treasury Obligation Fund	\$ 16,934,494	AAA	NA
Short Term Investment Pool (STIP)	196,544	NR	NA
U.S. Government Direct-Backed	<u>5,898,089</u>	<u>AAA</u>	<u>2.05</u>
<b>Total Investments</b>	<b>\$ <u>23,029,127</u></b>	<b><u>AAA</u></b>	<b><u>2.05</u></b>
Securities Lending Collateral Investment Pool	\$ <u>0</u>	NR	NA

**Credit Quality Rating and Effective Duration as of June 30, 2004**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Treasury Obligation Fund	\$ 4,833,409	AAA	NA
Short Term Investment Pool (STIP)	186,263	NR	NA
U.S. Government Direct-Backed	<u>27,874,505</u>	<u>AAA</u>	<u>0.70</u>
<b>Total Investments</b>	<b>\$ <u>32,894,177</u></b>	<b><u>AAA</u></b>	<b><u>0.70</u></b>
Securities Lending Collateral Investment Pool	\$ <u>0</u>	NR	NA

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). STIP had no security lending transactions in fiscal years 2005 and 2004.

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.

### 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, 2005

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments</u>		<u>Balance June 30, 2005</u>
				<u>FY 2006</u>	<u>@ Maturity</u>	
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	4,976	6.60-7.75	450	70 (2014)	880
Conservation Reserve Enhancement Program (CRP Bonds) (2)		3,028	6.00-8.00	1,024	33 (2008)	3,028
<b>Total Bonds Payable</b>		<u>\$ 8,004</u>		<u>\$ 1,474</u>		<u>\$ 3,908</u>
Less Current Portion (FY2005 Principal Payments)						(1,473)
<b>Total Long-Term Bonds Payable</b>						<u>\$ 2,435</u>

#### Bonds Payable as of June 30, 2004

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments</u>		<u>Balance June 30, 2004</u>
				<u>FY 2005</u>	<u>@ Maturity</u>	
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
<b>Total Bonds Payable</b>		<u>\$ 15,999</u>		<u>\$ 1,672</u>		<u>\$ 6,288</u>
Less Current Portion (FY2004 Principal Payments)						(1,672)
<b>Total Long-Term Bonds Payable</b>						<u>\$ 4,616</u>

(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. On May 31, 2005, the East Bench Irrigation District voted to redeem their bonds on August 1, 2005.



(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. These bonds matured in January 2005.

**Future debt service as of June 30, 2005 is listed below (in thousands):**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-14</u>	<u>Total</u>
Principal	\$ 1,474	\$ 1,005	\$ 1,051	\$ 78	\$ 50	\$ 250	\$ 3,908
Interest	\$ 251	\$ 164	\$ 97	\$ 27	\$ 21	\$ 40	\$ 600
<b>Total</b>	<b>\$ 1,725</b>	<b>\$ 1,169</b>	<b>\$ 1,148</b>	<b>\$ 105</b>	<b>\$ 71</b>	<b>\$ 290</b>	<b>\$ 4,508</b>

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-14</u>	<u>Total</u>
Principal	\$ 1,468	\$ 1,205	\$ 1,161	\$ 1,228	\$ 462	\$ 560	\$ 6,084
Interest	\$ 641	\$ 337	\$ 249	\$ 164	\$ 74	\$ 114	\$ 1,579
<b>Total</b>	<b>\$ 2,109</b>	<b>\$ 1,542</b>	<b>\$ 1,410</b>	<b>\$ 1,392</b>	<b>\$ 536</b>	<b>\$ 674</b>	<b>\$ 7,663</b>

**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. 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, 2005 and June 30, 2004, are listed below (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>		<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
1992	6,500	Variable	2005	\$	0	\$ 6,055
1994	7,500	Variable	2009		6,810	6,895
1995	7,500	Variable	2010		6,995	7,080
1997	10,000	Variable	2017		9,690	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	<u>\$18,500</u>	Variable	2029		<u>18,500</u>	<u>18,500</u>
<b>Total INTERCAP Debt</b>	<b><u>\$92,500</u></b>				<b><u>84,280</u></b>	<b><u>90,555</u></b>
<b>Current Portion of Long-Term Bonds Payable</b>					<b><u>1,473</u></b>	<b><u>1,672</u></b>
<b>Current Bonds Payable</b>				<b>\$</b>	<b><u>85,753</u></b>	<b><u>92,227</u></b>

**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):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
Colstrip	October 1989	12/30/15	60,800	53,100	55,300
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	116,345	116,945
Stillwater Mining	July 2000	07/01/20	30,000	30,000	30,000
Gainey Foundation	October 2002	09/01/14	<u>6,000</u>	<u>5,140</u>	<u>5,570</u>
<b>Total conduit debt</b>			<b>\$ 215,145</b>	<b>\$ 204,585</b>	<b>\$ 207,815</b>

**QZAB Debt**

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

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
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	1,586
Philipsburg Schools	December 2003	12/10/17	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
<b>Total QZAB conduit debt</b>			<b>\$ 4,336</b>	<b>\$ 4,336</b>	<b>\$ 4,336</b>

In August 2005, the Board issued two QZABs for the Cut Bank school district totaling \$825,000 and \$625,000, respectively, for the elementary and high schools.

**6. INTERCAP PROGRAM LOAN COMMITMENTS**

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2005 and 2004, respectively, the Board committed to make loans to eligible Montana governments totaling \$39,207,721 and \$37,068,745.

**7. NET ASSETS**

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2005 and June 30, 2004 include (\$50,546) and (\$41,971), respectively, in unrealized appreciation/depreciation in reporting the fair value of the Enterprise Fund investments.