



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Board of Investments

***For the Two Fiscal Years Ended
June 30, 2011***

JANUARY 2012

LEGISLATIVE AUDIT
DIVISION

10-04B

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

RANDY BRODEHL
brodehl@centurytel.net

TOM BURNETT
Tburnetthd63@hotmail.com

VIRGINIA COURT
Vjchd52@yahoo.com

MARY McNALLY
mcnallyhd49@gmail.com

TRUDI SCHMIDT
trudischmidt@q.com

WAYNE STAHL, VICE CHAIR
westahl@nemontel.net

SENATORS

DEBBY BARRETT
grt3177@smtel.com

GARY BRANAE
garybranae@gmail.com

TAYLOR BROWN
taylor@northernbroadcasting.com

CLIFF LARSEN
cliff@larsenusa.com

FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com

MITCH TROPILA, CHAIR
tropila@mt.net

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FINANCIAL AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

MARK ALLDREDGE
LAURA L. N. TOECKES

ALEXA O'DELL
VICKIE RAUSER

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

January 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Board of Investments (Board) for the two fiscal years ended June 30, 2011. We performed this audit of the Board in compliance with Article VIII, Section 13 of the Montana Constitution, and §17-6-321, MCA.

This report contains no recommendations and one disclosure issue regarding the board's investment of university endowment funds.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u> <u>January 1</u>
Montana Board of Investments	Gary Buchanan, Chairman	Billings	2015
	David Aageson	Gilford	2013
	Karl Englund	Missoula	2015
	Patrick McKittrick	Great Falls	2013
	Mark Noenning	Billings	2013
	Quinton Nyman	Helena	2015
	Jack Prothero	Great Falls	2013
	Jon Satre	Helena	2015
	Jim Turcotte	Helena	2013
	Joe Balyeat	Senate Liaison	
	Franke Wilmer	House of Representatives Liaison	

Administrative Officials

Carroll South, Executive Director—through December 31, 2011

David Ewer, Executive Director—effective January 1, 2012

Geri Burton, Deputy Director

Cliff Sheets, Chief Investment Officer

Gayle L. Moon, Accounting Fiscal Manager

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

David Ewer, Executive Director
P.O. Box 200126
Helena, MT 59620-0126
(406) 444-0001
e-mail: dewer@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Board of Investments

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

10-04B

REPORT SUMMARY

Total assets managed by the Board of Investments' (Board's) consolidated unified investment program increased by almost \$1.5 billion between June 30, 2010, and June 30, 2011. During fiscal year 2011, the Board received \$14.7 million in principal repayments on previously defaulted securities, reducing the total outstanding investments in default status to approximately \$70.9 million at fiscal year-end. Additional information on defaulted securities can be found in Note 6 to the Board's Consolidated Unified Investment Program financial statements. Between July 1, 2011, and December 9, 2011, the Board received an additional \$5.9 million in principal and interest on these defaulted securities.

Context

The Board manages the Unified Investment Program (program), which had total net asset value/investments managed of \$13.6 billion at June 30, 2011, an increase of approximately \$1.55 billion from June 30, 2010. To manage the program, the Board created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool. In addition, the Board manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the Board's financial statements as All Other Funds (AOF). The Board invests for the state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The Board accounts for the state's Economic Development Bond Act and Municipal Finance Consolidation Act programs. Under the Municipal Finance Consolidation Act, the

Board is authorized to issue up to \$190 million in INTERCAP bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. At fiscal year-end, total outstanding INTERCAP bonds were \$95.5 million.

The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

Results

This report contains no recommendations, and one disclosure issue related to the Board's investment of endowment funds on behalf of the Montana University System.

(continued on back)

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (10-04B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial audit of the Board of Investments (Board) for the two fiscal years ended June 30, 2011. The objectives of the audit were to:

1. Obtain an understanding of the Board's control systems to the extent necessary to support an audit of the Board's financial statements, and, if appropriate, make recommendations for improvement in management and the internal controls of the Board.
2. Determine whether the Board's financial statements present fairly the results of operations for the two fiscal years ended June 30, 2011, and 2010.
3. Determine whether the Board's compliance with selected applicable laws and regulations.

The financial-compliance audit of the Board for the two fiscal years ended June 30, 2010, was issued in a separate report (10-04A).

Background

The Board, created in 1971, is attached to the Department of Commerce for administrative purposes. The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

Chapter II – Disclosure Issue

Investment of Public Funds

Article VIII, Section 13, of the Montana Constitution directs the legislature to provide for a unified investment program for public funds, and state compensation insurance fund and public retirement system assets. Title 17, Chapter 6, Part 2, MCA, outlines specific legal requirements applicable to the investment of public funds, including the requirement that public funds be invested through the Board of Investments (board) unless otherwise provided by law. An Attorney General opinion issued in November 2010 declared university endowment funds are neither public nor permanent funds.

While the board has no specific authority to invest private funds, nothing contained in statute or the Montana Constitution precludes the board from investing private funds not otherwise restricted by the donor. It is unclear whether the Legislature intended for private funds to fall under the scope of the board's responsibilities. In addition to state compensation insurance fund and public retirement system assets, private funds currently accounted for on the state's accounting records include, but are not limited to, certain university system endowments and family education savings program deposits.

We present this information for informational purposes only, and make no recommendation.

Independent Auditor's Reports and Board Financial Statements

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments' Consolidated Unified Investment Program as of June 30, 2011, and 2010, and the related Statement of Changes in Net Asset Value/Investments Managed, and Statement of Investment Income and Distribution for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's 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/Investments Managed by the Montana Board of Investments' Consolidated Unified Investment Program as of June 30, 2011, and 2010, and its Changes in Net Asset Value/Investments Managed and Investment Income and Distributions for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 15, 2011

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED JUNE 30, 2011 AND 2010

Assets	<u>2011</u>	<u>2010</u>
Investment portfolios at fair value (Note 2B) (Carrying value of \$10,402,723,250 in 2011 and \$9,947,677,984 in 2010)	\$ 11,273,033,909	\$ 9,809,521,220
STIP investment portfolio at amortized cost (Note 2B)	2,430,190,418	2,248,951,467
Cash (Foreign cash cost in USD of \$3,564,778 for 2011 and \$2,727,393 for 2010)	13,561,670	9,947,662
Security lending cash collateral (Note 5)	649,599,077	814,053,102
Broker receivable for securities sold but not settled (Note 2A)	28,322,472	15,565,328
Dividend and interest receivable (Note 2E)	48,979,341	50,131,214
Currency forward contracts (Note 6, 13)	<u>(382,368)</u>	<u>357,976</u>
Total assets (Note 2B)	<u>\$ 14,443,304,519</u>	<u>\$ 12,948,527,969</u>
Liabilities		
Income due participants (Note 2E)	\$ 19,725,740	18,521,125
Broker payable for securities purchased but not settled (Note 2A)	147,736,648	53,303,096
Security lending obligations (Note 5)	649,599,077	814,053,102
Security lending expense payable	116,482	159,646
Other payables	581,100	133,482
Administrative fee payable	3,934,715	3,928,022
STIP reserve (Note 7)	<u>5,598,915</u>	<u>1,695,138</u>
Total liabilities (Note 2B)	<u>827,292,677</u>	<u>891,793,611</u>
Net asset value/investments managed (Note 2B, 2C)	<u>\$ 13,616,011,842</u>	<u>\$ 12,056,734,358</u>
Pool Units Outstanding (Note 2B, 2C)	2,500,518,336	2,322,042,301

STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED
FOR FISCAL YEARS ENDING JUNE 30, 2011 AND 2010

Net asset value/investments, beginning of year	\$ 12,056,734,358	\$ 11,182,557,660
Value of pool units/investments purchased (Note 2D)	21,554,676,508	21,123,538,880
Value of pool units/investments sold/matured (Note 2D)	(21,261,482,226)	(20,975,252,755)
Increase (decrease) in AOF interest receivable	(438,795)	(106,200)
Increase (decrease) in AOF broker receivable	(59,684)	(111,070)
(Increase) decrease in AOF accounts payable	6,805	5,520
(Increase) decrease in AOF security lending expense payable	16,729	30,010
Changes in current value of investments managed (Note 2D)	<u>1,266,558,147</u>	<u>726,072,313</u>
Net asset value/investments managed, end of year	<u>\$ 13,616,011,842</u>	<u>\$ 12,056,734,358</u>

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

Net realized gain (loss) (Note 2E)	\$ 93,454,407	\$ 124,369,764
Dividend/interest income (Note 2E)	315,884,381	307,626,546
Amortization/accretion (Note 2E)	7,287,304	9,074,312
Security lending income (Note 5)	7,424,774	6,865,512
Security lending expense (Note 5)	(1,904,563)	(2,274,635)
Administrative expenses (Note 2F)	(45,623,687)	(42,659,015)
Other expenses	(1,308,908)	(175,620)
STIP reserve expense (Note 7)	(2,920,000)	(5,056,000)
Income due participants, beginning of year	<u>18,521,125</u>	<u>23,811,192</u>
Income available for distribution (Note 2E)	390,814,833	421,582,056
Distribution (Note 2E)	<u>371,089,093</u>	<u>403,060,931</u>
Income due participants, end of year (Note 2E)	<u>\$ 19,725,740</u>	<u>\$ 18,521,125</u>

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

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Investment Program is comprised of all state funds, including pensions, trusts, insurance, and cash. Local government entities may only invest in the Short Term Investment Pool portion of the Program. The Board manages the Investment Program pursuant to the “Prudent Expert Principle” mandated by State law, which requires an investment manager to:

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

Currently, only the nine retirement funds and the Montana State Fund (Workers’ Compensation) may invest in stock. All other state funds must be invested in fixed-income type investments. Neither State law nor the State Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of the Board pursuant to the “Prudent Expert Principle.”

To facilitate management of the Investment Program, the Board created seven investment pools (Pools) that operate similar to mutual funds. All state agencies and many local government entities participate in one or more Pools. By investing in large Pools with other participants the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the state’s nine retirement funds, while others are open to other state and local government funds. State agencies, ineligible to participate in a long term investment pool, have direct fixed income, equity and loan investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible participants are shown below.

<u>Pool/Investments Managed Name</u>	<u>Creation Date</u>	<u>Eligible Participants</u>
Retirement Funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds/Small Trusts
Montana International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Valuation and Timing – The value of stocks and bonds are recorded at both “book” and “fair” value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the “amortized” cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers’ valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for STIP, all investment portfolios presented in the Statement of Net Asset Value are at “fair” value.

Accounting for stock and bond securities is based on the “trade date”, which means the sale or purchase of a security is recorded on the trade date, rather than the “settlement” date. This generally accepted practice results in a purchased security included in the investment portfolio on the trade date even though payment will not occur until the settlement date. Conversely, a sold security will be eliminated from the investment portfolio on the trade date even though the sale

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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proceeds will not be received until the settlement date. This delayed timing requires that “receivables” and “payables” for securities sold/purchased but not yet settled must be reported in the financial statement and calculated in the Net Asset Value. Private equity and real estate investments are included in the portfolio when funds are wired.

Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

B. Pool Net Asset Value/Investments Managed – The Pool Net Asset Value (NAV) must be calculated accurately to ensure participants are paying or receiving a “fair” price when units are purchased and sold. The NAV must include not only the fair value of the investment portfolio (except for STIP at book value) but any liabilities payable by the Pool and receivables due the Pool on the NAV calculation date. Investment accounting uses the “accrual” basis, which means bond interest due is recorded when earned, rather than when cash is received. Interest “due” is recorded as a receivable (asset) and included in the NAV on the date of the calculation. Dividends are recorded as of “ex-dividend date.” Income due to Pool participants is recorded on the date due to the participants, rather than on actual distribution date. Income Due Participants is a payable (liability) and included in the NAV on the calculation date. The effect of assets and liabilities on the Pool NAV is depicted in the table below. The difference between Pool investment portfolios at fair value and the NAV is the net of other assets and liabilities. The STIP portfolio is shown in the Statement of Net Asset Value at amortized cost or “book” value. The All Other Funds (AOF) Investments Managed (IM) represent direct investments by approximately 20 state agencies in fixed income securities, two equity index funds and commercial loans. These state agencies do not buy or sell participant units based on a NAV calculation for their AOF Investments Managed. Effective May 1, 2011, the real estate buildings and residential mortgages, previously reported in the AOF portfolio, are included in the MTRP and RFBP portfolios. The book value, fair value, Pool NAV and AOF Investments Managed (IM) are shown in the table below.

June 30, 2011 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)

<u>Pool</u>	<u>Book Value</u>	<u>Fair Value *</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,982,772,272	\$ 2,024,412,168	\$ 1,922,867,100
Trust Funds Investment Pool (TFIP)	1,802,119,055	1,891,130,752	1,892,529,369
Montana Domestic Equity Pool (MDEP)	2,432,167,030	2,844,534,644	2,847,719,910
Montana International Equity Pool (MTIP)	1,212,866,394	1,441,330,490	1,443,960,255
Montana Private Equity Pool (MPEP)	875,119,048	960,833,766	960,495,206
Montana Real Estate Pool (MTRP)	604,323,623	508,317,749	508,025,320
Short Term Investment Pool (STIP)*	2,430,190,418	2,430,190,418	2,425,073,762
All Other Funds (AOF) Investments Managed	<u>1,493,355,828</u>	<u>1,602,474,340</u>	<u>1,615,340,920</u>
Total	<u>\$ 12,832,913,668</u>	<u>\$ 13,703,224,327</u>	<u>\$ 13,616,011,842</u>

June 30, 2010 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)

<u>Pool</u>	<u>Book Value</u>	<u>Fair Value *</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,833,632,256	\$ 1,880,871,631	\$ 1,867,210,463
Trust Funds Investment Pool (TFIP)	1,748,964,386	1,816,253,411	1,811,583,144
Montana Domestic Equity Pool (MDEP)	2,347,507,949	2,205,949,840	2,208,759,362
Montana International Equity Pool (MTIP)	1,138,495,676	1,092,435,819	1,093,722,412
Montana Private Equity Pool (MPEP)	845,012,499	854,832,113	854,797,991
Montana Real Estate Pool (MTRP)	508,217,228	354,190,547	354,154,014
Short Term Investment Pool (STIP)*	2,248,951,467	2,248,951,467	2,248,177,588
All Other Funds (AOF) Investments Managed	<u>1,525,847,990</u>	<u>1,604,987,859</u>	<u>1,618,329,384</u>
Total	<u>\$ 12,196,629,451</u>	<u>\$ 12,058,472,687</u>	<u>\$ 12,056,734,358</u>

** The STIP portfolio is recorded at amortized cost in the Fair Value column.*

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

The table below shows the individual Pool and AOF assets, liabilities, and NAV/Investments Managed. Included in the Pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due participants, and other miscellaneous payables. The “securities lending” asset/liability shown in the Statement of Net Asset Value/Investments Managed nets to zero and has no “net” effect on the Pool NAV and AOF Investments Managed.

2011 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)

<u>Pool</u>	<u>Assets</u>	<u>Liabilities</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,235,335,749	\$ 312,468,649	\$ 1,922,867,100
Trust Funds Investment Pool (TFIP)	2,020,308,666	127,779,297	1,892,529,369
Montana Domestic Equity Pool (MDEP)	3,037,984,810	190,264,900	2,847,719,910
Montana International Equity Pool (MTIP)	1,482,614,675	38,654,420	1,443,960,255
Montana Private Equity Pool (MPEP)	960,833,766	338,560	960,495,206
Montana Real Estate Pool (MTRP)	508,378,213	352,893	508,025,320
Short Term Investment Pool (STIP)	2,463,497,544	38,423,782	2,425,073,762
All Other Funds (AOF) Investments Managed	<u>1,734,351,096</u>	<u>119,010,176</u>	<u>1,615,340,920</u>
Total	<u>\$ 14,443,304,519</u>	<u>\$ 827,292,677</u>	<u>\$ 13,616,011,842</u>

2010 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)

<u>Pool</u>	<u>Assets</u>	<u>Liabilities</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,108,103,943	\$ 240,893,480	\$ 1,867,210,463
Trust Funds Investment Pool (TFIP)	1,931,904,758	120,321,614	1,811,583,144
Montana Domestic Equity Pool (MDEP)	2,417,709,713	208,950,351	2,208,759,362
Montana International Equity Pool (MTIP)	1,120,786,581	27,064,169	1,093,722,412
Montana Private Equity Pool (MPEP)	854,837,703	39,712	854,797,991
Montana Real Estate Pool (MTRP)	354,200,211	46,197	354,154,014
Short Term Investment Pool (STIP)	2,337,215,367	89,037,779	2,248,177,588
All Other Funds (AOF) Investments Managed	<u>1,823,769,693</u>	<u>205,440,309</u>	<u>1,618,329,384</u>
Total	<u>\$ 12,948,527,969</u>	<u>\$ 891,793,611</u>	<u>\$ 12,056,734,358</u>

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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C. Pool Participant Units – Pool units are purchased and sold similar to individuals investing in mutual funds. The STIP participants purchase and sell units, at \$1 per unit, at their discretion. All non-STIP Pool units and AOF direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations approved by the Board. For non-STIP Pool participants to purchase and sell units, the units must be “priced.” Once the Pool NAV is calculated, the unit value is priced by dividing the NAV by the number of outstanding units. The unit value is then used when units are purchased or sold. Like securities, Pool units also have a “book” value, which is the price of the unit when it was purchased. The book value does not change unless the participant purchased additional units at different prices. Because the AOF Investments Managed (IM) is not an investment pool, there are no Units Outstanding or a Pool Unit Value. The calculations for Pool unit values are shown below.

2011 NAV/IM - Units Outstanding - Unit Value

<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,922,867,100	\$ 17,601,560	\$ 109.24
Trust Funds Investment Pool (TFIP)	1,892,529,369	18,175,234	104.13
Montana Domestic Equity Pool (MDEP)	2,847,719,910	18,581,223	153.26
Montana International Equity Pool (MTIP)	1,443,960,255	9,170,676	157.45
Montana Private Equity Pool (MPEP)	960,495,206	4,875,783	196.99
Montana Real Estate Pool (MTRP)	508,025,320	7,040,098	72.16
Short Term Investment Pool (STIP)	2,425,073,762	2,425,073,762	1.00
All Other Funds (AOF) Investments Managed	1,615,340,920	NA	NA
Total	\$ 13,616,011,842	\$ 2,500,518,336	NA

2010 NAV/IM - Units Outstanding - Unit Value

<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,867,210,463	\$ 17,455,219	\$ 106.97
Trust Funds Investment Pool (TFIP)	1,811,583,144	17,651,160	102.63
Montana Domestic Equity Pool (MDEP)	2,208,759,362	18,861,660	117.10
Montana International Equity Pool (MTIP)	1,093,722,412	8,987,092	121.70
Montana Private Equity Pool (MPEP)	854,797,991	5,263,377	162.40
Montana Real Estate Pool (MTRP)	354,154,014	5,646,205	62.72
Short Term Investment Pool (STIP)	2,248,177,588	2,248,177,588	1.00
All Other Funds (AOF) Investments Managed	1,618,329,384	NA	NA
Total	\$ 12,056,734,358	\$ 2,322,042,301	NA

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D. Changes in Net Asset Value/Investments Managed – This table depicts the change in NAV/IM from the previous year to the current year. There are three components contributing to the changes: 1) the value of Pool participant units and AOF investments purchased; 2) the value of Pool participant units and AOF investments sold; and 3) the change in the value of investments managed. The change in NAV for each Pool and AOF Investments Managed is shown in the table below.

2011 Pool Unit/AOF Investment Activity and Change in Value of Investments

<u>Pool</u>	<u>Value of Units/ Investments Purchased</u>	<u>Value of Units/ Investments Sold</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 76,202,240	\$ (56,337,431)	\$ 35,791,828
Trust Funds Investment Pool (TFIP)	97,473,113	(40,393,235)	23,866,347
Montana Domestic Equity Pool (MDEP)	39,015,000	(41,388,811)	641,334,359
Montana International Equity Pool (MTIP)	34,160,000	(7,927,653)	324,005,496
Montana Private Equity Pool (MPEP)	25,825,000	(69,323,485)	149,195,700
Montana Real Estate Pool (MTRP)	104,182,602	(12,177,950)	61,866,654
Short Term Investment Pool (STIP)	7,215,939,399	(7,039,043,225)	-
All Other Funds (AOF) Investments Managed	<u>13,961,879,154</u>	<u>(13,994,890,436)</u>	<u>30,497,763</u>
Total	<u>\$ 21,554,676,508</u>	<u>\$ (21,261,482,226)</u>	<u>\$ 1,266,558,147</u>

2010 Pool Unit/AOF Investment Activity and Change in Value of Investments

<u>Pool</u>	<u>Value of Units/ Investments Purchased</u>	<u>Value of Units/ Investments Sold</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 5,970,000	\$ (25,971,397)	\$ 150,682,816
Trust Funds Investment Pool (TFIP)	55,195,000	-	115,479,179
Montana Domestic Equity Pool (MDEP)	6,210,000	(136,122,765)	218,276,156
Montana International Equity Pool (MTIP)	30,440,000	(2,254,799)	86,681,640
Montana Private Equity Pool (MPEP)	55,080,000	-	128,850,717
Montana Real Estate Pool (MTRP)	118,620,000	-	(52,332,714)
Short Term Investment Pool (STIP)	7,514,846,268	(7,568,158,285)	-
All Other Funds (AOF) Investments Managed	<u>13,337,177,612</u>	<u>(13,242,745,509)</u>	<u>78,434,519</u>
Total	<u>\$ 21,123,538,880</u>	<u>\$ (20,975,252,755)</u>	<u>\$ 726,072,313</u>

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E. Distributable Income – Bond Pool and AOF distributable income reported in the Statement of Investment Income and Distribution includes accrued interest, miscellaneous income, amortization/accretion of discount/premium, and realized gains (losses) on pool participant and security sales. STIP income is comprised of accrued interest and amortization of discount. Public equity, private equity, and private real estate Pools' distributable income consists primarily of dividends. Net realized capital gains in the MPEP and MTRP are retained in the pool unless pool expenses cause the Income-Due-Participants balance to be negative. When this occurs, a portion of the pool's accumulated net realized capital gain is transferred to the Income-Due-Participants account to create a positive balance available for distribution. The MPEP and MTRP realized capital gain transfers are reported in the table below. Realized Bond Pool gains/losses are also retained in the pool, while AOF portfolio gains/losses are received on settlement date. The Income-Due-Participants balance, as recorded in each Pool, is distributed monthly on the first calendar day of each month. The sale of pool units generates a gain or loss to the pool participants and is recorded as AOF activity. The major sources of distributable income for each Pool and the AOF are shown below.

2011 Major Sources of Distributable Income

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\</u> <u>Interest</u>	<u>Amortization\</u> <u>Accretion</u>
Retirement Funds Bond Pool (RFBP)	\$ -	\$ 85,021,700	\$ -
Trust Funds Investment Pool (TFIP)	-	83,695,971	4,511,348
Montana Domestic Equity Pool (MDEP)	-	31,435,336	-
Montana International Equity Pool (MTIP)	-	18,089,485	-
Montana Private Equity Pool (MPEP)	3,450,000	15,546,965	-
Montana Real Estate Pool (MTRP)	450,000	12,908,417	-
Short Term Investment Pool (STIP)	-	7,287,887	2,256,836
Pool Participant Sales	82,706,523		
All Other Funds (AOF) Investments Managed	<u>6,847,884</u>	<u>61,898,620</u>	<u>519,120</u>
Total	<u>\$ 93,454,407</u>	<u>\$ 315,884,381</u>	<u>\$ 7,287,304</u>

2010 Major Sources of Distributable Income

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\</u> <u>Interest</u>	<u>Amortization\</u> <u>Accretion</u>
Retirement Funds Bond Pool (RFBP)	\$ -	\$ 91,357,884	\$ -
Trust Funds Investment Pool (TFIP)	-	80,831,441	5,438,144
Montana Domestic Equity Pool (MDEP)	-	30,053,978	-
Montana International Equity Pool (MTIP)	-	14,968,347	-
Montana Private Equity Pool (MPEP)	7,500,000	6,631,594	-
Montana Real Estate Pool (MTRP)	1,620,000	9,254,279	-
Short Term Investment Pool (STIP)	-	8,690,784	3,411,010
Pool Participant Sales	113,106,088		
All Other Funds (AOF) Investments Managed	<u>2,143,676</u>	<u>65,838,239</u>	<u>225,158</u>
Total	<u>\$ 124,369,764</u>	<u>\$ 307,626,546</u>	<u>\$ 9,074,312</u>

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Distributable income for the fiscal year may not be distributed by June 30. Any undistributed amount is recorded as a payable against the NAV of the Pool at year-end. The distributable and undistributed income is shown below.

2011 Distributable and Undistributed Income

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 91,654,259	\$ 84,675,383	\$ 6,978,876
Trust Funds Investment Pool (TFIP)	94,920,149	87,721,605	7,198,544
Montana Domestic Equity Pool (MDEP)	23,146,049	21,128,318	2,017,731
Montana International Equity Pool (MTIP)	14,708,075	12,403,090	2,304,985
Montana Private Equity Pool (MPEP)	1,749,357	1,410,797	338,560
Montana Real Estate Pool (MTRP)	5,152,324	4,806,019	346,305
Short Term Investment Pool (STIP)	7,486,523	6,945,784	540,739
All Other Funds (AOF) Investments Managed	<u>151,998,097</u>	<u>151,998,097</u>	<u>-</u>
Total	<u>\$ 390,814,833</u>	<u>\$ 371,089,093</u>	<u>\$ 19,725,740</u>

2010 Distributable and Undistributed Income

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 99,910,877	\$ 92,395,806	\$ 7,515,071
Trust Funds Investment Pool (TFIP)	95,303,462	88,059,460	7,244,002
Montana Domestic Equity Pool (MDEP)	21,439,252	19,565,542	1,873,710
Montana International Equity Pool (MTIP)	11,351,128	10,240,036	1,111,092
Montana Private Equity Pool (MPEP)	547,419	507,707	39,712
Montana Real Estate Pool (MTRP)	3,342,373	3,296,176	46,197
Short Term Investment Pool (STIP)	8,760,320	8,068,979	691,341
All Other Funds (AOF) Investments Managed	<u>180,927,225</u>	<u>180,927,225</u>	<u>-</u>
Total	<u>\$ 421,582,056</u>	<u>\$ 403,060,931</u>	<u>\$ 18,521,125</u>

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F. Investment Management Fees – The Legislature sets the maximum management fee the Board may charge the accounts it manages. The maximum fee is set at the aggregate level at the beginning of each fiscal year. The Board allocates the aggregate fees across the Pools and AOF investments managed outside the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The Board allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the proceeds in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage. Investment management fees charged each Pool and the AOF investments are shown below.

Fiscal 2011 Management Fees

<u>Pool</u>	<u>Board</u>	<u>Custodial Bank</u>	<u>External Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 519,268	\$ 181,129	\$ 1,483,165	\$ 2,183,562
Trust Funds Investment Pool (TFIP)	479,787	121,968	1,287,039	1,888,794
Montana Domestic Equity Pool (MDEP)	577,719	570,205	9,415,313	10,563,237
Montana International Equity Pool (MTIP)	570,173	190,296	4,277,412	5,037,881
Montana Private Equity Pool (MPEP)	532,247	90,635	15,355,531	15,978,413
Montana Real Estate Pool (MTRP)	453,939	49,206	7,749,145	8,252,290
Short Term Investment Pool (STIP)	505,719	198,439	-	704,158
All Other Funds (AOF) Investments Managed	<u>777,855</u>	<u>168,004</u>	<u>69,493</u>	<u>1,015,352</u>
Total	<u>\$ 4,416,707</u>	<u>\$ 1,569,882</u>	<u>\$ 39,637,098</u>	<u>\$ 45,623,687</u>

Fiscal 2010 Management Fees

<u>Pool</u>	<u>Board</u>	<u>Custodial Bank</u>	<u>External Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 527,473	\$ 141,563	\$ 1,078,457	\$ 1,747,493
Trust Funds Investment Pool (TFIP)	493,636	118,316	345,658	957,610
Montana Domestic Equity Pool (MDEP)	735,444	567,552	9,605,491	10,908,487
Montana International Equity Pool (MTIP)	729,648	216,660	4,682,131	5,628,439
Montana Private Equity Pool (MPEP)	563,892	73,044	13,360,496	13,997,432
Montana Real Estate Pool (MTRP)	476,317	39,845	7,096,729	7,612,891
Short Term Investment Pool (STIP)	522,780	215,160	-	737,940
All Other Funds (AOF) Investments Managed	<u>820,282</u>	<u>181,814</u>	<u>66,627</u>	<u>1,068,723</u>
Total	<u>\$ 4,869,472</u>	<u>\$ 1,553,954</u>	<u>\$ 36,235,589</u>	<u>\$ 42,659,015</u>

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3. INVESTMENT COMMITMENTS

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining Board commitments to private equity funds.

MPEP Commitments as of June 30, 2011

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Adams Street	\$ 284,454,433	\$ 27,240,031	\$ 173,465,847	\$ 179,204,973
Affinity Equity Partners	15,000,000	6,530,419	4,639,957	8,392,231
American Securities Partners	35,000,000	35,000,000	0	0
ArcLight	50,000,000	6,644,162	19,933,164	24,246,584
Axiom Asia Private Capital	25,000,000	19,463,931	5,317,355	6,219,561
Black Diamond Capital Management	25,000,000	23,380,670	1,524,638	1,524,638
Carlyle Partners	60,000,000	5,603,120	39,703,869	51,784,649
CCMP Capital Advisors	30,000,000	10,221,179	17,023,081	20,823,620
Centerbridge Capital	37,500,000	24,256,569	12,852,563	18,007,409
CIVC Partners	25,000,000	21,341,713	2,783,306	3,441,784
EIF	25,000,000	25,000,000	0	0
First Reserve Corporation	55,485,789	17,510,670	32,544,786	31,197,394
GTCR Partners	25,000,000	25,000,000	0	0
HarbourVest Partners	61,823,772	34,060,417	26,204,024	32,612,205
HCI Equity Partners	20,000,000	12,820,357	6,161,470	10,803,300
Hellman & Friedman	40,000,000	18,137,206	17,946,455	22,484,306
Highway 12 Investors	10,000,000	2,334,245	6,576,539	7,813,415
Industry Ventures	10,000,000	595,358	6,364,875	6,676,926
J.C. Flowers & Co	25,000,000	477,037	22,639,507	6,837,338
JLL Partners	25,000,000	2,409,128	15,949,058	17,929,405
Lexington Capital Partners	155,000,000	37,336,019	58,220,921	72,540,114
Madison Dearborn	75,000,000	21,659,917	40,264,018	41,982,884
MatlinPatterson Global Advisers	30,000,000	1,482,014	22,848,240	17,506,641
MHR Institutional Investors	25,000,000	8,779,977	16,438,837	18,431,060
Montlake	15,000,000	4,950,000	9,652,159	8,088,230
NB Co-investment Partners	35,000,000	5,303,670	17,335,533	20,861,494
Northgate Capital	30,000,000	25,500,000	4,500,000	4,500,000
Oak Hill Capital Partners	45,000,000	9,347,450	33,930,070	41,086,085
Oaktree	45,000,000	6,000,000	23,060,365	44,180,594
Odyssey	45,000,000	15,215,920	18,062,220	26,504,835
Opus Capital	10,000,000	9,366,952	508,048	440,835
Performance Equity Management	25,000,000	18,370,691	5,867,494	5,848,325
Portfolio Advisors	70,000,000	24,144,319	42,640,590	45,417,027
Quintana Energy Partners	15,000,000	1,608,407	11,123,680	13,285,267
Siguler Guff	25,000,000	6,744,081	17,654,258	18,735,969
TA Associates	10,000,000	8,150,000	1,850,000	1,897,504
Terra Firma Capital Partners	25,432,997	5,187,647	17,260,165	7,866,354
Trilantic Capital Partners	11,098,351	4,391,693	4,308,278	4,862,736
Veritas Capital	25,000,000	16,882,973	8,117,027	7,675,250
Welsh Carson	<u>75,000,000</u>	<u>6,000,000</u>	<u>43,925,417</u>	<u>44,759,230</u>
Total MPEP Commitments	<u>\$ 1,675,795,342</u>	<u>\$ 554,447,942</u>	<u>\$ 809,197,814</u>	<u>\$ 896,470,172</u>

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The table below shows the remaining Board commitments to private real estate funds.

MTRP Commitments as of June 30, 2011

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
ABR Chesapeake	\$ 17,000,000	\$ 15,300,000	\$ 1,700,000	\$ 1,700,000
Angelo Gordon	90,000,000	43,550,000	42,628,823	38,750,129
Area Property Partners	10,000,000	1,664,000	8,336,000	7,465,901
Beacon Capital Partners	25,000,000	5,750,000	19,250,000	8,833,402
Carlyle	29,920,000	12,376,976	16,802,465	15,976,096
CIM Fund	25,000,000	9,793,288	15,206,712	16,354,682
DRA Advisors	35,000,000	11,725,761	20,496,000	16,987,638
GEM Realty Fund IV LP	15,000,000	11,700,000	2,962,500	3,281,825
JER Real Est Partners	20,000,000	12,641,353	6,236,748	2,495,909
Landmark Real Estate	20,000,000	15,742,013	4,257,987	4,257,987
Liquid Realty	22,013,732	3,195,529	15,487,684	12,708,605
Macquarie Global	30,000,000	12,415,844	16,887,872	15,397,196
Molpus Woodlands Group	50,000,000	49,300,000	700,000	700,000
O'Connor North American	15,000,000	2,896,831	10,867,785	5,753,840
RMS Timberland	25,000,000	5,627,447	19,372,553	19,372,553
Rothschild Realty	30,000,000	16,198,742	13,012,294	13,030,369
TA Associates Realty	20,000,000	3,000,000	17,000,000	17,567,443
Total MTRP Commitments	<u>\$ 478,933,732</u>	<u>\$ 232,877,784</u>	<u>\$ 231,205,423</u>	<u>\$ 200,633,575</u>

4. TYPES OF INVESTMENTS

Bond Pools and AOF Investments – The RFBP, TFIP and AOF fixed income portfolios include corporate and foreign government bonds; U.S. Government direct obligations and U.S. Government agency securities; and cash equivalents. U.S. Government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. Government. U.S. Government agency securities include U.S. Government agency and mortgage-backed securities. U.S. Government mortgage-backed securities reflect participation in a pool of residential mortgages. Corporate bonds include asset backed securities. These three portfolios may include variable-rate (floating rate) instruments with the interest rate tied to a specific rate such as LIBOR (London Interbank Offered Rate). Variable rate securities pay a variable rate of interest until maturity. In May 2009, the Board approved a staff recommendation to diversify income sources within the TFIP providing investment in a high yield bond fund and core real estate funds.

Public Equity Pools -The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. Common stock represents ownership units (shares) of a public corporation. Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder 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 investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, “derive” their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

The MDEP portfolio is limited to domestic stock or ADR investments, while the MTIP portfolio may include holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets.

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Alternative Investment Pools - The Montana Private Equity Pool (MPEP) may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. These investments are made via Limited Partnership Agreements in which the Board and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are riskier with higher potential return than public equity investments and are less liquid because the funds are usually committed for at least 10 years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only. The MPEP invests its cash in the State Street SPIFF (Stock Performance Index Futures Fund).

The Montana Real Estate Pool (MTRP) includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP.

STIP - This Pool is managed to preserve principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for one or more days. Although not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed consistent with the SEC rule 2a7 of the Investment Company Act of 1940. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00.

Asset-backed securities are 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. 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. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR).

AOF - In addition to fixed income investments, the AOF portfolio includes two equity index funds and commercial loans. On May 1, 2011 the direct real estate buildings and residential mortgages, owned by the Public Employees' and Teachers' pension funds, were sold to the MTRP and the RFBP and are no longer included in the AOF. Equity index investments are investments in institutional commingled funds whose equity portfolios match a broad based index or composite.

The AOF Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by the Board and Montana Facility Finance Authority. The Coal Severance Tax Trust loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTTA Board was abolished on July 1, 1999 and the MSTTA portfolio was assigned to the Board. There are no uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2011 and 2010. (See Note 9 for the Montana mortgages and loans portfolio.)

5. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2011 and 2010, the Bank lent Board public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2011 and 2010. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted

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in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2011 and 2010 resulting from a borrower default.

During fiscal years 2011 and 2010, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2011, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 62 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 484 days for U.S. dollar collateral. As of June 30, 2010, the Quality D Trust had a weighted average maturity of 30 days. As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral. As of June 30, 2010, the Securities Lending Quality Trust had a weighted average maturity of 20 days. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2011 and 2010, the Board had no credit risk exposure to borrowers. The private equity and real estate Pools do not participate in securities lending. The Pool and AOF securities on loan, at fair value, and the collateral pledged are shown below.

June 30, 2011				
<u>Pool/AOF</u>	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 472,517,434	\$ 183,434,778	\$ 299,462,226	\$ 482,897,004
Trust Funds Investment Pool (TFIP)	479,264,411	112,037,675	378,219,233	490,256,908
Montana Domestic Equity Pool (MDEP)	180,849,842	170,182,473	13,531,049	183,713,522
Montana International Equity Pool (MTIP)	43,077,855	32,686,005	11,987,650	44,673,655
Short Term Investment Pool (STIP)	180,426,019	32,271,105	151,911,469	184,182,574
AOF Investments Managed	392,987,686	118,987,041	282,611,381	401,598,422
Total	<u>\$ 1,749,123,247</u>	<u>\$ 649,599,077</u>	<u>\$ 1,137,723,008</u>	<u>\$ 1,787,322,085</u>

June 30, 2010				
<u>Pool/AOF</u>	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 526,605,995	\$ 205,756,303	\$ 331,690,711	\$ 537,447,014
Trust Funds Investment Pool (TFIP)	510,925,163	100,913,178	420,274,726	521,187,904
Montana Domestic Equity Pool (MDEP)	192,225,421	196,121,663	3,529,113	199,650,776
Montana International Equity Pool (MTIP)	35,652,367	19,232,333	18,526,416	37,758,749
Short Term Investment Pool (STIP)	209,844,785	86,635,985	127,531,250	214,167,235
AOF Investments Managed	423,151,915	205,393,640	226,197,964	431,591,604
Total	<u>\$ 1,898,405,646</u>	<u>\$ 814,053,102</u>	<u>\$ 1,127,750,180</u>	<u>\$ 1,941,803,282</u>

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Securities lending income and expenses are shown below.

Fiscal Year 2011			
<u>Pool/AOF</u>	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,822,539	\$ 521,489	\$ 1,301,050
Trust Funds Investment Pool (TFIP)	1,758,630	401,007	1,357,623
Montana Domestic Equity Pool (MDEP)	609,892	209,652	400,240
Montana International Equity Pool (MTIP)	686,331	140,952	545,379
Short Term Investment Pool (STIP)	1,109,422	234,805	874,617
AOF Investments Managed	1,437,960	396,658	1,041,302
Total	\$ 7,424,774	\$ 1,904,563	\$ 5,520,211

Fiscal Year 2010			
<u>Pool/AOF</u>	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,282,489	\$ 883,491	\$ 1,398,998
Trust Funds Investment Pool (TFIP)	1,507,658	597,516	910,142
Montana Domestic Equity Pool (MDEP)	586,612	102,657	483,955
Montana International Equity Pool (MTIP)	359,535	(87,805)	447,340
Short Term Investment Pool (STIP)	1,008,539	340,884	667,655
AOF Investments Managed	1,120,679	437,892	682,787
Total	\$ 6,865,512	\$ 2,274,635	\$ 4,590,877

6. INVESTMENT RISK DISCLOSURES AND DERIVATIVES

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. With the exception of U.S. Government securities, the six pools' fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' policy requires TFIP fixed income investments "be rated investment grade, or no lower than triple-B minus by one nationally recognized securities rating organization (NRSRO) at time of purchase" and RFBP fixed income investments, at the time of purchase, to be rated "at least by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services". Credit risk for the internal and external managers for the RFBP is detailed as follows:

- 1) **Core Internal Bond Pool (CIBP)** – "Securities must be rated investment grade, or no lower than triple-B-minus, by one nationally recognized securities rating organization at the time of purchase. Split rated securities may not exceed 3% of portfolio market value."
- 2) **Reams Asset Management Company LLC** – "At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
- 3) **Artio Global Management LLC** – "At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
- 4) **Neuberger Berman Fixed Income LLC** – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."
- 5) **Post Advisory Group LLC** - "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."

As stated in the STIP Investment Policy, "the STIP portfolio will minimize credit risk by:

- 1) limiting investments to those securities, at time of purchase, with high credit ratings provided by S&P such as A1 for commercial paper, bankers acceptances, certificates of deposits and asset backed securities and AA- for corporate and medium term notes
- 2) prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
- 3) diversifying the portfolio so potential losses on individual securities will be minimized.”

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 tables below are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

Neither the MTIP, MDEP or MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in STIF of \$4,315,617 and \$22,859,444, respectively or the MTRP STIP investment of \$3,367,711. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a \$226,494 cash equivalent investment in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

Of the 19 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. Two funds require “corporate securities be rated A3/A- or higher by Moody's/S&P rating agencies to qualify for purchase.” One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. The investment policy, revised in May 2010, states “the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name.” Five funds require, at the time of purchase, “the quality rate of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase.”

Custodial Credit Risk - Deposits – Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2011 and 2010, the Board recorded cash deposits of \$13,561,670 and \$9,947,662, respectively. Of these balances, \$3,580,118 and \$2,725,304, respectively, represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed on the basis of no collateralization.

In November 2008, the Federal Deposit Insurance Corporation (FDIC)'s Board of Directors established a program called the ‘Temporary Liquidity Guarantee Program’ (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to the 12 CFR 370, in part, extended the TAG program until December 31, 2010, with the possibility of an additional extension of up to 12 months upon the determination by the FDIC's Board of Directors. Pursuant to the Dodd-Frank Provision, all funds in noninterest bearing accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are fully insured by the FDIC. The MTRP interest bearing checking account for the direct real estate investments is insured by the FDIC up to \$250,000. The Board does not have a policy addressing deposit custodial risk.

Investments - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Board may 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, 2011 and 2010, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in the Board's name. Commingled fund investments are registered in the name of the Montana Board of Investments. The Board does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

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Bond Pools- Both the RFBP Core Internal Bond Pool and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. Also per policy, “the RFBP will not make additional purchases in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase except U.S. Government/Agency securities.” The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP – Although the STIP Investment Policy does not specify concentration of credit risk exposure, the policy does provide for portfolio limitations by investment type.

AOF - With the exception of seven funds, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, “the fixed income holdings rated lower than A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase.” This same fund is limited to stock investments not to exceed 25 percent of the book value of its total invested assets. In addition, this fund’s IPS provides for a “2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities.” The policy for five funds sets “investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower. Limits are also set by corporate bond sector for these five funds.” Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2011 and 2010.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the “external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments. The managers’ Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis. The MPEP policy does not address foreign currency risk, but identifies “country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States.” As of the June 30, 2011 and 2010 exchange dates, the Boards’ foreign currency exposure by forward contracts, deposits and investment type are reported, in U. S. dollars, at fair value in the tables below excluding the foreign investments denominated in U. S. dollars for the American Depositary Receipts (ADRs) and commingled index funds.

MTIP and RFBP Currency Forward Contracts by Foreign Currency

Currency	2011			2010		
	Receivables	Payables	Total	Receivables	Payables	Total
Australian Dollar	\$ -	\$ (38,496)	\$ (38,496)	\$ (32,940)	\$ (19,440)	\$ (52,380)
Brazilian Real	-	-	-	-	(54,969)	(54,969)
Canadian Dollar	18,431	(78,422)	(59,991)	(31,120)	181,621	150,501
Euro	6,199	(75,031)	(68,832)	(47,633)	448,298	400,665
Japanese Yen	4,833	(141,395)	(136,562)	127,377	(13,269)	114,108
Malaysian Ringgit	-	-	-	1,812	1,751	3,563
Kazakhstan Tenge	1,689	-	1,689	-	-	-
Mexican Peso	-	(58,854)	(58,854)	(37,586)	-	(37,586)
New Russian Ruble	-	-	-	(55,853)	30,034	(25,819)
New Zealand Dollar	-	(27,413)	(27,413)	-	-	-
Polish Zloty	-	10,284	10,284	-	-	-
South Korean Won	-	-	-	(92,759)	23,018	(69,741)
Swedish Krona	-	-	-	(160,046)	146,146	(13,900)
Swiss Franc	-	-	-	-	(20,275)	(20,275)
UK Pound Sterling	-	(4,193)	(4,193)	13,740	(49,931)	(36,191)
Total	\$ 31,152	\$ (413,520)	\$ (382,368)	\$ (315,008)	\$ 672,984	\$ 357,976

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Foreign Currency Exposure by Country

Investment Type in U.S. Dollar Equivalent

June 30, 2011

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	\$ 57,376	\$ 4,702,524	\$ 31,244,338	\$ -	\$ -
Brazilian Real	1,679	5,641,797	12,630,829		
Canadian Dollar	420,982	3,794,454	30,050,563		
Danish Krone	30,245		8,437,167		
EMU-Euro	692,633	1,518,626	156,232,100	18,745,187	16,802,465
Hong Kong Dollar	437,834		44,539,119		
Hungarian Forint	865		986,516		
Indonesian Rupiah	1,099		789,815		
Israeli Shekel	103		113,325		
Japanese Yen	619,825		94,915,358		
Malaysian Ringgit	210,550		3,638,841		
Mexican Peso	226,864	5,527,730	983,067		
New Zealand Dollar	12	1,099,880			
Norwegian Krone	86,646		5,474,957		
Philippine Peso	14,122		357,581		
Polish Zloty	2	2,624,691	1,447,132		
Singapore Dollar	78,061		8,585,647		
South African Rand			4,477,348		
South Korean Won	62		9,727,052		
Swedish Krona	78,300		11,081,627		
Swiss Franc	111,574		32,164,602		
New Taiwan Dollar	8,542		7,472,058		
Thailand Baht	-		3,002,806		
Turkish Lira	2		763,701		
UK Pound Sterling	502,740	815,117	101,513,407		
Total	\$ 3,580,118	\$ 25,724,819	\$ 570,628,956	\$ 18,745,187	\$ 16,802,465

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Foreign Currency Exposure by Country

Investment Type in U.S. Dollar Equivalent

June 30, 2010

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	\$ 189,494	\$ 2,462,340	\$ 19,700,982	\$ -	\$ -
Brazilian Real	408,222	3,180,175	2,859,880		
Canadian Dollar	242,516	7,577,745	28,732,108		
Danish Krone	50,576		5,122,098		
EMU-Euro	838,648		113,978,767	16,256,787	10,883,981
Hong Kong Dollar	62,200		23,081,867		
Hungarian Forint	1,674				
Indonesian Rupiah	10,067		833,762		
Israeli Shekel			1,289,263		
Japanese Yen	670,001		82,072,924		
Malaysian Ringgit	24,340		4,326,367		
Mexican Peso	38		679,759		
New Zealand Dollar	10				
Norwegian Krone	14,587		2,311,402		
Philippine Peso	7,413		271,859		
Polish Zloty	3,239		399,540		
Singapore Dollar	38,337		6,882,576		
South African Rand	377		2,535,654		
South Korean Won	542		11,639,891		
Swedish Krona	14,643		5,517,023		
Swiss Franc	39,638		25,562,505		
New Taiwan Dollar	11,807		4,331,306		
Thailand Baht	-		2,871,631		
Turkish Lira	934		1,233,288		
UK Pound Sterling	96,001		74,526,700		
Total	\$ 2,725,304	\$ 13,220,260	\$ 420,761,152	\$ 16,256,787	\$ 10,883,981

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bond Pools’ duration is to remain within 20% of the established Index duration. With the exception of two funds, the AOFs’ investment policies do not formally address interest rate risk. One fund limits securities three years to maturity and repurchase agreements seven days to maturity. Another fund’s policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. Six funds are described as having the “ability to assume interest rate risk”. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. Our analytic software uses “an option-adjusted measure of a bond’s (or portfolio’s) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond’s price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities).” According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

- 1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) investing funds primarily in short-term maturities of money market securities; and
- 3) maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).”

The MDEP and MTIP investment portfolios include the external managers’ cash equivalents invested in the custodial bank’s Short Term Investment Fund (STIF) of \$22,859,444 and \$4,315,617, respectively. The STIF fund has an effective duration of .09. One MDEP investment manager invested \$226,494 in the T. Rowe Price Reserve Investment Fund with duration of .24. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

Asset-backed securities held in the Bond Pools, AOF and STIP portfolios are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

The Bond Pools and AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2011 and 2010, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR.

As of June 30, 2011, the AOF portfolio held a \$10 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Aria II, 0.00%, 10/10/2012. Although the current interest rate is zero, the variable rate is set to float with the six month LIBOR plus a variable spread on a notional amount percent. As of June 30, 2010, the Bond Pool and AOF portfolios held two Collateralized Debt Obligations (CDO) with a combined par of \$50 million. The Bond Pools held a \$40 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Cypress Tree, 2.34%, 12/10/2010. This variable rate security was set to float at the three month LIBOR plus an established basis point spread with no cap. Principal on the \$40 million par CDO position held in the Bond Pool matured and was paid in December 2010. A CDO is a structured debt security backed by a portfolio consisting of bonds, loans, synthetic instruments or other structured finance securities issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

Bond Pool and AOF investments are categorized on the subsequent pages to disclose credit and interest rate risk as of June 30, 2011 and June 30, 2010. 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). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

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RFBP Credit Quality Rating and Effective Duration as of June 30, 2011

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 852,266,773	A-	4.63
Corporate Bonds (Unrated)	1,041,557	NR	2.03
International Government	25,724,819	A+	4.88
Municipal Government Bonds	1,572,778	AA+	10.80
U.S. Government Direct Obligations	427,369,533	AAA	5.71
U.S. Government Agency	592,776,550	AAA	4.55
State Street Short Term Investment Fund (STIF)	91,695,903	NR	0.09
Short Term Investment Pool (STIP)	<u>5,862,303</u>	<u>NR</u>	<u>0.10</u>
Total Fixed Income Investments	<u>\$ 1,998,310,216</u>	<u>AA-</u>	<u>4.56</u>
<u>Direct Investments</u>			
Montana Mortgages	<u>\$ 26,101,952</u>	NR	NA
Total Direct Investments	<u>\$ 26,101,952</u>		
Total Investments	<u>\$ 2,024,412,168</u>		
Securities Lending Collateral Investment Pool	<u>\$ 183,434,778</u>	NR	*

*As of June 30, 2011, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .09 and an average weighted final maturity of .17 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.34 for U.S. dollar collateral.

RFBP Credit Quality Rating and Effective Duration as of June 30, 2010

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 893,711,950	A-	4.92
International Government	13,220,260	AA	4.86
Municipal Government Bonds	98,534	A+	3.16
U.S. Government Direct Obligations	363,443,452	AAA	6.49
U.S. Government Agency	484,277,005	AAA	2.17
U.S. Government Agency (Unrated)	30,504,300	NR	7.93
State Street Short Term Investment Fund (STIF)	90,970,693	NR	0.08
Short Term Investment Pool (STIP)	<u>4,645,437</u>	<u>NR</u>	<u>0.11</u>
Total Fixed Income Investments	<u>\$ 1,880,871,631</u>	<u>AA-</u>	<u>4.08</u>
Securities Lending Collateral Investment Pool	<u>\$ 205,756,303</u>	NR	<u>0.08</u>

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TFIP Credit Quality Rating and Effective Duration as of June 30, 2011

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 99,824,941	NR	NA
Corporate Bonds (Rated)	697,997,235	A	5.06
Corporate Bonds (Unrated)	1,315,625	NR	(3.40)
High Yield Bond Fund	98,279,488	B	3.91
Municipal Government Bonds (Rated)	1,094,469	AA	0.44
U.S. Government Direct Obligations	401,288,661	AAA	5.66
U.S. Government Agency	540,524,572	AAA	4.31
Short Term Investment Pool (STIP)	<u>50,805,761</u>	<u>NR</u>	<u>0.10</u>
Total Investments	<u>\$ 1,891,130,752</u>	<u>AA-</u>	<u>4.76</u>
Securities Lending Collateral Investment Pool	<u>\$ 112,037,675</u>	NR	*

*As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of .09 and an average weighted final maturity of .29 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 2.61 for U.S. dollar collateral.

TFIP Credit Quality Rating and Effective Duration as of June 30, 2010

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 53,595,436	NR	NA
Corporate Bonds (Rated)	716,824,177	A+	4.99
High Yield Bond Fund	92,693,523	B+	4.09
Municipal Government Bonds (Rated)	1,104,719	AA	0.08
Municipal Government Bonds (Unrated)	120,328	NR	4.57
U.S. Government Direct Obligations	375,574,304	AAA	5.97
U.S. Government Agency	518,445,550	AAA	2.44
U.S. Government Agency (Unrated)	20,336,200	NR	7.93
Short Term Investment Pool (STIP)	<u>37,559,174</u>	<u>NR</u>	<u>0.11</u>
Total Investments	<u>\$ 1,816,253,411</u>	<u>AA-</u>	<u>4.33</u>
Securities Lending Collateral Investment Pool	<u>\$ 100,913,178</u>	NR	<u>0.05</u>

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AOF Credit Quality Rating and Effective Duration as of June 30, 2011

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 681,062,472	A	3.37
Corporate Bonds (Unrated)	1,315,625	NR	(3.40)
U.S. Government Direct Obligations	254,092,593	AAA	4.07
U.S. Government Agency	334,891,231	AAA	2.89
US Bank Sweep Repurchase Agreement*	<u>15,077,839</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,286,439,760</u>	<u>AA-</u>	<u>3.34</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 120,542,240		
Equity Index Fund-International	<u>16,990,000</u>		
Total Equity Index Funds	137,532,240		
Montana Loans	<u>178,502,340</u>		
Total Direct Investments	<u>\$ 316,034,580</u>		
TOTAL INVESTMENTS	<u>\$ 1,602,474,340</u>		
Securities Lending Collateral Investment Pool	<u>\$ 118,987,041</u>	<u>NR</u>	<u>**</u>

* At June 30, 2011, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$15,379,417 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and December 1, 2029. These securities carry AAA credit quality ratings.

** As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of .09 and an average weighted final maturity of .29 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 2.61 for U.S. dollar collateral.

AOF Credit Quality Rating and Effective Duration as of June 30, 2010

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 649,781,752	A	3.25
U.S. Government Direct Obligations	195,383,809	AAA	4.67
U.S. Government Agency	379,072,472	AAA	2.83
US Bank Sweep Repurchase Agreement*	<u>11,659,113</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,235,897,146</u>	<u>AA-</u>	<u>3.31</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 106,976,749		
Equity Index Fund-International	<u>3,813,440</u>		
Total Equity Index Funds	110,790,189		
Real Estate	17,345,765		
MT Mortgages and Loans	<u>240,954,759</u>		
Total Direct Investments	<u>\$ 369,090,713</u>		
TOTAL INVESTMENTS	<u>\$ 1,604,987,859</u>		
Securities Lending Collateral Investment Pool	<u>\$ 205,393,640</u>	<u>NR</u>	<u>0.05</u>

*At June 30, 2010, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$11,892,378 by one Federal Home Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.

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STIP investments are categorized below to disclose credit risk as of June 30, 2011 and June 30, 2010. Credit risk reflects the weighted security quality rating by investment 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. With the exception of one long term rating for the Other Asset Backed investment type, short term credit ratings, provided by S&P's rating services, are presented in the table below. An A1+ rating is the highest short term rating by the S&P rating service. STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM, calculated in days, for the STIP portfolio is shown below.

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2011

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 326,176,221	A1	18
Corporate Commercial Paper	289,334,734	A1	58
Corporate Fixed Rate	7,173,761	A1	15
Corporate Variable Rate	522,126,148	A2	34
Certificates of Deposit Fixed Rate	28,012,037	A3	235
Certificates of Deposit Variable Rate	359,994,307	A2	36
Other Asset Backed	24,591,903	BBB	NA
U.S. Government Agency Fixed	100,013,159	A1+	155
U.S. Government Agency Variable Rate	474,851,769	A1+	20
Money Market Funds (Unrated)	140,598,914	NR	1
Money Market Funds (Rated)	111,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>46,317,465</u>	<u>NR</u>	<u>5</u>
Total Investments	<u>\$ 2,430,190,418</u>	A1	<u>35</u>
Securities Lending Collateral Investment Pool	<u>\$ 32,271,105</u>	NR	*

*As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral.

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2010

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 368,299,047	A1	17
Corporate Commercial Paper	196,596,245	A1+	31
Corporate Variable Rate	206,328,268	A2	35
Certificates of Deposit Fixed Rate	105,006,272	A3	71
Certificates of Deposit Variable Rate	235,000,000	A2	42
U.S. Government Agency Fixed	100,306,188	A1+	174
U.S. Government Agency Variable Rate	760,102,766	A1+	40
Money Market Funds (Unrated)	181,695,137	NR	1
Money Market Funds (Rated)	10,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>85,617,544</u>	<u>D</u>	<u>NA</u>
Total Investments	<u>\$ 2,248,951,467</u>	A1	<u>39</u>
Securities Lending Collateral Investment Pool	<u>\$ 86,635,985</u>	NR	<u>20</u>

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STIP - In January 2007, the Board purchased a \$25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling \$90 million par and another \$25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of \$139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of \$140 million. The Board has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These securities are currently generating cash to be applied to the securities.

For fiscal years 2011 and 2010, the Board received Axon Financial Funding payments on principal of \$10,961,955 and interest compensation of \$481,261 in excess of the accrued interest receivable. Axon Financial Funding payments totaled \$27,451,615 since November 2008. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for \$66,832,436 from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2011 payments from AFF Financing LLC totaled \$7,174,542 consisting of \$7,014,971 in principal and \$159,571 in interest. On June 28, 2011, the Board elected to extend the AFF Financing LLC promissory note maturity date to July 3, 2012. In June and December 2009, the Board applied \$13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2011, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of \$46,317,465. Refer to Note 12 – Subsequent Events for additional information.

On October 14, 2009, the Board received its initial payment from Orion Finance USA. Fiscal years 2011 and 2010 payments from Orion Finance USA included principal of \$13,433,642 and interest compensation of \$1,804,738 in excess of the \$903,922 accrued interest receivable for a total of \$16,142,302. In November 2010, Orion Finance Corporation “granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee”. On December 8, 2010, the Security Trustee conducted “a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral”. The Board participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2011, the Board received principal and interest payments of \$4,474,455 and \$284,619, respectively. In June and December 2009, the Board applied \$7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2011, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$24,591,903. Refer to Note 12 – Subsequent Events for additional information.

STIP, Bond Pool and AOF – The Fannie Mae and Freddie Mac were put into conservatorship on September 7, 2008.

Bond Pool and AOF - On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a \$15 million position in a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. In May 2009, the Board sold a \$5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internal bond pool. This holding, written down to \$1 million, was sold at a loss of \$312,500. As of June 30, 2011 and 2010, the book value of the remaining bonds represents 20% of par. Refer to Note 12 – Subsequent Events for additional information.

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Effective June 30, 2010, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2011 and 2010, classified by type, are as follows:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
		<u>Fair Value Amount</u>	<u>Notional</u>	<u>Fair Value Amount</u>	<u>Notional</u>
Currency forward contracts	Long term debt/equity	\$ (382,368)	\$38,566,675	\$ 357,976	\$ 55,428,153
Index futures long	Futures	-	5,400	-	6,800
Rights	Equity	-	-	-	-
Warrants	Equity	-	99	101,145	45,041
Total derivatives		<u>\$ (382,368)</u>		<u>\$ 459,121</u>	

The changes in the fair value of such derivative instruments for the years ended June 30, 2011 and 2010, as reported in the financial statements, are detailed below:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>Changes in Fair Value</u>	
		<u>2011 Amount</u>	<u>2010 Amount</u>
Currency forward contracts	Investment revenue	\$ (2,289,995)	\$ 1,986,012
Index futures long	Investment revenue	1,622,640	922,484
Index futures short	Investment revenue	5,975	
Rights	Investment revenue	454,698	(181,208)
Warrants	Investment revenue	22,144	(1,247)
Total derivatives		<u>\$ (184,538)</u>	<u>\$ 2,726,041</u>

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of yearend and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long is an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

Credit Risk - Credit risk is the risk that the counterparty will not fulfill its obligations. The table below depicts the Board's credit risk exposure to its investment derivatives.

<u>Maximum Loss before/after Netting and Collateral</u>	<u>2011 Amount</u>	<u>2010 Amount</u>
Maximum amount of loss the Board would face in case of default of all counterparties, i.e. aggregated (positive) fair value of OTC (Over-the-		
Effect of collateral reducing maximum exposure.	\$ 53,220	\$ 1,116,279
Liabilities subject to netting arrangements	-	-
Resulting net exposure	<u>\$ 53,220</u>	<u>\$ 1,116,279</u>

This table reflects the applicable counterparty credit ratings for both fiscal years.

<u>Counterparty Name</u>	<u>2011 Percentage of Net Exposure</u>	<u>2010 Percentage of Net Exposure</u>	<u>2011/2010 S&P Rating</u>	<u>2011/2010 Fitch Rating</u>	<u>2011/2010 Moody's Rating</u>
State Street Bank	43%	31%	AA-/AA-	A+/A+	Aa2/Aa2
Deutsche Bank London	29%	38%	A+/A+	AA-/AA-	Aa3/Aa3
Credit Suisse London	19%	13%	A+/A+	AA-/AA-	Aa1/Aa1
Westpac Banking Corp	9%	0%	AA/NA	AA/NA	Aa2/NA
JP Morgan Chase Bank	0%	14%	NA/AA-	NA/AA-	NA/Aa1

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7. STIP RESERVE

The STIP Reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

8. COAL TAX LOAN AND MORTGAGE COMMITMENTS

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2011, the BOI had committed, but not yet purchased, \$15,834,799 in loans from Montana lenders, compared to \$28,712,720 as of June 30, 2010. In addition to the above commitments, lenders had reserved \$8,189,839 for loans as of June 30, 2011, compared to \$24,002,450 on the same date in 2010.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana RFBP holds the residential mortgages in its portfolio. As of June 30, 2011 and 2010, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

9. MONTANA MORTGAGES AND LOANS

The Montana mortgages and loans portfolio is shown below.

	2011	2010
<u>Montana Mortgages and Loans</u>	<u>Carrying Value</u>	<u>Carrying Value</u>
Residential Mortgages ⁽¹⁾	N/A	\$ 35,778,065
Science and Technology Alliance ⁽²⁾	3,715,534	3,780,330
Montana University System	8,469,476	8,555,803
Department of Justice	0	373,010
Montana Facility Finance	8,286,258	8,742,035
Local Government Infrastructure	23,557,398	24,530,673
Value-added Loans	3,178,860	8,002,834
Commercial Loans	<u>131,294,814</u>	<u>151,442,840</u>
Permanent Coal Trust Loans	<u>178,502,340</u>	<u>205,427,525</u>
Total Montana Mortgages and Loans	\$ 178,502,340	\$ 241,205,590

(1) The Montana residential mortgages, previously reported as an investment type in the AOF portfolio, are now owned and reported in the RFBP. This ownership change occurred on May 1, 2011.

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

10. LOAN GUARANTEES

As of June 30, 2011, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$226,374,677. Board exposure to bond issues of the Enterprise Fund is \$95,725,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$130,349,677.

As of June 30, 2010, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$197,444,677. Board exposure to bond issues of the Enterprise Fund is \$96,325,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$101,119,677.

11. POOL RESTRUCTURE

In September 2009, the Board completed a restructure of the MTIP by funding the Barclays Global Investors ACWI ex US Index Superfund A approximately \$295 million in cash and securities by terminating two external managers, closing one fund and downsizing three external managers. In the same month, the Board transitioned approximately \$135 million in cash and securities to the State Street SPIFF (Stock Performance Index Futures Fund), T. Rowe Price, Artisan Partners, TimesSquare Capital Management and Vaughan Nelson Investment Management by closing a commingled account and reducing the portfolios for two existing managers.

In September 2010, the Board completed an MDEP transition for approximately \$257 million by terminating four active managers and funding three passive managers.

12. SUBSEQUENT EVENTS

From July 1 through December 9, 2011, AFF Financing LLC payments total \$3,806,063 representing \$3,742,237 in principal and \$63,826 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$2,177,127 with \$1,834,144 and \$342,983 applied to principal and interest, respectively. On October 4, 2011, the Board received a partial refund from the Axon SIV Holdback/Reserve of \$11,128.

Because Lehman reached an agreement on their bankruptcy, the Board sold the \$5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of \$26 on December 6, 2011. Because the bonds were previously written down to a price of \$20, this sale generated a gain of \$322,300.

In August 2011, S&P downgraded the U.S. AAA bond rating to AA+.

Refer to Note 6 – Investment Risk Disclosures, pages B-15 to B-24 for additional information.

13. RESTATEMENT

The Unrealized Foreign Exchange Gain/Loss of \$21,496 for fiscal year 2010 has been included with the Other Payables of \$111,986 to report total Other Payables at fair value of \$133,482.

Due to clarification associated with the implementation of GASB Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments, the Notional Amount for Currency Forward Contracts, previously reported as \$0 as of June 30, 2010 has been restated as \$55,428,153. Also, the reporting for “TBA (To Be Announced) Transactions Long” has been eliminated as previously reported in Note 6 as of June 30, 2010 and fiscal year 2010.

14. YEAREND PORTFOLIOS

The June 30, 2011 portfolios of the Pools by Manager, STIP and AOF are listed below. The percentage is based on the fair value by manager or the fixed income or equity security to the total portfolio. Portfolios, detailed by security, are electronically accessible in the Board’s annual report.

RETIREMENT FUNDS BOND POOL (RFBP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE INTERNAL BOND PORTFOLIO - 196 Issues	1,348,761,458	1,355,690,437	1,390,337,967	68.68%
REAMS ASSET MANAGEMENT - 100 Issues	322,865,862	322,090,352	323,614,313	15.99%
ARTIO GLOBAL MANAGEMENT - 235 Issues	163,304,009	107,985,999	110,551,834	5.46%
NEUBERGER BERMAN - 210 Issues	107,366,291	108,309,451	110,018,196	5.43%
POST ADVISORY GROUP - 139 Issues	56,166,263	56,349,291	57,925,603	2.86%
MONTANA RESIDENTIAL MORTGAGES - 1 Issue	26,484,439	26,484,439	26,101,952	1.29%
SHORT TERM INVESTMENT POOL- 1 Issue	5,862,303	5,862,303	5,862,303	0.29%
RFBP TOTAL - 882 Issues	2,030,810,625	1,982,772,272	2,024,412,168	100.00%

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TRUST FUNDS INVESTMENT POOL (TFIP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE INTERNAL BOND PORTFOLIO - 255 Issues	1,792,466,182	1,621,487,055	1,693,026,323	89.52%
POST TRADITIONAL HIGH YIELD FUND - 1 Issue	90,000,000	90,000,000	98,279,488	5.20%
AMERICAN CORE REALTY FUND LLC - 1 Issue	605	49,000,000	53,693,821	2.84%
TIAA CREF ASSET MANAGEMENT - 1 Issues	113,320	41,632,000	46,131,120	2.44%
TFIP Total - 258 Issues	1,882,580,107	1,802,119,055	1,891,130,752	100.00%

MONTANA DOMESTIC EQUITY POOL (MDEP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK EQUITY INDEX FUND	1,549,180	492,022,616	635,978,939	22.36%
BLACKROCK MIDCAP EQUITY IND FD	3,945,470	80,935,598	104,726,028	3.68%
DIMENSIONAL FUND ADVISORS INC	52,279	35,190,238	71,398,538	2.51%
ISHARES S+P SMALLCAP 600 INDEX	222,300	13,135,707	16,299,036	0.57%
STATE STREET SPIF ALT INV	47,035	8,724,388	8,950,752	0.31%
WESTERN ASSET US INDX PLUS LLC	12,697,962	192,745,765	161,467,291	5.68%
Total Commingled Accounts	18,514,226	822,754,312	998,820,584	35.11%
INTECH - 374 Issues	5,375,177	164,549,442	186,831,177	6.57%
T ROWE PRICE - 282 Issues	8,407,022	255,798,096	296,911,714	10.44%
ARTISAN - 57 Issues	8,076,923	94,092,553	109,337,037	3.84%
TIMESQUARE - 75 Issues	5,490,671	87,075,079	107,799,143	3.79%
VAUGHAN NELSON - 77 Issues	5,427,968	62,611,048	74,236,655	2.61%
BARROW HANLEY MEWHINNEY - 85 Issues	11,226,405	191,919,686	205,686,238	7.23%
QUANTITATIVE MANAGEMENT - 159 Issues	4,469,838	131,978,945	126,953,409	4.46%
RAINIER INVESTMENTS - 75 Issues	3,745,534	118,442,100	146,401,054	5.15%
COLUMBUS CIRCLE - 59 Issues	5,414,470	113,228,211	149,053,823	5.24%
ANALYTICS INVESTMENTS - 172 Issues	3,136,564	105,898,715	116,361,270	4.09%
JP MORGAN INVESTMENTS - 253 Issues	7,762,326	283,818,843	326,142,540	11.47%
Total Manager Accounts	68,532,898	1,609,412,718	1,845,714,060	64.89%
MDEP Total - 1,675 Issues	87,047,124	2,432,167,030	2,844,534,644	100.00%

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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MONTANA INTERNATIONAL EQUITY POOL (MTIP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK ACWI EX US SUPERFUND	27,214,613	446,575,834	568,545,894	39.45%
BLACKROCK GL EX US ALPHA TILT	4,994,700	100,126,273	114,778,224	7.96%
DFA INTL SMALL CO PORTFOLIO	4,007,326	60,564,305	70,729,306	4.91%
MONEY MARKET FUND	177	177	177	0.00%
EAFE STOCK PERFORMANCE INDEX	417,487	10,267,638	10,980,751	0.76%
Total Commingled Accounts - 5 Issues	36,634,303	617,534,227	765,034,352	53.08%
BATTERYMARCH - 240 Issues	15,495,296	108,366,199	125,558,069	8.71%
ARTIO GLOBAL - 115 Issues	7,847,506	103,774,711	120,595,196	8.37%
ACADIAN - 370 Issues	31,713,645	83,635,116	96,212,639	6.68%
BERNSTEIN - 111 Issues	10,730,675	111,722,573	112,573,122	7.81%
MARTIN CURRIE - 71 Issues	9,980,418	93,523,771	108,015,807	7.49%
HANSBERGER - 62 Issues	13,588,799	94,309,797	113,341,305	7.86%
Total Manager Accounts	89,356,339	595,332,167	676,296,138	46.92%
MTIP TOTAL - 974 Issues	125,990,642	1,212,866,394	1,441,330,490	100.00%

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

MONTANA PRIVATE EQUITY POOL (MPEP) BY MANAGER

<u>Fund Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
ADAMS STREET	180,035,564	180,035,564	185,025,397	19.26%
LEXINGTON	58,220,921	58,220,921	72,540,114	7.55%
CARLYLE	39,703,869	39,703,869	51,784,649	5.39%
PORTFOLIO ADVISORS	42,640,590	42,640,590	45,417,027	4.73%
WELSH CARSON	43,925,417	43,925,417	44,759,230	4.66%
OAK TREE	23,060,366	23,060,366	44,189,200	4.60%
MADISON DEARBORN	40,264,018	40,264,018	41,982,884	4.37%
STATE STREET	217,548	40,980,382	41,399,692	4.31%
OAK HILL	33,930,070	33,930,070	41,086,085	4.28%
HARBOUR VEST	25,802,387	26,204,024	32,612,205	3.39%
FIRST RESERVE	32,544,786	32,544,786	31,197,394	3.25%
ODYSSEY INVESTMENTS	18,062,220	18,062,220	26,504,835	2.76%
ARCLIGHT	19,933,164	19,933,164	24,246,584	2.52%
HELLMAN FRIEDMAN	17,946,455	17,946,455	22,484,306	2.34%
NB COINVEST	17,335,533	17,335,533	20,861,494	2.17%
CCMP	17,023,081	17,023,081	20,823,620	2.17%
SIGULER GUFF	17,654,258	17,654,258	18,735,969	1.95%
MHR INSTITUTIONAL	16,438,837	16,438,837	18,431,060	1.92%
CENTERBRIDGE	12,852,563	12,852,563	18,007,409	1.87%
JLL PARTNERS	15,949,059	15,949,059	17,929,405	1.87%
MATLIN PATTERSON	22,848,240	22,848,240	17,506,641	1.82%
QUINTANA ENERGY	11,123,680	11,123,680	13,285,267	1.38%
KKR	18,371,130	18,371,130	12,576,895	1.31%
HCI EQUITY	6,161,470	6,161,470	10,803,300	1.12%
AFFINITY	4,639,958	4,639,958	8,392,231	0.87%
MONTLAKE	9,652,160	9,652,160	8,088,230	0.84%
TERRA FIRMA	12,349,263	17,260,165	7,866,354	0.82%
HIGHWAY 12 VENTURES	6,576,539	6,576,539	7,813,415	0.81%
VERITAS	8,117,027	8,117,027	7,675,250	0.80%
J.C. FLOWERS	22,639,591	22,639,506	6,837,338	0.71%
INDUSTRY VENTURES	6,364,875	6,364,875	6,676,926	0.69%
AXIOM	5,317,355	5,317,355	6,219,561	0.65%
PERFORMANCE EQUITY	5,867,494	5,867,494	5,848,325	0.61%
TRILANTIC CAPITAL PARTNERS	4,308,278	4,308,278	4,862,736	0.51%
AVENUE CAPITAL	1	1	4,557,979	0.47%
NORTHGATE	4,500,000	4,500,000	4,500,000	0.47%
CIVC	2,783,306	2,783,306	3,441,783	0.36%
TA ASSOCIATES	1,850,000	1,850,000	1,897,504	0.20%
BLACK DIAMOND CAPITAL	1,524,638	1,524,638	1,524,638	0.16%
OPUS	508,049	508,049	440,834	0.05%
MPEP Total	829,043,760	875,119,048	960,833,766	100.00%

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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REAL ESTATE POOL (MTRP) BY MANAGER/DIRECT REAL ESTATE

<u>Fund Manager Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
ABR CHESAPEAKE	20,898,140	20,898,140	19,709,872	3.88%
ANGELO GORDON	42,628,823	42,628,823	38,750,129	7.62%
AREA PROPERTY PARTNERS	18,336	18,336,000	15,218,489	2.99%
BEACON CAPITAL PARTNERS	19,250,000	19,250,000	8,833,402	1.74%
CARLYLE	11,596,622	16,802,465	15,976,096	3.14%
CIM FUND	15,206,712	15,206,712	16,354,682	3.22%
CLARION LION PROPERTIES	31,957	45,000,000	27,573,762	5.42%
DRA ADVISORS	20,496,000	20,496,000	16,987,638	3.34%
GEM REALTY FUND IV LP	2,962,500	2,962,500	3,281,825	0.65%
HUDSON REALTY CAPITAL	25,000,000	25,000,000	19,302,735	3.80%
INVESCO REAL ESTATE	309	45,000,000	32,775,336	6.45%
JER REAL EST PARTNERS	6,236,748	6,236,748	2,495,909	0.49%
JP MORGAN	60,445	92,733,976	91,909,038	18.08%
LANDMARK REAL ESTATE	4,257,987	4,257,987	4,257,987	0.84%
LIQUID REALTY	15,487,684	15,487,684	12,708,605	2.50%
MACQUARIE GBL PROP	16,887,872	16,887,872	15,397,196	3.03%
MOLPUS WOODLANDS GROUP	700,000	700,000	700,000	0.14%
MORGAN STANLEY REAL ESTATE	27,536,302	27,536,302	5,679,472	1.12%
OCONNOR NTH AMER	10,867,785	10,867,785	5,753,840	1.13%
RMS TIMBERLAND	19,372,553	19,372,553	19,372,553	3.81%
ROTHSCHILD FIVE ARROWS REAL	13,012,295	13,012,294	13,030,369	2.56%
ROTHSCHILD REALTY	13,012,295	13,012,294	13,030,369	2.56%
STRATEGIC PARTNERS	17,566,301	17,566,301	14,462,300	2.85%
TA ASSOCIATES REALTY	37,000,000	37,000,000	30,838,363	6.07%
UBS REALTY INVESTORS LLC	7,373	50,000,000	55,865,179	10.99%
FUND MANAGER	327,082,744	583,240,142	487,234,777	95.86%
2273 BOOT HILL COURT, BOZEMAN	2,194,585	2,194,585	2,194,585	0.43%
CALIFORNIA STREET, HELENA MT	222,692	222,692	222,692	0.04%
2401 COLONIAL DRIVE, HELENA MT	7,889,021	7,889,021	7,892,718	1.55%
1712 NINTH AVENUE, HELENA MT	579,626	579,626	579,626	0.12%
100 NORTH PARK AVENUE, HELENA	6,829,846	6,829,846	6,825,640	1.34%
DIRECT REAL ESTATE	17,715,770	17,715,770	17,715,261	3.48%
SHORT TERM INVESTMENT POOL	3,367,711	3,367,711	3,367,711	0.66%
MTRP TOTAL	348,166,225	604,323,623	508,317,749	100.00%

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

SHORT TERM INVESTMENT POOL

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
ANGLESEA FDG PLC & ANG	0.3700	07/28/11	22,000,000	21,993,895	0.91%
ANGLESEA FDG PLC & ANG	0.3800	07/07/11	28,000,000	27,998,227	1.15%
ATLANTIS ONE FDG COR	0.1500	07/18/11	20,000,000	19,998,583	0.82%
ATLANTIS ONE FDG COR	0.1400	07/14/11	28,000,000	27,998,584	1.15%
GOLDEN FUNDING CORP	0.2200	07/05/11	5,000,000	4,999,878	0.21%
GOLDEN FUNDING CORP	0.2100	07/26/11	6,000,000	5,999,125	0.25%
GOLDEN FUNDING CORP	0.2200	07/12/11	10,000,000	9,999,328	0.41%
GOLDEN FUNDING CORP	0.2200	07/19/11	13,184,000	13,182,550	0.54%
GOLDEN FUNDING CORP	0.2300	07/13/11	15,007,000	15,005,849	0.62%
GOTHAM FDG CORP	0.1600	07/01/11	11,000,000	11,000,000	0.45%
GOTHAM FDG CORP	0.1900	08/02/11	15,000,000	14,997,467	0.62%
GOTHAM FDG CORP	0.1600	07/27/11	24,000,000	23,997,227	0.99%
MARKET ST FNDG CORP	0.1600	08/08/11	25,019,000	25,014,775	1.03%
NIEUW AMSTERDAM RECV	0.1800	07/21/11	7,000,000	6,999,300	0.29%
ROYAL PARK INVESTMENTS	0.3000	07/19/11	23,000,000	22,996,550	0.95%
ROYAL PARK INVESTMENTS	0.3500	07/08/11	25,000,000	24,998,299	1.03%
VICTORY RECEIVABLES	0.1600	07/29/11	19,000,000	18,997,636	0.78%
VICTORY RECEIVABLES	0.1800	07/08/11	30,000,000	29,998,950	1.23%
Asset Backed Commercial Paper	18 Issue(s)		326,210,000	326,176,221	13.42%
AMERICAN HONDA FINAN	0.2150	09/16/11	37,850,000	37,832,594	1.56%
BTM CAPITAL CORP.	0.2400	07/08/11	23,000,000	22,998,927	0.95%
CREDIT AGRICOLE NORTH AMER INC	0.2550	09/02/11	10,000,000	9,995,538	0.41%
DANSKE CORP.	0.1700	07/05/11	8,500,000	8,499,839	0.35%
DANSKE CORP.	0.2200	08/08/11	20,000,000	19,995,356	0.82%
DANSKE CORP.	0.2750	09/28/11	20,000,000	19,986,403	0.82%
HSBC FINANCE CORP	0.2200	08/30/11	20,000,000	19,992,667	0.82%
LLOYDS BANK PLC	0.2300	08/03/11	15,000,000	14,996,838	0.62%
LLOYDS BANK PLC	0.2950	08/29/11	25,000,000	24,987,913	1.03%
MITSUBISHI INT'L CO	0.2700	08/18/11	20,000,000	19,992,800	0.82%
MITSUBISHI INT'L CO	0.2700	08/22/11	20,000,000	19,992,200	0.82%
ROYAL BANK OF SCOTLAND PLC	0.2700	09/28/11	45,000,000	44,969,963	1.85%
SOCIETE GEN NO AMER	0.1900	08/01/11	9,000,000	8,998,528	0.37%
TOYOTA MOTOR CREDIT	0.2400	08/15/11	16,100,000	16,095,170	0.66%
Corporate Commercial Paper	14 Issue(s)		289,450,000	289,334,734	11.91%
CREDIT SUISSE NEW YORK	3.4500	07/02/12	7,000,000	7,173,761	0.29%
Corporate Fixed Rate	1 Issue(s)		7,000,000	7,173,761	0.29%
ABBEY NATL TREASURY SERV	0.6490	01/20/12	20,000,000	20,000,000	0.82%
AUST + BANKING GROUP	0.4938	07/07/12	40,000,000	39,983,678	1.65%
BEAR STEARNS COS INC	0.4633	02/01/12	28,000,000	27,990,026	1.15%
BERKSHIRE HATHAWAY INC	0.4470	02/10/12	40,000,000	40,000,000	1.65%
BNP PARIBAS SA	1.2495	06/11/12	25,000,000	25,149,018	1.03%
COCA COLA CO	0.3108	05/15/12	25,000,000	25,000,000	1.03%
CREDIT AGRICOLE (LONDON)	0.6233	02/02/12	5,234,000	5,231,605	0.22%
CREDIT SUISSE USA INC	0.4608	08/16/11	15,000,000	14,995,269	0.62%
EKSPORTFINANS A/S	0.3802	02/06/12	28,000,000	28,000,000	1.15%
EKSPORTFINANS ASA	0.2458	04/24/12	18,000,000	18,000,000	0.74%
GENERAL ELEC CAP CORP	0.4095	04/10/12	20,000,000	19,932,369	0.82%
IBM CORP	0.2770	06/15/12	40,000,000	40,000,000	1.65%
J P MORGAN CHASE + CO	0.3715	06/25/12	15,000,000	14,978,489	0.62%
METLIFE INSTITUTIONAL FD	0.6853	07/12/12	40,000,000	40,025,535	1.65%
PROCTER + GAMBLE CO	0.3008	11/14/12	20,000,000	20,000,000	0.82%
RABOBANK NEDERLAND	0.4723	08/05/11	44,000,000	44,008,672	1.81%

STATE OF MONTANA BOARD OF INVESTMENTS
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SHORT TERM INVESTMENT POOL

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
TOYOTA MTR CR CORP MTN BK ENT	0.4108	11/15/12	25,000,000	25,000,000	1.03%
US BANK NA	0.4938	10/26/12	5,000,000	5,000,000	0.21%
WACHOVIA CORP NEW	0.4038	04/23/12	8,450,000	8,454,096	0.35%
WACHOVIA CORP NEW	0.4080	10/15/11	19,925,000	19,908,821	0.82%
WELLS FARGO + CO NEW	0.3638	01/24/12	15,500,000	15,468,570	0.64%
WESTPAC SECURITIES NZ LT	0.6096	02/11/13	25,000,000	25,000,000	1.03%
Corporate Variable Rate	22 Issue(s)		522,109,000	522,126,148	21.48%
BARCLAYS BANK PLC	0.8800	12/09/11	15,000,000	15,000,000	0.62%
ROYAL BK OF CANADA	0.5450	05/15/12	13,000,000	13,012,037	0.53%
Certificates of Deposit Fixed	2 Issue(s)		28,000,000	28,012,037	1.15%
ABBEY NAT'L TREASURY	0.9029	03/02/12	20,000,000	20,000,000	0.82%
BANK OF NOVA SCOTIA	0.5808	02/15/13	40,000,000	40,000,000	1.65%
BARCLAYS BANK PLC	0.6871	10/17/11	25,000,000	25,000,000	1.03%
BNP PARIBAS NY BANCH	0.8458	03/28/13	20,000,000	20,000,000	0.82%
CANADIAN IMPERIAL BK	0.5529	06/03/13	20,000,000	20,000,000	0.82%
CANADIAN IMPERIAL BK	0.5045	10/01/12	25,000,000	24,994,307	1.03%
CREDIT AGRICOLE	0.8575	05/24/13	25,000,000	25,000,000	1.03%
CREDIT SUISSE NY	0.5539	12/01/11	25,000,000	25,000,000	1.03%
NORDEA BANK FLD PLC	0.6810	10/05/12	25,000,000	25,000,000	1.03%
SOCIETE GENERALE	1.0133	04/29/13	40,000,000	40,000,000	1.65%
SVENSKA HANDLSBNKN A	0.5228	01/30/12	40,000,000	40,000,000	1.65%
UBS AG STAMFORD CT	0.8865	09/15/11	40,000,000	40,000,000	1.65%
WESTPAC BKING CORP N	0.2756	06/15/12	15,000,000	15,000,000	0.62%
Certificates of Deposit Variable Rate	13 Issue(s)		360,000,000	359,994,307	14.81%
ORION FINANCE	1.0000	N/A	24,591,903	24,591,903	1.01%
Other Asset Backed	1 Issue(s)		24,591,903	24,591,903	1.01%
AFF FINANCING LIMITED	1.0000	07/05/11	46,317,465	46,317,465	1.91%
Structured Investment Vehicles	1 Issue(s)		46,317,465	46,317,465	1.91%
FEDERAL FARM CREDIT BANK	0.2900	06/22/12	25,000,000	25,016,249	1.03%
FEDERAL HOME LOAN BANK	0.2500	04/26/12	25,000,000	24,997,905	1.03%
FEDERAL HOME LOAN BANK	0.2500	05/23/12	25,000,000	25,000,000	1.03%
FEDERAL HOME LOAN BANK	0.2500	06/29/12	25,000,000	24,999,005	1.03%
U.S. Government Agency Fixed Rate	4 Issue(s)		100,000,000	100,013,159	4.12%
FANNIE MAE	0.1758	07/26/12	25,000,000	24,997,570	1.03%
FANNIE MAE	0.2153	09/17/12	25,000,000	25,009,273	1.03%
FANNIE MAE	0.2158	10/18/12	25,000,000	24,993,416	1.03%
FANNIE MAE	0.2058	11/23/12	25,000,000	24,989,403	1.03%
FANNIE MAE	0.2158	12/20/12	25,000,000	24,992,548	1.03%
FANNIE MAE	0.0996	08/11/11	25,000,000	24,999,181	1.03%
FANNIE MAE	0.1458	09/19/11	25,000,000	24,997,778	1.03%
FANNIE MAE	0.2058	08/23/12	50,000,000	49,982,630	2.06%
FEDERAL HOME LOAN BANK	0.1000	08/12/11	25,000,000	24,996,216	1.03%
FEDERAL FARM CREDIT BANK	0.1858	11/27/12	25,000,000	25,000,020	1.03%
FEDERAL FARM CREDIT BANK	0.2758	07/20/11	25,000,000	25,000,334	1.03%
FEDERAL FARM CREDIT BANK	0.2096	01/10/13	25,000,000	24,996,128	1.03%
FREDDIE MAC	0.1858	10/26/11	25,000,000	24,996,760	1.03%
FREDDIE MAC	0.1356	12/29/11	25,000,000	24,993,739	1.03%
FREDDIE MAC	0.1458	03/21/13	50,000,000	49,956,400	2.06%
FREDDIE MAC	0.1353	06/17/13	50,000,000	49,950,374	2.06%
U.S. Government Agency Variable Rate	16 Issue(s)		475,000,000	474,851,769	19.54%
BGI INSTITUTIONAL MMF	0.1300	N/A	15,000,000	15,000,000	0.62%

STATE OF MONTANA BOARD OF INVESTMENTS
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SHORT TERM INVESTMENT POOL

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
FIDELITY INSTL MONEY MARKET	0.1700	N/A	120,000,000	120,000,000	4.94%
STATE STREET BANK + TRUST CO	0.1197	N/A	5,598,914	5,598,914	0.23%
Money Market Funds (Unrated)	3 Issue(s)		140,598,914	140,598,914	5.79%
BLACKROCK MONEY MARKET	0.0856	N/A	1,000,000	1,000,000	0.04%
STATE STR INSTL LIQUID RESVS	0.1523	N/A	110,000,000	110,000,000	4.53%
Money Market Funds (Rated)	2 Issue(s)		111,000,000	111,000,000	4.57%
STIP Total	97 Issue(s)		2,430,277,282	2,430,190,418	100.00%

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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ALL OTHER FUNDS

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
US BANK SWEEP REPO	NA	NA	15,077,839	15,077,839	15,077,839	0.94%
Cash Equivalents			15,077,839	15,077,839	15,077,839	0.94%
AFLAC INC	3.450	08/15/15	4,250,000	4,247,415	4,330,704	0.27%
AT+T INC	5.800	02/15/19	5,000,000	4,988,176	5,646,244	0.35%
AT+T INC	2.500	08/15/15	5,000,000	4,987,491	5,047,564	0.31%
ABBOTT LABS	5.125	04/01/19	5,000,000	4,979,585	5,473,138	0.34%
ALLSTATE LIFE GBL FDG SECD	5.375	04/30/13	5,000,000	4,998,168	5,375,464	0.34%
ALTRIA GROUP INC	9.700	11/10/18	5,000,000	5,010,647	6,573,107	0.41%
AMERICAN ELEC PWR INC	5.250	06/01/15	5,000,000	5,285,892	5,548,942	0.35%
AMERICAN EXPRESS CO	5.500	09/12/16	5,000,000	4,986,763	5,519,470	0.34%
AMERICAN EXPRESS CO	7.000	03/19/18	3,000,000	2,992,282	3,523,724	0.22%
AMERICAN EXPRESS CR CORP	7.300	08/20/13	5,000,000	5,001,411	5,544,197	0.35%
ANHEUSER BUSH INBEV WOR	3.625	04/15/15	3,000,000	2,995,427	3,159,365	0.20%
ARIA CDO LTD	1.000	10/10/12	10,000,000	10,000,000	7,500,000	0.47%
AUST + NZ BANKING GROUP	2.125	01/10/14	5,000,000	4,998,057	5,010,762	0.31%
BANC OF AMERICA COMMERCIAL MOR	5.381	01/15/49	4,911,681	4,913,846	4,945,020	0.31%
BANC OF AMERICA COMMERCIAL MOR	5.434	02/10/51	9,293,441	9,308,264	9,505,470	0.59%
BANK AMER CORP	5.375	06/15/14	5,000,000	4,986,467	5,430,635	0.34%
BANK OF AMERICA CORP	4.500	04/01/15	5,000,000	5,007,311	5,226,551	0.33%
BANK OF AMERICA CORP	5.875	01/05/21	2,000,000	1,986,051	2,099,036	0.13%
BANK OF NOVA SCOTIA	3.400	01/22/15	5,000,000	4,995,440	5,241,568	0.33%
BARCLAYS BK PLC	2.375	01/13/14	3,000,000	2,997,742	3,033,475	0.19%
BERKSHIRE HATHAWAY FIN	0.408	01/13/12	11,000,000	10,998,571	11,008,022	0.69%
BERKSHIRE HATHAWAY INC	2.125	02/11/13	10,000,000	9,998,113	10,217,540	0.64%
BLACK HILLS CORP	5.875	07/15/20	5,000,000	5,140,296	5,390,933	0.34%
BLACKROCK INC	2.250	12/10/12	5,000,000	5,003,618	5,099,089	0.32%
BOEING CO	1.875	11/20/12	1,000,000	997,224	1,016,684	0.06%
BUNGE LIMITED FINANCE CO	4.100	03/15/16	5,000,000	4,999,578	5,164,711	0.32%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000,000	4,996,731	5,460,068	0.34%
BURLINGTON NORTHN SANTA FE RY	7.160	01/02/20	3,028,213	3,028,213	3,625,098	0.23%
BURLINGTON NORTHN SANTA FE	7.000	02/01/14	3,000,000	2,999,744	3,413,929	0.21%
CNA FINL CORP	5.875	08/15/20	5,000,000	4,995,473	5,220,903	0.33%
CSX CORP	5.750	03/15/13	5,000,000	4,995,998	5,377,207	0.34%
CVS CAREMARK CORP	5.750	06/01/17	5,000,000	4,883,464	5,637,154	0.35%
CANTOR FITZGERALD LP	6.375	06/26/15	5,000,000	4,986,532	5,141,703	0.32%
CAPITAL ONE FINANCIAL CO	6.750	09/15/17	5,000,000	4,983,225	5,776,339	0.36%
CATERPILLAR INC	7.000	12/15/13	2,000,000	1,999,765	2,276,517	0.14%
CHURCH + DWIGHT CO INC	3.350	12/15/15	3,000,000	2,996,469	3,036,362	0.19%
CINTAS CORPORATION NO 2	2.850	06/01/16	5,000,000	4,999,755	5,009,773	0.31%
CITIGROUP INC	6.000	02/21/12	5,000,000	4,999,881	5,151,181	0.32%
CITIGROUP INC	5.500	08/27/12	5,000,000	5,002,500	5,245,102	0.33%
CITIGROUP INC	6.375	08/12/14	5,000,000	4,978,904	5,546,425	0.35%
COCA COLA CO	0.750	11/15/13	1,000,000	999,628	995,000	0.06%
CONOCOPHILLIPS	5.750	02/01/19	5,000,000	4,996,948	5,740,558	0.36%
CONOCOPHILLIPS CDA FDG CO I	5.625	10/15/16	6,000,000	5,999,746	6,905,058	0.43%
CONTINENTAL AIRLS	6.563	08/15/13	5,000,000	5,001,771	5,087,500	0.32%
RABOBANK NEDERLAND	2.125	10/13/15	9,000,000	8,981,115	8,897,259	0.56%
CREDIT SUISSE NEW YORK	3.450	07/02/12	5,000,000	4,997,825	5,143,088	0.32%
DANAHER CORP	2.300	06/23/16	4,000,000	3,993,628	3,998,735	0.25%
DANSKE BANK A/S	3.750	04/01/15	5,000,000	4,988,769	4,993,741	0.31%
DEERE JOHN CAP CORP MTN BK ENT	2.250	06/07/16	5,000,000	4,990,279	5,010,032	0.31%
DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,991,047	5,267,124	0.33%

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DOMINION RESOURCES INC	1.800	03/15/14	1,000,000	999,499	1,009,471	0.06%
DONNELLEY R R + SONS	4.950	04/01/14	5,000,000	4,942,528	5,081,250	0.32%
DU PONT E I DE NEMOURS + CO	5.875	01/15/14	1,190,000	1,187,212	1,328,112	0.08%
E I DU PONT DE NEMOURS	2.750	04/01/16	5,000,000	4,991,623	5,076,495	0.32%
EXELON CORP	4.900	06/15/15	5,000,000	5,214,311	5,375,620	0.34%
FPL GROUP CAPITAL INC	2.550	11/15/13	10,000,000	9,995,514	10,240,504	0.64%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000,000	4,990,368	5,253,809	0.33%
FIRST HORIZON NATIONAL	5.375	12/15/15	3,000,000	2,991,122	3,191,090	0.20%
FIRSTENERGY SOLUTIONS CO	4.800	02/15/15	5,000,000	5,136,387	5,358,673	0.33%
FORTUNE BRANDS INC	5.375	01/15/16	3,000,000	2,990,910	3,246,339	0.20%
FRANKLIN RESOURCES INC	4.625	05/20/20	5,000,000	4,995,069	5,190,594	0.32%
GATX CORP	8.750	05/15/14	5,000,000	4,999,285	5,846,777	0.36%
GATX CORP	4.850	06/01/21	5,000,000	4,991,829	4,957,809	0.31%
GENERAL ELEC CO	5.250	12/06/17	5,000,000	5,007,797	5,512,925	0.34%
GENERAL ELEC CAP CORP	5.000	04/10/12	4,950,000	4,945,906	5,114,657	0.32%
GENERAL ELEC CAP CORP	0.331	08/15/11	1,500,000	1,491,144	1,500,230	0.09%
GENERAL ELEC CAP CORP	0.524	10/21/11	5,000,000	4,993,885	5,004,020	0.31%
GENERAL ELEC CAP CORP	2.100	01/07/14	300,000	299,992	303,749	0.02%
GENERAL ELEC CAP CORP	4.375	11/21/11	10,000,000	9,980,183	10,154,852	0.63%
GENERAL MLS INC	1.550	05/16/14	5,000,000	4,999,713	5,036,343	0.31%
GENWORTH FINL INC	5.650	06/15/12	5,000,000	4,997,896	5,140,164	0.32%
GLAXOSMITHKLINE CAP INC	4.375	04/15/14	250,000	267,433	272,124	0.02%
GOLDMAN SACHS GROUP INC	5.350	01/15/16	5,000,000	4,973,950	5,372,698	0.34%
GOLDMAN SACHS GROUP	5.300	02/14/12	4,750,000	4,749,508	4,882,064	0.30%
HSBC FIN CORP	5.900	06/19/12	5,000,000	4,997,597	5,239,382	0.33%
HARLEY DAVIDSON FDG CORP	5.250	12/15/12	5,000,000	5,099,163	5,238,522	0.33%
HARTFORD FINL SVCS GROUP INC	5.375	03/15/17	5,000,000	4,992,339	5,267,326	0.33%
HARTFORD FINL SVCS GRP	6.300	03/15/18	5,000,000	5,003,546	5,437,758	0.34%
HERSHEY FOODS CORP	5.300	09/01/11	1,000,000	999,934	1,007,541	0.06%
HEWLETT PACKARD CO	2.200	12/01/15	5,000,000	4,996,064	4,998,555	0.31%
JPMORGAN CHASE + CO	4.750	05/01/13	5,000,000	4,994,194	5,305,452	0.33%
JPMORGAN CHASE + CO	4.950	03/25/20	5,000,000	5,014,540	5,175,987	0.32%
JPMORGAN CHASE + CO	3.150	07/05/16	3,000,000	2,992,808	3,004,585	0.19%
JP MORGAN CHASE COMMERCIAL MOR	4.200	07/12/35	50,548	50,735	50,533	0.00%
JP MORGAN CHASE COMMERCIAL MOR	5.279	12/12/43	1,527,670	1,524,483	1,532,092	0.10%
JEFFERIES GROUP INC	5.125	04/13/18	5,000,000	4,983,138	4,994,298	0.31%
JERSEY CENT PWR + LT CO	5.650	06/01/17	3,000,000	2,993,804	3,332,318	0.21%
KCT INTERMODAL TRANSN CORP	6.884	08/01/18	2,365,333	2,365,333	2,716,109	0.17%
KEYBANK NATL ASSN CLEVELAND OH	5.500	09/17/12	5,000,000	4,999,831	5,266,132	0.33%
KRAFT FOODS INC	5.625	11/01/11	644,000	647,829	654,129	0.04%
LEHMAN BROTHERS HLDGS INC	5.000	01/14/49	5,000,000	977,700	1,306,250	0.08%
LILLY ELI + CO	3.550	03/06/12	1,000,000	999,768	1,020,994	0.06%
LILLY ELI + CO	4.200	03/06/14	2,000,000	1,999,517	2,156,597	0.13%
LINCOLN NATIONAL CORP	4.300	06/15/15	3,000,000	2,996,837	3,155,089	0.20%
LINCOLN NATL CORP IN	4.850	06/24/21	5,000,000	5,016,836	4,988,957	0.31%
LLOYDS TSB BANK PLC	4.875	01/21/16	5,000,000	4,996,398	5,120,435	0.32%
LOCKHEED MARTIN CORP	4.121	03/14/13	2,000,000	1,988,481	2,111,612	0.13%
MARATHON OIL CORP	5.900	03/15/18	4,546,000	4,535,993	5,146,918	0.32%
MASSMUTUAL GLOBAL FUNDING	3.625	07/16/12	2,000,000	1,999,465	2,055,413	0.13%
MCKESSON CORP NEW	5.250	03/01/13	3,000,000	2,996,493	3,193,993	0.20%
MERCK + CO INC	5.000	06/30/19	2,000,000	1,989,920	2,209,443	0.14%
MERRILL LYNCH + CO INC	6.400	08/28/17	5,000,000	4,995,504	5,504,163	0.34%
METLIFE INC	5.000	11/24/13	5,000,000	4,988,464	5,390,357	0.34%

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METLIFE INC	4.750	02/08/21	2,000,000	1,999,543	2,029,496	0.13%
MORGAN STANLEY	2.875	01/24/14	5,000,000	4,993,789	5,065,963	0.32%
MORGAN STANLEY	5.625	09/23/19	5,000,000	4,982,920	5,120,815	0.32%
NATNL CITY BK CLEVELAND OH	5.250	12/15/16	5,000,000	4,997,464	5,494,408	0.34%
NATIONWIDE FINANCIAL SER	6.250	11/15/11	5,000,000	5,015,408	5,068,298	0.32%
NOBLE HOLDING INTL LTD	4.625	03/01/21	5,000,000	4,972,255	5,064,552	0.32%
NORFOLK SOUTHN CORP	5.750	01/15/16	2,000,000	1,994,249	2,265,611	0.14%
NORTHERN TR CORP	5.500	08/15/13	150,000	162,478	164,092	0.01%
NORTHWESTERN CORP	6.340	04/01/19	5,000,000	4,997,423	5,541,394	0.35%
NOVARTIS SECS INVT LTD	5.125	02/10/19	5,000,000	4,993,223	5,532,063	0.35%
PNC FUNDING CORP	3.000	05/19/14	3,000,000	2,996,130	3,105,691	0.19%
PPL MONT LLC	8.903	07/02/20	2,602,663	2,602,663	2,952,162	0.18%
PPL ENERGY SUPPLY LLC	6.500	05/01/18	3,000,000	2,993,139	3,376,008	0.21%
PACCAR INC	6.375	02/15/12	1,000,000	999,775	1,035,164	0.06%
PFIZER INC	4.500	02/15/14	1,900,000	2,045,775	2,054,096	0.13%
PRINCIPAL LIFE GLOBAL FDG MTN	5.125	10/15/13	5,000,000	4,998,316	5,373,864	0.34%
PROCTER + GAMBLE INTL FN	1.350	08/26/11	1,000,000	999,943	1,001,598	0.06%
PROTECTIVE LIFE SECD TRS SECD	5.450	09/28/12	7,000,000	6,996,001	7,319,764	0.46%
PRUDENTIAL FINL INC	5.500	03/15/16	5,000,000	4,951,739	5,474,004	0.34%
QUESTAR CORP	2.750	02/01/16	5,025,000	5,010,084	5,055,817	0.32%
ST PAUL TRAVELERS COS INC	6.250	06/20/16	5,000,000	4,991,251	5,718,502	0.36%
SCHERING PLOUGH CORP	6.000	09/15/17	5,000,000	4,984,812	5,950,319	0.37%
SEARIVER MARITIME FINL HLDGS	0.000	09/01/12	1,450,000	1,404,906	1,407,950	0.09%
SOUTHERN CA EDISON CO	4.650	04/01/15	500,000	545,343	546,552	0.03%
STATOIL ASA	3.125	08/17/17	7,000,000	6,986,638	7,026,374	0.44%
STATOILHYDRO ASA	2.900	10/15/14	2,000,000	1,997,999	2,094,005	0.13%
SUNTRUST BKS INC	3.600	04/15/16	2,000,000	1,999,262	2,025,672	0.13%
TRANSALTA CORP	6.750	07/15/12	5,000,000	5,248,165	5,274,166	0.33%
TRANSALTA CORP	4.750	01/15/15	5,000,000	5,252,994	5,333,802	0.33%
TRANSCANADA PIPELINES LTD	7.125	01/15/19	5,000,000	5,042,882	6,103,542	0.38%
UNION BK CALIF	5.950	05/11/16	5,000,000	5,002,078	5,517,889	0.34%
UNION PAC CORP	4.875	01/15/15	7,000,000	6,868,310	7,612,496	0.48%
UNITED PARCEL SVC INC	5.500	01/15/18	5,000,000	4,993,523	5,655,311	0.35%
US BANCORP	3.150	03/04/15	2,000,000	1,997,442	2,055,499	0.13%
VERIZON COMMUNICATIONS INC	5.550	02/15/16	5,000,000	4,981,466	5,625,184	0.35%
VERIZON COMMUNICATIONS	1.950	03/28/14	5,000,000	4,993,926	5,074,825	0.32%
VERIZON NEW JERSEY INC	5.875	01/17/12	4,000,000	4,019,522	4,110,768	0.26%
WACHOVIA CORP NEW	5.625	10/15/16	5,000,000	4,989,842	5,532,387	0.35%
WAL MART STORES INC	4.500	07/01/15	5,000,000	5,545,861	5,466,800	0.34%
WAL MART STORES INC	4.250	04/15/13	1,000,000	1,023,219	1,060,894	0.07%
WELLPOINT INC	5.875	06/15/17	5,000,000	4,953,575	5,703,449	0.36%
WELLS FARGO + CO NEW	4.625	04/15/14	5,000,000	4,939,938	5,327,290	0.33%
WELLS FARGO CO NEW	5.300	08/26/11	10,000,000	9,999,596	10,069,367	0.63%
WESTPAC BANKING CORP	3.000	12/09/15	10,000,000	9,990,584	10,046,772	0.63%
WILMINGTON TR CORP	8.500	04/02/18	2,000,000	2,000,000	2,402,762	0.15%
WYETH	5.500	02/01/14	5,000,000	4,997,494	5,516,734	0.34%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,998,881	3,089,730	0.19%
Corporate Bonds (Rated)			649,184,549	646,312,848	681,062,472	42.50%
LEHMAN BROTHERS HLDGS INC	1.000	05/25/49	5,000,000	1,000,000	1,315,625	0.08%
Corporate Bonds (Unrated)			5,000,000	1,000,000	1,315,625	0.08%
BLACKROCK EQUITY INDEX FD B	NA	NA	597,655	85,007,008	120,542,240	7.52%
BLACKROCK ACWI EX US SUPERFD B	NA	NA	734,727	14,000,530	16,990,000	1.06%
Equity Index Funds			1,332,382	99,007,538	137,532,240	8.58%

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PERMANENT COAL TRUST	NA	NA	178,502,340	178,502,340	178,502,340	11.14%
Loans			178,502,340	178,502,340	178,502,340	11.14%
BANK AMER CORP MEDIUM TERM	2.100	04/30/12	17,000,000	16,996,578	17,251,819	1.08%
CITIGROUP FUNDING INC	1.875	10/22/12	10,000,000	9,984,771	10,195,325	0.64%
CITIBANK NA	1.250	11/15/11	5,000,000	4,998,185	5,021,236	0.31%
ENSCO OFFSHORE CO	6.360	12/01/15	4,500,553	4,500,553	4,976,982	0.31%
GENERAL ELEC CAP CORP FDIC GTD	3.000	12/09/11	5,000,000	4,997,890	5,060,499	0.32%
GLOBAL INDS LTD	7.710	02/15/25	2,800,000	2,800,000	3,100,132	0.19%
JPMORGAN CHASE+CO FDIC GTD TLG	3.125	12/01/11	1,255,000	1,261,152	1,269,822	0.08%
JPMORGAN CHASE + CO FDIC	2.200	06/15/12	7,000,000	6,998,743	7,127,548	0.44%
POOLED FDG TR I	2.740	02/15/12	5,000,000	5,034,854	5,074,629	0.32%
ROWAN COS INC	5.880	03/15/12	2,270,000	2,286,733	2,292,927	0.14%
US TREASURY N/B	4.000	02/15/15	20,000,000	19,479,631	22,044,598	1.38%
US TREASURY N/B	4.250	11/15/17	15,000,000	15,116,435	16,814,999	1.05%
US TREASURY N/B	3.875	05/15/18	15,000,000	15,031,566	16,430,550	1.03%
US TREASURY N/B	4.000	08/15/18	10,000,000	10,054,220	11,018,401	0.69%
US TREASURY N/B	2.750	02/15/19	10,000,000	9,918,158	10,093,301	0.63%
US TREASURY N/B	1.375	05/15/12	3,000,000	2,990,794	3,030,240	0.19%
US TREASURY N/B	2.625	04/30/16	10,000,000	9,875,819	10,448,700	0.65%
US TREASURY N/B	2.625	02/29/16	5,000,000	5,006,554	5,234,000	0.33%
US TREASURY N/B	3.250	05/31/16	5,000,000	4,920,089	5,369,250	0.34%
US TREASURY N/B	2.625	07/31/14	5,000,000	4,986,993	5,270,900	0.33%
US TREASURY N/B	1.750	08/15/12	10,000,000	10,028,809	10,167,500	0.63%
US TREASURY N/B	3.625	08/15/19	10,000,000	9,947,834	10,655,399	0.66%
US TREASURY N/B	1.000	09/30/11	5,000,000	5,000,402	5,011,450	0.31%
US TREASURY N/B	1.375	11/15/12	10,000,000	10,030,069	10,144,401	0.63%
US TREASURY N/B	3.625	02/15/20	5,000,000	4,907,677	5,288,900	0.33%
US TREASURY N/B	2.625	08/15/20	5,000,000	4,931,741	4,839,800	0.30%
US TREASURY N/B	2.625	11/15/20	25,000,000	23,824,816	24,074,499	1.50%
US TREASURY N/B	0.375	10/31/12	4,000,000	3,992,718	4,003,920	0.25%
US TREASURY N/B	0.500	11/15/13	3,000,000	2,979,135	2,992,980	0.19%
STRIPS	0.000	05/15/12	3,000,000	2,961,264	2,995,770	0.19%
STRIPS	0.000	08/15/17	1,590,000	1,355,233	1,381,615	0.09%
STRIPS	0.000	11/15/17	6,300,000	4,752,178	5,410,503	0.34%
U.S. Government Direct			245,715,553	241,951,593	254,092,593	15.86%
FED HM LN PC POOL G12310	5.500	08/01/21	2,097,019	2,098,550	2,266,865	0.14%
FED HM LN PC POOL G13081	5.000	04/01/23	3,559,965	3,559,965	3,816,019	0.24%
FED HM LN PC POOL G18244	4.500	02/01/23	3,657,270	3,601,397	3,877,682	0.24%
FED HM LN PC POOL J08160	5.000	12/01/22	3,299,518	3,296,181	3,544,139	0.22%
FREDDIE MAC	5.050	01/26/15	10,000,000	9,988,633	11,263,946	0.70%
FED HM LN PC POOL E00659	6.000	04/01/14	198,243	198,204	215,605	0.01%
FEDERAL FARM CREDIT BANK	2.125	06/18/12	2,000,000	2,000,058	2,035,601	0.13%
FEDERAL FARM CREDIT BANK	3.875	01/12/21	5,000,000	5,022,366	5,092,290	0.32%
FEDERAL FARM CREDIT BANK	1.375	10/14/14	1,500,000	1,500,000	1,499,178	0.09%
FEDERAL FARM CREDIT BANK	4.450	09/23/13	7,000,000	6,925,517	7,591,005	0.47%
FEDERAL FARM CREDIT BANK	5.100	04/12/17	20,000,000	19,837,058	22,981,272	1.43%
FEDERAL FARM CREDIT BANK	3.400	02/07/13	19,000,000	19,000,000	19,863,199	1.24%
FEDERAL HOME LOAN BANK	1.000	12/27/13	2,000,000	1,999,522	2,009,819	0.13%
FEDERAL HOME LOAN BANK	4.750	09/11/15	10,000,000	9,870,480	11,224,080	0.70%
FEDERAL HOME LOAN BANK	5.375	06/14/13	10,000,000	10,903,680	10,927,011	0.68%
FEDERAL HOME LOAN BANK	4.875	11/18/11	1,900,000	1,899,697	1,934,202	0.12%
FEDERAL HOME LOAN BANK	4.750	12/16/16	15,000,000	14,918,449	17,039,403	1.06%
FEDERAL HOME LOAN BANK	5.125	03/10/17	10,000,000	10,054,788	11,453,166	0.71%

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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ALL OTHER FUNDS

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
FEDERAL HOME LOAN BANK	4.875	06/08/12	4,900,000	4,891,492	5,110,591	0.32%
FEDERAL HOME LOAN BANK	4.875	10/30/17	4,000,000	4,185,300	4,516,915	0.28%
FEDERAL HOME LOAN BANK	3.625	09/16/11	10,000,000	9,998,840	10,075,215	0.63%
FEDERAL HOME LOAN BANK	2.500	02/19/13	5,000,000	5,000,000	5,171,797	0.32%
FEDERAL HOME LOAN BANK	3.250	09/12/14	10,000,000	10,102,765	10,654,529	0.66%
FEDERAL HOME LOAN BANK	1.625	09/26/12	1,500,000	1,499,773	1,524,000	0.10%
FEDERAL HOME LOAN BANK	2.375	03/14/14	3,500,000	3,511,530	3,636,459	0.23%
FEDERAL HOME LOAN BANK	1.875	06/21/13	10,000,000	10,145,883	10,257,080	0.64%
FREDDIE MAC	1.100	12/27/12	10,000,000	10,064,836	10,087,403	0.63%
FREDDIE MAC	1.875	10/14/14	5,000,000	5,000,000	5,021,025	0.31%
FANNIEMAE STRIPS	0.000	11/15/11	1,000,000	992,219	998,164	0.06%
FANNIEMAE STRIPS	0.000	11/15/12	271,000	261,371	268,502	0.02%
FANNIEMAE STRIPS	0.000	11/15/13	1,000,000	941,713	975,821	0.06%
FANNIE MAE	0.000	06/01/17	17,600,000	12,594,467	15,031,232	0.94%
FANNIE MAE	4.375	07/17/13	20,000,000	19,839,372	21,511,268	1.34%
FANNIE MAE	4.125	04/15/14	10,000,000	9,819,596	10,876,236	0.68%
FANNIE MAE	4.625	10/15/14	10,000,000	10,049,669	11,113,483	0.69%
FANNIEMAE STRIPS	0.000	01/15/13	1,000,000	968,380	988,305	0.06%
FANNIEMAE STRIPS	0.000	07/15/14	1,000,000	923,446	960,387	0.06%
FANNIE MAE	1.250	02/27/14	10,000,000	9,996,102	10,101,656	0.63%
FANNIE MAE	0.950	10/25/13	10,000,000	10,000,988	10,000,866	0.62%
FNMA POOL 254140	5.500	01/01/17	1,778,112	1,775,012	1,926,354	0.12%
FNMA POOL 254233	5.000	03/01/17	1,405,354	1,385,882	1,511,364	0.09%
FNMA POOL 254631	5.000	02/01/18	1,328,979	1,302,908	1,434,405	0.09%
FREDDIE MAC	5.000	02/16/17	10,000,000	9,933,853	11,443,368	0.71%
FNMA POOL 572220	6.000	03/01/16	69,918	69,846	76,272	0.00%
FNMA POOL 592327	5.500	06/01/16	124,981	123,900	135,401	0.01%
FANNIE MAE	1.125	09/09/13	5,000,000	5,003,654	5,004,969	0.31%
FANNIE MAE	0.875	01/12/12	2,500,000	2,498,069	2,509,627	0.16%
FANNIE MAE	1.750	02/22/13	2,500,000	2,500,699	2,553,460	0.16%
FANNIE MAE	3.875	07/12/13	10,000,000	9,936,702	10,656,200	0.66%
FNMA POOL 844915	4.500	11/01/20	2,518,461	2,507,327	2,691,829	0.17%
FNMA POOL 888932	4.500	11/01/22	1,859,309	1,859,309	1,987,301	0.12%
FNMA POOL 962078	4.500	03/01/23	4,083,370	4,064,491	4,337,108	0.27%
TENN VALLEY AUTHORITY	4.375	06/15/15	1,000,000	1,079,730	1,108,157	0.07%
U.S. Government Agency			316,151,499	311,503,670	334,891,231	20.90%
AOF Total			1,410,964,162.0	1,493,355,828	1,602,474,340	100.00

LEGISLATIVE AUDIT DIVISION

B-1

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana Board of Investments' Enterprise Fund as of June 30, 2011, and 2010, and the related Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's 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 Montana Board of Investments' Enterprise Fund financial statements are intended to present the financial position and changes in financial position of only that portion of the financial reporting entity of the state of Montana that is attributable to the transactions of the Enterprise Fund. They do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2011 or June 30, 2010, or the changes in its financial position 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 Board of Investment's Enterprise Fund as of June 30, 2011, and 2010, and its changes in net assets and cash flows for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 15, 2011

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF NET ASSETS AS OF JUNE 30, 2011 AND 2010

Assets

	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents (Note 1)	\$ 22,407,841	\$ 16,841,128
Interest receivable	351,860	389,348
Notes/loans receivable (Note 1)	7,428,889	6,790,541
Interfund notes/loans and interest receivable (Note 1)	2,898,388	3,919,712
Component Unit notes/loans and interest receivable (Note 1)	1,764,416	1,644,994
Short-term investments at fair value (Notes 1 and 2)	375,000	1,029,429
Short-term deposits at fair value (Notes 1, 2 and 11)	608,473	608,473
Security lending cash collateral (Note 3)	<u>4,736</u>	<u>8,188</u>
Total current assets	\$ <u>35,839,603</u>	\$ <u>31,231,813</u>
Noncurrent assets:		
Restricted deposits at fair value (Notes 1, 2 and 11)	1,294,427	1,902,052
Long-term investments at fair value (Notes 1 and 2)	6,043	12,813
Notes/loans receivable (Note 1)	36,321,069	37,988,032
Interfund notes/loans and interest receivable (Note 1)	17,979,639	21,999,400
Component Unit notes/loans receivable (Note 1)	9,949,466	8,351,721
Capitalized cost of issue (Note 1)	1,394,247	1,495,605
Equipment	4,230	4,230
Accumulated depreciation	<u>(3,600)</u>	<u>(3,377)</u>
Total noncurrent assets	<u>66,945,521</u>	<u>71,750,476</u>
Total assets	\$ <u>102,785,124</u>	\$ <u>102,982,289</u>
Liabilities		
Current liabilities:		
Accrued expenses	8,677	6,255
Accrued interest payable	163,436	179,336
Security lending obligations (Note 3)	4,736	8,188
Arbitrage rebate tax payable	11,034	12,117
Compensated absences	20,689	13,666
Current bonds/notes payable (Note 4)	<u>95,590,000</u>	<u>96,250,328</u>
Total current liabilities	\$ <u>95,798,572</u>	\$ <u>96,469,890</u>
Noncurrent liabilities		
Bonds/notes payable (Note 4)	135,000	195,000
Compensated absences	3,673	11,773
OPEB implicit rate subsidy (Note 10)	<u>48,704</u>	<u>40,371</u>
Total noncurrent liabilities	<u>187,377</u>	<u>247,144</u>
Total liabilities	\$ <u>95,985,949</u>	\$ <u>96,717,034</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 630	\$ 853
Restricted (Note 1)	2,973,502	2,210,262
Unrestricted	<u>3,825,043</u>	<u>4,054,140</u>
Total net assets (Note 7)	\$ <u>6,799,175</u>	\$ <u>6,265,255</u>
Total liabilities and net assets	\$ <u>102,785,124</u>	\$ <u>102,982,289</u>

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, 2011 AND 2010

Operating revenue	<u>2011</u>	<u>2010</u>
Reimbursements	\$ 17,956	\$ 22,299
Investment income	90,953	261,771
Security lending income	233	164
Financing income	<u>1,549,993</u>	<u>2,270,138</u>
Total operating revenue	<u>1,659,135</u>	<u>2,554,372</u>
Operating expenses		
Personal services	167,630	205,745
Contracted services	29,997	25,893
Supplies and materials	4,723	6,344
Communications	8,872	9,219
Travel	1,238	2,389
Rent	44,032	44,846
Repair and maintenance	291	353
Indirect and other costs	23,917	30,064
OPEB (Note 10)	8,333	10,963
Depreciation expense	223	316
Loss on equipment sale	0	2,403
Arbitrage rebate tax expense (Note 9)	(1,084)	(7,336)
Security lending expense	49	55
Debt service		
Interest expense	488,926	1,503,267
Trustee fee expense	64,962	62,286
Bond issuance cost amortization expense	100,758	99,526
Other debt service expense	<u>182,348</u>	<u>170,808</u>
Total operating expenses	<u>1,125,215</u>	<u>2,167,141</u>
Operating income (loss)	<u>533,920</u>	<u>387,231</u>
Nonoperating income:		
Transfers from other funds (Note 8)	<u>0</u>	<u>472,340</u>
Change in net assets	533,920	859,571
Beginning net assets	<u>6,265,255</u>	<u>5,405,684</u>
Ending net assets (Note 7)	\$ <u>6,799,175</u>	\$ <u>6,265,255</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts for sales and services	\$ 17,956	\$ 22,299
Payments to suppliers for goods and services	(112,736)	(121,555)
Payments to employees	(166,620)	(214,187)
Net cash (used for) operating activities	<u>(261,400)</u>	<u>(313,443)</u>
Cash flows from non-capital financing activities:		
Payment of principal and interest on bonds and notes	(1,472,463)	(7,732,541)
Proceeds from issuance of bonds and notes	0	12,131,435
Payment of bond issue costs	600	(279,886)
Transfers from other funds (Note 8)	<u>0</u>	<u>472,340</u>
Net cash (used for) provided by non-capital financing activities	<u>(1,471,863)</u>	<u>4,591,348</u>
Cash flows from investing activities:		
Collections for principal and interest on loans	24,160,730	27,934,467
Cash payments for loans	(18,238,587)	(26,358,893)
Purchase of deposits/investments	(1,504,857)	(508,418)
Proceeds from security lending	233	164
Security lending costs	(49)	(55)
Proceeds from sales or maturities of deposits/investments	2,757,336	1,727,762
Interest on deposits/investments	<u>125,170</u>	<u>318,148</u>
(Payment for) refund from arbitrage rebate tax	<u>0</u>	<u>0</u>
Net cash provided by investing activities	<u>7,299,976</u>	<u>3,113,175</u>
Net increase in cash and cash equivalents	5,566,713	7,391,080
Cash and cash equivalents, July 1	<u>16,841,128</u>	<u>9,450,048</u>
Cash and cash equivalents, June 30	<u>22,407,841</u>	<u>16,841,128</u>
Reconciliation of net income to net cash (used for) operating activities:		
Net operating income	533,920	387,231
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	223	316
Loss on equipment sale	0	2,403
Interest on investments	(90,953)	(261,771)
Financing income	(1,549,993)	(2,270,138)
Interest expense	836,994	1,835,887
Security lending income	(233)	(164)
Security lending expense	49	55
Arbitrage rebate tax expense (Note 9)	(1,084)	(7,336)
Change in assets and liabilities:		
(Increase) decrease in other assets	0	(1,240)
Increase (decrease) in other payables	2,421	(5,836)
Increase (decrease) in due to other funds	0	(1,926)
Increase (decrease) in compensated absences payable	(1,077)	(1,887)
Increase (decrease) in OPEB payables (Note 10)	<u>8,333</u>	<u>10,963</u>
Total adjustments	<u>(795,320)</u>	<u>(700,674)</u>
Net cash (used for) operating activities	\$ <u>(261,400)</u>	\$ <u>(313,443)</u>
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	\$ <u>15,902</u>	\$ <u>43,866</u>
Total noncash transactions	\$ <u>15,902</u>	\$ <u>43,866</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, 2011 AND JUNE 30, 2010

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. These financial statements are intended to present the financial position and changes in financial position of only the portions of the financial reporting entities for the state of Montana that are attributed to the transactions of the Economic Development Bond and Municipal Finance Consolidation programs, known as the Enterprise Fund administered by the Board.

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 currently funded by the Montana Trust Funds Investment Pool.

Municipal Finance Consolidation Act programs include:

- The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to fifteen 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.
- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.
- Qualified School Construction Bond (QSBC) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.

c. Fixed Asset Depreciation

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

d. Receivables

The Enterprise Fund notes/loans receivables of \$76,162,527 as of June 30, 2011 and \$80,489,523 as of June 30, 2010, represent loans made to state agencies, local governments, and the state university system. The Enterprise Fund notes/loans are classified in three categories as follows:

- 1) Notes/loans receivable from local governments and Montana universities.
- 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.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

The interest accruals from state agencies and university units on the Interfund notes/loans receivable total \$179,339 and \$204,878 of June 30, 2011 and 2010.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of \$1,394,847 and \$1,495,605 as of June 30, 2011 and June 30, 2010, 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, 2011</u>	<u>June 30, 2010</u>
Cash in treasury	\$ 9,420	\$ 614,128
Cash with fiscal agent	21,669	695
Short Term Investment Pool (STIP)	349,864	199,677
First American Treasury Obligation Fund	165	0
First American Prime Obligation Fund	22,026,723	15,026,652
U.S. Government Direct Obligation	<u>0</u>	<u>999,976</u>
Total Cash and Cash Equivalents	\$ <u>22,407,841</u>	\$ <u>16,841,128</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 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 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,

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

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 table below are provided by S&P's rating services. The Enterprise Fund does not have a formal investment policy addressing credit risk for Permitted Investments as provided in the Indenture or investment in the STIP. Permitted Investments, as described in the indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)." The STIP cash equivalent (debt) fund has not been rated by a nationally recognized securities rating organization (NRSRO).

Custodial Credit Risk - Deposits – Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2011 and 2010, the Enterprise Fund had \$1,902,901 and \$2,510,525, respectively, in Certificates of Deposits (CDs), of which \$250,000 are covered by FDIC insurance. The remaining balances of \$1,752,901 and \$2,260,525, respectively, are not covered by deposit insurance but are collateralized by securities held by U.S. Bank's Trust Department. The securities used as collateral are held by U.S. Bank's Trust Department at 100% of the Certificate of Deposit amount in a pool for multiple depositors.

Investments - 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, 2011 and 2010, 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.

The Enterprise Fund does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

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 include 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. The Enterprise Fund also invests in US Bank Certificates of Deposit. As of June 30, 2011 and 2010 these CDs, as deposits, represent 7.7% and 12.7%, respectively, of the Permitted Investments as described in the bond indenture.

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 Fund does not have a formal investment policy addressing interest risk for Permitted Investments as provided in the Indenture or the cash equivalent (debt) investment in the STIP. The Enterprise Funds' bond indenture does not 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, 2011 and June 30, 2010. 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). If duration has not been calculated, duration is indicated by NA (not applicable). Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations.

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STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

Credit Quality Rating and Effective Duration as of June 30, 2011

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Treasury Obligation Fund	\$ 165	AAA	0.10
First American Prime Obligation Fund	22,026,723	AAA	0.09
Short Term Investment Pool (STIP)	355,907	NR	0.10
U.S. Government Direct Obligations	<u>375,000</u>	<u>AAA</u>	<u>0.02</u>
Total Investments	\$ <u>22,757,795</u>	<u>AAA</u>	<u>0.09</u>
Securities Lending Collateral Investment Pool	\$ <u>4,736</u>	NR	*

*As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of .09 and an average weighted final maturity of .29 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 2.61 for U.S. dollar collateral.

Credit Quality Rating and Effective Duration as of June 30, 2010

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Prime Obligation Fund	\$ 15,026,652	AAA	NA
Short Term Investment Pool (STIP)	212,489	NR	0.11
U.S. Government Direct Obligations	<u>2,029,405</u>	<u>AAA</u>	<u>0.26</u>
Total Investments	\$ <u>17,268,546</u>	<u>AAA</u>	<u>0.25</u>
Securities Lending Collateral Investment Pool	\$ <u>8,188</u>	NR	0.05

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). In fiscal years 2011 and 2010, security lending transactions were recorded for STIP.

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2011 and 2010, the Bank lent Board public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2011 and 2010. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2011 and 2010 resulting from a borrower default.

During fiscal years 2011 and 2010, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2011, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 62 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 484 days for U.S. dollar collateral. As of June 30, 2010, the Quality D Trust had a weighted average maturity of 30 days. As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral. As of June 30, 2010, the Securities Lending Quality Trust had a weighted average maturity of 20 days. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2011 and 2010, the Board had no credit risk exposure to borrowers.

4. BONDS PAYABLE

Long-Term Bonds PayableEconomic 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, 2011

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2012</u>	<u>@ Maturity</u>	<u>Balance June 30, 2011</u>
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 60	70 (2014)	\$ 195
Total Bonds Payable		<u>\$ 4,976</u>		<u>\$ 60</u>		<u>\$ 195</u>
Less Current Portion (FY2012 Principal Payments)						(60)
Total Long-Term Bonds Payable						<u>\$ 135</u>

Bonds Payable as of June 30, 2010

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2011</u>	<u>@ Maturity</u>	<u>Balance June 30, 2010</u>
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 55	70 (2014)	\$ 250
Conservation Reserve Enhancement Program (CRP Bonds) (2)		120	5.00-7.15	120	120(2011)	120
Total Bonds Payable		<u>\$ 5,096</u>		<u>\$ 175</u>		<u>\$ 370</u>
Less Current Portion (FY2011 Principal Payments)						(175)
Total Long-Term Bonds Payable						<u>\$ 195</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.

(2) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Investment Pool. The Conservation Reserve Enhancement Bonds were paid off in November 2010.

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STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

Future debt service as of June 30, 2011 is listed below (in thousands):

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Principal	\$ 60	\$ 65	\$ 70	\$ -	\$ -	\$ -	\$ 195
Interest	\$ 13	\$ 8	\$ 2	\$ -	\$ -	\$ -	\$ 23
Total	<u>\$ 73</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218</u>

Future debt service as of June 30, 2010 is listed below (in thousands):

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Principal	\$ 175	\$ 60	\$ 65	\$ 70	\$ -	\$ -	\$ 370
Interest	\$ 25	\$ 13	\$ 8	\$ 3	\$ -	\$ -	\$ 49
Total	<u>\$ 200</u>	<u>\$ 73</u>	<u>\$ 73</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419</u>

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 \$190 million as amended by the 2007 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", or tender, 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, 2011 and June 30, 2010, are listed below (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>	<u>Balance June 30, 2011</u>	<u>Balance June 30, 2010</u>
1997	10,000	Variable	2017	\$ 9,280	\$ 9,355
1998	12,500	Variable	2018	11,930	12,010
2000	15,000	Variable	2025	14,565	14,680
2003	15,000	Variable	2028	14,605	14,710
2004	18,500	Variable	2029	18,290	18,370
2007	15,000	Variable	2032	14,860	14,950
2010	<u>12,000</u>	Variable	2035	<u>12,000</u>	<u>12,000</u>
Total INTERCAP Debt	<u>\$ 98,000</u>			<u>95,530</u>	<u>96,075</u>
Current Portion of Long-Term Bonds Payable				<u>60</u>	<u>175</u>
Current Bonds Payable				<u>\$ 95,590</u>	<u>\$ 96,250</u>

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):

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2011</u>	<u>Balance June 30, 2010</u>
Colstrip	October 1989	12/30/15	\$ 60,800	\$ 35,700	\$ 39,100
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	95,345	101,045
Stillwater Mining	July 2000	07/01/20	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Total conduit debt			<u>\$ 209,145</u>	<u>\$ 161,045</u>	<u>\$ 170,145</u>

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, 2011</u>	<u>Balance June 30, 2010</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	2,000	2,000	2,000
Cut Bank Elementary	August 2005	08/18/21	825	825	825
Cut Bank High School	August 2005	08/18/21	625	625	625
Bozeman Public Schools	December 2006	12/19/15	1,459	1,459	1,459
Billings School	December 2008	06/15/18	773	773	773
Lewistown Elementary School	June 2009	06/15/17	<u>2,087</u>	<u>2,087</u>	<u>2,087</u>
Total QZAB conduit debt			<u>\$ 10,105</u>	<u>\$ 10,105</u>	<u>\$ 10,105</u>

QSCB Debt

In this program, the Board is authorized to issue Qualified School Construction Bonds (QSCB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QSCB 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, 2011</u>	<u>Balance June 30, 2010</u>
Great Falls High Schools	April 2011	12/15/25	\$ 1,855	\$ 1,855	\$ -
Great Falls Elementary	April 2011	12/15/25	<u>6,510</u>	<u>6,510</u>	-
Total QSCB conduit debt			<u>\$ 8,365</u>	<u>\$ 8,365</u>	<u>\$ -</u>

6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2011 and 2010 respectively, the Board committed to make loans to eligible Montana governments totaling \$33,546,107 and \$21,833,538.

7. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2011 and June 30, 2010 include \$1,488 and \$17,390, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

8. TRANSFERS FROM OTHER FUNDS

In fiscal years 2010, the Board of Investments' Investment account transferred \$472,340 to the Enterprise Fund. These transfers were the final repayment of transfers to the Board of Investments' Investment accounts made in fiscal years 2007 and 2003 for \$900,074 and \$297,266. Additionally, in fiscal year 2010 the Board of Investments' Investment account transferred \$128,970 as an interest payment.

9. ARBITRAGE

The fiscal years 2011 and 2010 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

10. OPEB – OTHER POST EMPLOYMENT BENEFITS

Refer to the State of Montana Comprehensive Annual Financial Report (CAFR) Note 7. The State of Montana CAFR is available at the Department of Administration, Administrative and Financial Service Division's website at <http://afsd.mt.gov/cafr/cafr.asp>.

11. RESTATEMENT

On the Statement of Net Assets, the Short-term Investments at Fair Value of \$1,637,902, as previously reported for June 30, 2010, has been restated as \$1,029,429 and the balance of \$608,473 restated as Short-term Deposits at Fair Value. Also, the Restricted Investments at Fair Value of \$1,902,052 as of June 30, 2010 were renamed as Restricted Deposits at Fair Value. The Note 2-Investment Risk Disclosures as of June 30, 2010 has been restated with the deletion of \$2,510,000 in CDs. These deposits were incorrectly classified as investments as of June 30, 2010. The Total Investments as of June 30, 2011 has been restated as \$17,268,546 from \$19,779,071 as previously reported. The Credit Quality Rating for the Enterprise Fund Total Investments as of June 30, 2010 has been restated from AA+ to AAA.

BOARD OF INVESTMENTS

BOARD RESPONSE

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**MONTANA
BOARD OF INVESTMENTS**

Department of Commerce

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

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



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

December 21, 2011

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LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena MT 59620-1705

Dear Ms. Hunthausen:

I would like to thank the Legislative Audit staff for their assistance and work performed on the Montana Board of Investments' Financial Audit for the two fiscal years ended June 30, 2011. We appreciate the services your staff provide in reviewing the Board's procedures, internal controls, accounting practices, and the accuracy of the financial statements. Your employees are very considerate during the audit and maintain an excellent working relationship with Board staff.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely yours,

Mr. David Ewer
Executive Director