



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Board of Investments

*For the Two Fiscal Years Ended
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT
DIVISION

12-04A

**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

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
ladhotline@mt.gov

FINANCIAL-COMPLIANCE AUDITS

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

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 reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. 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

JEANE CARSTENSEN-GARRETT
BRENDA KEDISH

NATALIE H. GIBSON
ALEXA O'DELL

Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana Board of Investments (board) for the two fiscal years ended June 30, 2012. We performed this audit of the board in compliance with Article VIII, Section 13 of the Montana Constitution, and §17-6-321, MCA. During the course of the audit we analyzed the financial statements, examined the underlying transactions, and tested the board's compliance with selected state laws and regulations.

Included in this report are financial statements for each of the board's Unified Investment Program and Enterprise Fund. This report does not contain any recommendations.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION	1
Introduction	1
Background	1
Prior Audit Recommendations	2
INDEPENDENT AUDITOR’S REPORTS AND BOARD FINANCIAL STATEMENTS	
Independent Auditor’s Report	A-1
Consolidated Unified Investment Program Financial Statement	A-2
Notes to the Financial Statements - Consolidated Unified Investment Program	A-3
Independent Auditor’s Report	B-1
Statement of Net Assets - Enterprise Fund	B-2
Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Fund	B-3
Statement of Cash Flows - Enterprise Fund	B-4
Notes to the Financial Statements - Enterprise Fund	B-5
BOARD RESPONSE	
Board of Investments	C-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
			<u>January 1</u>
Montana Board of Investments	Gary Buchanan, Chairman	Billings	2015
	David Ageson	Gildford	2013
	Bob Bugni	East Helena	2013
	Karl Englund	Missoula	2015
	Mark Noennig	Billings	2013
	Quinton Nyman	Helena	2015
	Jack Prothero	Great Falls	2013
	Jon Satre	Helena	2015
	Jim Turcotte	Helena	2013
	Ed Buttrey	Senate Liaison	
	Franke Wilmer	House of Representatives Liaison	

Administrative Officials

David Ewer, Executive Director
 Geri Burton, Deputy Director
 Cliff Sheets, Chief Investment Officer
 Gayle L. Moon, Financial 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-COMPLIANCE AUDIT

Board of Investments

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-04A

REPORT SUMMARY

The Board of Investments (board) manages the Unified Investment Program, which had total net asset value/investments of \$13.8 billion at June 30, 2012, and \$13.6 billion at June 30, 2011. The board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts.

Context

To manage the Unified Investment 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.

The board also 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 also manages the investments for state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The board administers 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.

The Montana Veterans' Home Loan Mortgage Program was established during the 2011 Legislative Session and is funded by up to \$15 million of principal from the Montana Coal Tax Trust Fund, as requested by the Montana Board of Housing. The program assists Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home. First mortgage loans are administered by the Montana Board of Housing and purchased by Montana Board of Investments.

Results

This report does not contain any recommendations. Our prior financial-compliance report included one recommendation, which was implemented by the board.

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 (12-04A) 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 ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Board of Investments (board) for the two fiscal years ended June 30, 2012. 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 Unified Investment Program financial statements present fairly the financial position and results of operations for the two fiscal years ended June 30, 2012, and 2011.
3. Determine whether the board's Enterprise Fund financial statements present fairly the financial position, results of operations, and cash flows for the two fiscal years ended June 30, 2012, and 2011.
4. Determine the board's compliance with selected applicable laws and regulations.
5. Determine the implementation status of prior audit recommendations.

During the course of the audit we analyzed the financial statements, examined the underlying transactions, and tested the board's compliance with selected state laws and regulations.

Background

The board 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.

To manage the Unified Investment Program, the board created seven investment pools that operate similar to mutual funds. The 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.

The Montana Veterans' Home Loan Mortgage Program was established during the 2011 Legislative Session, and is funded by up to \$15 million of principal from the Montana Coal Tax Trust Fund, as requested by the Montana Board of Housing. The program assists Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home. First mortgage loans are administered by the Montana Board of Housing and purchased by Montana Board of Investments.

Prior Audit Recommendations

The prior financial-compliance audit (#10-04A) contained one recommendation to the board. As part of our audit, we determined the recommendation was implemented.

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
Angus Maciver

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, 2012, and 2011, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Net Asset Value/Investments Managed of the Montana Board of Investments' Consolidated Unified Investment Program as of June 30, 2012, and 2011, and its changes in Net Asset Value/Investments Managed, and Investment Income and Distribution 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

November 30, 2012

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

STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED JUNE 30, 2012 AND 2011

Assets	<u>2012</u>	<u>2011</u>
Investment portfolios at fair value (Note 2B) (Carrying value of \$10,567,595,714 in 2012 and \$10,402,723,250 in 2011)	\$ 11,360,941,323	\$ 11,273,033,909
STIP investment portfolio at amortized cost (Note 2B)	2,395,388,093	2,430,190,418
Cash (Foreign cash cost in USD of \$1,911,676 for 2012 and \$3,564,778 for 2011)	8,591,635	13,561,670
Security lending cash collateral (Note 5)	644,520,400	649,599,077
Broker receivable for securities sold but not settled (Note 2A)	65,660,269	28,322,472
Dividend and interest receivable (Note 2E)	<u>47,431,335</u>	<u>48,979,341</u>
Total assets (Note 2B)	<u>\$ 14,522,533,055</u>	<u>\$ 14,443,686,887</u>
Liabilities		
Income due participants (Note 2E)	\$ 18,856,771	19,725,740
Broker payable for securities purchased but not settled (Note 2A)	61,254,797	147,736,648
Security lending obligations (Note 5)	644,520,400	649,599,077
Security lending expense payable	121,162	116,482
Other payables	148,203	581,100
Administrative fee payable	3,575,523	3,934,715
Currency forward contracts (Note 6, 13)	315,672	382,368
STIP reserve (Note 7)	<u>10,931,122</u>	<u>5,598,915</u>
Total liabilities (Note 2B)	<u>739,723,650</u>	<u>827,675,045</u>
Net asset value/investments managed (Note 2B, 2C)	<u>\$ 13,782,809,405</u>	<u>\$ 13,616,011,842</u>
Pool Units Outstanding (Note 2B, 2C)	2,462,247,980	2,500,518,336

STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED
FOR FISCAL YEARS ENDING JUNE 30, 2012 AND 2011

Net asset value/investments, beginning of year	\$ 13,616,011,842	\$ 12,056,734,358
Value of pool units/investments purchased (Note 2D)	9,883,033,810	21,554,676,508
Value of pool units/investments sold/matured (Note 2D)	(9,794,321,471)	(21,261,482,226)
Increase (decrease) in AOF interest receivable	424,013	(438,795)
Increase (decrease) in AOF broker receivable	-	(59,684)
(Increase) decrease in AOF accounts payable	-	6,805
(Increase) decrease in AOF security lending expense payable	(4,873)	16,729
Changes in current value of investments managed (Note 2D)	<u>77,666,084</u>	<u>1,266,558,147</u>
Net asset value/investments managed, end of year	<u>\$ 13,782,809,405</u>	<u>\$ 13,616,011,842</u>

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

Net realized gain (loss) (Note 2E)	\$ 80,416,031	\$ 93,454,407
Dividend/interest income (Note 2E)	310,545,657	315,884,381
Amortization/accretion (Note 2E)	6,853,111	7,287,304
Security lending income (Note 5)	6,429,803	7,424,774
Security lending expense (Note 5)	(1,408,793)	(1,904,563)
Administrative expenses (Note 2F)	(46,188,538)	(45,623,687)
Other expenses	(564,745)	(1,308,908)
STIP reserve expense (Note 7)	(4,290,292)	(2,920,000)
Income due participants, beginning of year	<u>19,725,740</u>	<u>18,521,125</u>
Income available for distribution (Note 2E)	371,517,974	390,814,833
Distribution (Note 2E)	<u>352,661,203</u>	<u>371,089,093</u>
Income due participants, end of year (Note 2E)	<u>\$ 18,856,771</u>	<u>\$ 19,725,740</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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 a discount. Premiums and discounts are amortized/accrued 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

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, 2012 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)	\$ 1,861,036,486	\$ 1,923,499,230	\$ 1,934,409,923
Trust Funds Investment Pool (TFIP)	1,909,066,582	2,046,505,220	2,057,752,620
Montana Domestic Equity Pool (MDEP)	2,518,938,737	2,887,849,841	2,890,073,243
Montana International Equity Pool (MTIP)	1,220,951,178	1,234,964,293	1,234,550,550
Montana Private Equity Pool (MPEP)	894,511,029	1,017,844,318	1,017,274,838
Montana Real Estate Pool (MTRP)	672,669,517	625,793,965	625,321,931
Short Term Investment Pool (STIP)*	2,395,388,093	2,395,388,093	2,385,656,124
All Other Funds (AOF) Investments Managed	1,490,422,185	1,624,484,456	1,637,770,176
Total	\$ 12,962,983,807	\$ 13,756,329,416	\$ 13,782,809,405

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	1,493,355,828	1,602,474,340	1,615,340,920
Total	\$ 12,832,913,668	\$ 13,703,224,327	\$ 13,616,011,842

** 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

A-5

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.

2012 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)	\$ 2,133,084,709	\$ 198,674,786	\$ 1,934,409,923
Trust Funds Investment Pool (TFIP)	2,171,803,666	114,051,046	2,057,752,620
Montana Domestic Equity Pool (MDEP)	3,084,945,638	194,872,395	2,890,073,243
Montana International Equity Pool (MTIP)	1,265,752,911	31,202,361	1,234,550,550
Montana Private Equity Pool (MPEP)	1,017,844,318	569,480	1,017,274,838
Montana Real Estate Pool (MTRP)	625,818,338	496,407	625,321,931
Short Term Investment Pool (STIP)	2,402,121,605	16,465,481	2,385,656,124
All Other Funds (AOF) Investments Managed	<u>1,821,161,870</u>	<u>183,391,694</u>	<u>1,637,770,176</u>
Total	<u>\$ 14,522,533,055</u>	<u>\$ 739,723,650</u>	<u>\$ 13,782,809,405</u>

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)	\$ 2,235,533,119	\$ 312,666,019	\$ 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)	1,482,799,673	38,839,418	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>\$ 14,443,686,887</u>	<u>\$ 827,675,045</u>	<u>\$ 13,616,011,842</u>

{This area intentionally left blank}

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

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 purchases 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.

2012 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)	\$ 1,934,409,923	\$ 17,064,399	\$ 113.36
Trust Funds Investment Pool (TFIP)	2,057,752,620	19,132,462	107.55
Montana Domestic Equity Pool (MDEP)	2,890,073,243	18,465,898	156.51
Montana International Equity Pool (MTIP)	1,234,550,550	9,366,262	131.81
Montana Private Equity Pool (MPEP)	1,017,274,838	4,660,082	218.30
Montana Real Estate Pool (MTRP)	625,321,931	7,902,753	79.13
Short Term Investment Pool (STIP)	2,385,656,124	2,385,656,124	1.00
All Other Funds (AOF) Investments Managed	1,637,770,176	NA	NA
Total	\$ 13,782,809,405	\$ 2,462,247,980	NA

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

{This area intentionally left blank}

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

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.

2012 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)	\$ 9,080,000	\$ (63,137,019)	\$ 65,599,843
Trust Funds Investment Pool (TFIP)	112,425,000	(9,826,046)	62,624,297
Montana Domestic Equity Pool (MDEP)	38,850,000	(27,261,627)	30,764,960
Montana International Equity Pool (MTIP)	29,365,000	(2,803,316)	(235,971,389)
Montana Private Equity Pool (MPEP)	25,765,000	(43,931,790)	74,946,422
Montana Real Estate Pool (MTRP)	85,060,000	(21,948,209)	54,184,820
Short Term Investment Pool (STIP)	6,729,355,164	(6,768,772,803)	-
All Other Funds (AOF) Investments Managed	<u>2,853,133,646</u>	<u>(2,856,640,661)</u>	<u>25,517,131</u>
Total	<u>\$ 9,883,033,810</u>	<u>\$ (9,794,321,471)</u>	<u>\$ 77,666,084</u>

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>

{This area intentionally left blank}

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

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, MTIP 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 generally 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.

2012 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)	\$	-	\$ 80,033,604	\$ -
Trust Funds Investment Pool (TFIP)		-	86,977,625	4,315,703
Montana Domestic Equity Pool (MDEP)		-	33,533,897	-
Montana International Equity Pool (MTIP)		150,000	16,041,413	-
Montana Private Equity Pool (MPEP)		9,450,000	9,990,432	-
Montana Real Estate Pool (MTRP)		-	18,065,612	-
Short Term Investment Pool (STIP)		-	9,514,741	1,964,036
Pool Participant Sales		65,461,999	-	-
All Other Funds (AOF) Investments Managed		5,354,032	56,388,333	573,372
Total	\$	80,416,031	\$ 310,545,657	\$ 6,853,111

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		6,847,884	61,898,620	519,120
Total	\$	93,454,407	\$ 315,884,381	\$ 7,287,304

{This area intentionally left blank}

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

A-9

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.

2012 Distributable and Undistributed Income

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 85,870,881	\$ 79,472,452	\$ 6,398,429
Trust Funds Investment Pool (TFIP)	97,346,883	89,814,348	7,532,535
Montana Domestic Equity Pool (MDEP)	25,800,772	23,887,620	1,913,152
Montana International Equity Pool (MTIP)	14,589,236	13,239,373	1,349,863
Montana Private Equity Pool (MPEP)	2,617,521	2,048,041	569,480
Montana Real Estate Pool (MTRP)	9,813,067	9,323,248	489,819
Short Term Investment Pool (STIP)	7,600,152	6,996,659	603,493
All Other Funds (AOF) Investments Managed	127,879,462	127,879,462	-
Total	\$ 371,517,974	\$ 352,661,203	\$ 18,856,771

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	151,998,097	151,998,097	-
Total	\$ 390,814,833	\$ 371,089,093	\$ 19,725,740

{This area intentionally left blank}

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

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 funds required to pay the fee 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 2012 Management Fees

<u>Pool</u>	<u>Board</u>	<u>Custodial Bank</u>	<u>External Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 628,331	\$ 210,492	\$ 1,506,845	\$ 2,345,668
Trust Funds Investment Pool (TFIP)	428,978	126,445	1,564,946	2,120,369
Montana Domestic Equity Pool (MDEP)	506,725	556,285	9,483,507	10,546,517
Montana International Equity Pool (MTIP)	525,356	155,820	3,626,673	4,307,849
Montana Private Equity Pool (MPEP)	715,836	110,148	15,779,225	16,605,209
Montana Real Estate Pool (MTRP)	503,241	65,633	7,985,684	8,554,558
Short Term Investment Pool (STIP)	535,595	211,284	-	746,879
All Other Funds (AOF) Investments Managed	<u>775,721</u>	<u>158,963</u>	<u>26,805</u>	<u>961,489</u>
Total	<u>\$ 4,619,783</u>	<u>\$ 1,595,070</u>	<u>\$ 39,973,685</u>	<u>\$ 46,188,538</u>

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>

{This area intentionally left blank}

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

A-11

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, 2012

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Adams Street	\$ 244,454,433	\$ 19,912,432	\$ 140,266,067	\$ 135,161,839
Affinity Equity Partners	15,000,000	4,298,280	5,782,275	10,335,198
American Securities Partners	35,000,000	29,022,591	5,700,341	5,761,717
ArcLight	70,000,000	25,030,383	17,678,492	19,462,509
Axiom Asia Private Capital	50,000,000	40,551,431	8,482,208	9,722,290
Black Diamond Capital Management	25,000,000	15,960,115	8,683,534	9,039,759
Carlyle Partners	60,000,000	2,607,586	36,118,953	52,921,430
Cartesian Capital	20,000,000	18,793,331	1,089,409	1,089,409
Catalyst Capital	15,000,000	15,000,000	0	0
CCMP Capital Advisors	30,000,000	6,917,524	18,974,916	27,073,714
Centerbridge Capital	57,500,000	33,212,493	23,415,520	28,542,616
CIVC Partners	25,000,000	17,204,251	6,589,109	8,501,163
EIF	25,000,000	19,746,980	4,563,786	4,576,533
First Reserve Corporation	55,485,789	8,921,884	40,493,541	43,625,198
Gridiron Capital	15,000,000	9,297,362	5,402,638	5,350,081
GTCR Partners	25,000,000	15,762,849	8,968,173	8,634,198
HarbourVest Partners	61,823,772	22,083,954	32,389,367	39,619,882
HCI Equity Partners	20,000,000	11,003,693	7,684,136	14,358,039
Hellman & Friedman	40,000,000	13,069,996	18,832,821	22,328,376
Highway 12 Investors	10,000,000	824,052	7,836,732	10,377,636
Industry Ventures	10,000,000	595,358	5,975,426	6,603,061
J.C. Flowers & Co	25,000,000	311,567	18,699,008	5,923,341
JLL Partners	25,000,000	2,207,080	15,605,907	18,872,942
Lexington Capital Partners	155,000,000	30,432,940	59,771,936	73,749,366
Madison Dearborn	75,000,000	18,330,837	38,997,917	39,511,981
MatlinPatterson Global Advisers	30,000,000	4,447,341	23,327,420	15,345,827
MHR Institutional Investors	25,000,000	7,553,485	17,196,708	20,452,423
Montlake	15,000,000	2,700,000	8,567,649	9,627,459
NB Co-investment Partners	35,000,000	3,835,110	17,624,481	22,211,816
Northgate Capital	45,000,000	36,900,000	8,040,000	8,305,191
Oak Hill Capital Partners	45,000,000	5,689,932	31,907,702	36,819,086
Oaktree	35,000,000	3,500,000	1	21,345,679
Odyssey	45,000,000	12,465,320	18,522,136	26,243,453
Opus Capital	10,000,000	7,951,278	1,736,222	1,662,425
Performance Equity Management	25,000,000	13,404,151	10,532,253	12,175,316
Portfolio Advisors	70,000,000	17,568,181	47,671,204	58,337,373
Quintana Energy Partners	15,000,000	1,521,042	8,407,621	11,836,829
Siguler Guff	50,000,000	22,494,081	26,904,258	31,439,233
Summit Partners	20,000,000	19,100,000	900,000	900,000
TA Associates	10,000,000	5,975,000	3,836,543	3,966,893
Tenaya Capital	20,000,000	20,000,000	0	0
Tenex Capital Management	20,000,000	20,000,000	0	0
Terra Firma Capital Partners	25,432,997	1,811,550	22,296,997	12,897,267
Trilantic Capital Partners	11,098,351	1,067,931	7,523,773	9,399,774
Veritas Capital	25,000,000	11,530,529	13,291,876	13,997,196
Welsh Carson	75,000,000	4,000,000	40,544,571	44,337,727
Total MPEP Commitments	<u>\$ 1,840,795,342</u>	<u>\$ 604,613,900</u>	<u>\$ 846,833,627</u>	<u>\$ 962,443,245</u>

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

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

MTRP Commitments as of June 30, 2012

<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	\$ 11,900,000	\$ 5,100,000	\$ 5,358,662
Almanac Realty	30,000,000	6,663,835	21,528,019	22,693,373
Angelo Gordon	90,000,000	37,250,000	42,127,823	39,421,657
Area Property Partners	10,000,000	1,664,000	6,234,908	4,838,745
Beacon Capital Partners	25,000,000	4,500,000	20,202,970	10,196,540
Carlyle	29,920,000	7,548,348	20,125,236	19,638,483
Cim Fund	25,000,000	4,787,614	20,212,386	25,372,244
DRA Advisors	65,000,000	32,730,761	29,491,000	29,865,523
GEM Realty Capital	15,000,000	8,700,000	5,962,500	6,666,826
JER Real Estate Partners	20,000,000	3,146,534	6,236,748	3,505,346
Landmark Real Estate	20,000,000	12,102,492	6,443,085	9,980,706
Liquid Realty	22,013,732	3,195,529	13,455,259	11,914,093
Macquarie GLB Prop	30,000,000	11,674,797	17,628,919	19,038,263
Molpus Woodlands Group	50,000,000	8,650,000	41,350,000	40,998,070
Oconnor Nth Amer	15,000,000	555,972	13,044,548	8,441,505
Rms Timberland	25,000,000	15,378,088	5,519,016	7,002,599
Stockbridge	25,000,000	25,000,000	-	-
TA Associates Realty	20,000,000	800,000	18,932,004	20,570,436
Total MTRP Commitments	<u>\$ 533,933,732</u>	<u>\$ 196,247,970</u>	<u>\$ 293,594,421</u>	<u>\$ 285,503,071</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 includes 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.

Alternative Investment Pools - The Montana Private Equity Pool (MPEP) includes 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 are a variable rate security. 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, Veteran's Home Loan residential mortgages and commercial loans. On May 1, 2011 the direct real estate buildings and pension 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 Veteran's Home Loan residential mortgages are also funded from the Coal Severance Tax Trust Fund. 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, 2012 and 2011. In May 2012, the Board wrote off three MSTTA loans totaling \$1,496,266 determined as uncollectible. (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 on a collateralized basis 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. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. 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.

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

During fiscal years 2012 and 2011, 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 2012 and 2011. 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 2012 and 2011 resulting from a borrower default.

During fiscal years 2012 and 2011, 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, 2012, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 73 days for U.S. dollar collateral. The duration pool had an average duration of 40 days and an average weighted final maturity of 1329 days for U.S. dollar collateral. 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, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 days for U.S. dollar collateral. 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. 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 2012 and 2011, 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, 2012				
<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)	288,231,890	138,680,967	156,369,484	295,050,451
Trust Funds Investment Pool (TFIP)	203,299,949	106,453,688	102,053,133	208,506,820
Montana Domestic Equity Pool (MDEP)	225,629,365	184,793,342	39,275,674	224,069,016
Montana International Equity Pool (MTIP)	42,842,443	26,298,390	17,092,801	43,391,191
Short Term Investment Pool (STIP)	4,830,596	4,930,327	-	4,930,327
AOF Investments Managed	238,431,373	183,363,686	60,340,758	243,704,444
Total	<u>1,003,265,616</u>	<u>644,520,400</u>	<u>375,131,849</u>	<u>1,019,652,249</u>

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>

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

A-15

Securities lending income and expenses are shown below.

Fiscal Year 2012				
<u>Pool/AOF</u>	<u>Gross Income</u>		<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$	1,566,035	\$ 361,966	\$ 1,204,069
Trust Funds Investment Pool (TFIP)		1,247,536	272,156	975,380
Montana Domestic Equity Pool (MDEP)		1,028,629	232,968	795,661
Montana International Equity Pool (MTIP)		509,199	100,028	409,171
Short Term Investment Pool (STIP)		714,402	140,887	573,515
AOF Investments Managed		<u>1,364,002</u>	<u>300,788</u>	<u>1,063,214</u>
Total	\$	<u>6,429,803</u>	<u>1,408,793</u>	<u>5,021,010</u>

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		<u>1,437,960</u>	<u>396,658</u>	<u>1,041,302</u>
Total	\$	7,424,774	\$ 1,904,563	\$ 5,520,211

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 or by Standard & Poor's (S&P) 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

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

- 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 or the MTRP STIP investment. As of June 30, 2012 and 2011, the MTIP STIF balances were \$5,069,482 and \$4,315,617 respectively, while the MDEP STIF balances were \$19,955,898 and \$22,859,444, respectively. The June 30, 2012 and 2011, MTRP STIP investment totaled \$5,887,302 and \$3,367,711, respectively. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a \$226,737 cash equivalent investment as of June 30, 2012 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, nine 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. This fund's investment policy, revised in February 2011, 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.” One fund requires “fixed income securities must be rated at least A- or A3 at the time of purchase.”

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.

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, 2012 and 2011, the Board recorded cash deposits of \$8,591,635 and \$13,561,670, respectively. Of these balances, \$1,918,995 and \$3,580,118, 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, 2012 and 2011, 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.

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 – The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per issuer or 3% if the amount is greater than 2% and matures within seven days.

AOF - With the exception of eight 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 and another 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 six 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, 2012 and 2011.

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, 2012 and 2011 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

<u>Currency</u>	<u>2012</u>			<u>2011</u>		
	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>
Australian Dollar	\$ 39,218	\$ (199,429)	\$ (160,211)	\$ -	\$ (38,496)	\$ (38,496)
Canadian Dollar	-	(30,846)	(30,846)	18,431	(78,422)	(59,991)
Euro	-	-	-	6,199	(75,031)	(68,832)
Japanese Yen	(19,207)	1,726	(17,481)	4,833	(141,395)	(136,562)
Kazakhstan Tenge	-	-	-	1,689	-	1,689
Mexican Peso	167,312	(280,259)	(112,947)	-	(58,854)	(58,854)
New Zealand Dollar	22,899	(17,086)	5,813	-	(27,413)	(27,413)
Polish Zloty	-	-	-	-	10,284	10,284
UK Pound Sterling	\$ -	\$ -	\$ -	\$ -	\$ (4,193)	\$ (4,193)
Total	\$ 210,222	\$ (525,894)	\$ (315,672)	\$ 31,152	\$ (413,520)	\$ (382,368)

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

Foreign Currency Exposure by Country

Investment Type in U.S. Dollar Equivalent

June 30, 2012

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	\$ 27,267	\$ 3,821,617	20,916,087	\$ -	\$ -
Brazilian Real	38,034	4,944,101	7,170,966		
Canadian Dollar	67,138	5,645,446	22,566,032		
Danish Krone	49,692		4,650,632		
EMU-Euro	246,203	1,243,320	89,277,361	15,609,400	19,638,483
Hong Kong Dollar	95,975		35,426,210		
Hungarian Forint	703				
Indonesian Rupiah	1,003		1,344,816		
Israeli Shekel	97		63,196		
Japanese Yen	667,205		71,740,188		
Korean Fortnit	-		13,257,838		
Malaysian Ringgit	25,156		3,796,035		
Mexican Peso	326,951	4,028,385	2,688,706		
New Zealand Dollar	180				
Norwegian Krone	13,568		5,618,139		
Philippine Peso	3,617		56,667		
Polish Zloty	98,752		851,934		
Singapore Dollar	7,743		8,312,228		
South Africian Rand	11,331		3,198,293		
South Korean Won	15				
Swedish Krona	18,955		5,959,130		
Swiss Franc	78,865		18,721,031		
New Taiwan Dollar	1		5,918,204		
Thailand Baht	-		7,126,248		
Turkish Lira	102		1,174,065		
UK Pound Sterling	140,442	-	74,490,346		
Total	\$ 1,918,995	\$ 19,682,869	404,324,352	\$ 15,609,400	\$ 19,638,483

{This area intentionally left blank}

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	9,605,017	15,976,096
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	\$ 9,605,017	\$ 15,976,096

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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, Collateralized Mortgage Obligation (CMO), and Adjustable Rate Mortgage (ARM) securities).” Per policy, the TFIP and the CIBP’s duration are to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% 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”. 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 \$19,955,898 and \$5,069,482, respectively. The STIF fund has an effective duration of .09 for both fiscal years 2012 and 2011. One MDEP investment manager invested \$226,737 and \$226,494 as of

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

June 30, 2012 and 2011 in the T. Rowe Price Reserve Investment Fund with durations of .11 and .24, respectively. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

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, 2012 and 2011, 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, 2012 and 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. 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, 2012 and June 30, 2011. 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. NA (not applicable) indicates if duration has not been calculated.

{This area intentionally left blank}

RFBP Credit Quality Rating and Effective Duration as of June 30, 2012

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 1,000,785,643	A-	4.65
Corporate Bonds (Unrated)	6,228,562	NR	4.93
International Government	19,682,869	AA-	4.37
Municipal Government Bonds	1,619,028	AA+	12.01
U.S. Government Direct Obligations	343,944,084	AA+	8.06
U.S. Government Agency	473,083,536	AA	3.88
State Street Short Term Investment Fund (STIF)	45,996,289	NR	0.09
Short Term Investment Pool (STIP)	<u>12,740,113</u>	<u>NR</u>	<u>0.14</u>
Total Fixed Income Investments	<u>\$ 1,904,080,124</u>	<u>A+</u>	<u>4.94</u>
<u>Direct Investments</u>			
Montana Mortgages	\$ 19,408,746	NR	NA
Common Stock**	<u>\$ 10,360</u>		
Total Direct Investments	<u>\$ 19,419,106</u>		
Total Investments	<u>\$ 1,923,499,230</u>		
Securities Lending Collateral Investment Pool	<u>\$ 138,680,967</u>	NR	*

*As of June 30, 2012, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .10 and an average weighted final maturity of .17 for U.S. dollar collateral. The duration pool had an average duration of .11 and an average weighted final maturity of 3.69 for U.S. dollar collateral.

** Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investment in General Maritime Corporation.

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	\$ 26,101,952	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.

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

TFIP Credit Quality Rating and Effective Duration as of June 30, 2012

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 109,071,009	NR	NA
Corporate Bonds (Rated)	825,783,234	A	5.08
Corporate Bonds (Unrated)	1,125,000	NR	NA
High Yield Bond Fund	101,715,232	B	3.17
Municipal Government Bonds (Rated)	1,085,443	AA	0.09
U.S. Government Direct Obligations	366,507,387	AA+	7.33
U.S. Government Agency	606,833,301	AA+	3.77
Short Term Investment Pool (STIP)	<u>34,384,614</u>	<u>NR</u>	<u>0.14</u>
Total Investments	<u>\$ 2,046,505,220</u>	<u>AA-</u>	<u>4.90</u>
Securities Lending Collateral Investment Pool	<u>\$ 106,453,688</u>	NR	*

*As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of .07 and an average weighted final maturity of .17 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.66 for U.S. dollar collateral.

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.

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

A-23

AOF Credit Quality Rating and Effective Duration as of June 30, 2012

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 733,456,388	A	3.66
Corporate Bonds (Unrated)	1,125,000	NR	NA
U.S. Government Direct Obligations	192,863,930	AA+	5.13
U.S. Government Agency	395,661,382	AA+	3.27
US Bank Sweep Repurchase Agreement*	<u>7,740,691</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,330,847,391</u>	<u>AA-</u>	<u>3.90</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 127,308,260		
Equity Index Fund-International	<u>14,531,437</u>		
Total Equity Index Funds	141,839,697		
MT Mortgages and Loans	<u>151,797,368</u>		
Total Direct Investments	<u>\$ 293,637,065</u>		
TOTAL INVESTMENTS	<u>\$ 1,624,484,456</u>		
Securities Lending Collateral Investment Pool	<u>\$ 183,363,686</u>	<u>NR</u>	**

* At June 30, 2012, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$7,895,538 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and December 1, 2029. These securities carry AA+ credit quality ratings.

**As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of .07 and an average weighted final maturity of .17 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.66 for U.S. dollar collateral.

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		
MT 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>	**

* 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.

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

STIP investments are categorized below to disclose credit risk as of June 30, 2012 and June 30, 2011. 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 on the next page.

{This area intentionally left blank}

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2012

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 579,229,187	A1	29
Corporate Commercial Paper	68,067,209	A1	116
Corporate Fixed Rate	23,609,565	B	214
Corporate Variable Rate	419,480,034	A3	39
Certificates of Deposit Fixed Rate	30,064,940	A1	66
Certificates of Deposit Variable Rate	416,232,894	A3	37
Other Asset Backed	21,507,129	BBB-	NA
U.S. Government Agency Fixed	124,991,596	A1	352
U.S. Government Agency Variable Rate	502,707,759	A1	19
Money Market Funds (Unrated)	147,931,122	NR	1
Money Market Funds (Rated)	24,000,000	A1	1
Structured Investment Vehicles (SIV)	<u>37,566,658</u>	<u>NR</u>	<u>6</u>
Total Investments	<u>\$ 2,395,388,093</u>	A2	<u>49</u>
Securities Lending Collateral Investment Pool	<u>\$ 4,930,327</u>	NR	*

*As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 days for U.S. dollar collateral.

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.

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

Legal and Credit Risk

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.

Axon Financial Funding payments total \$27,462,743 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 2012 payments from AFF Financing LLC totaled \$8,886,677 consisting of \$8,750,806 in principal and \$135,871 in interest. On June 20, 2012, the Board elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2013. 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, 2012, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of \$37,566,658. Refer to Note 12 – Subsequent Events for additional information.

On October 14, 2009, the Board received its initial payment from Orion Finance USA. From this date through November 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 2012, the Board received principal and interest payments of \$7,559,229 and \$928,769, 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, 2012, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$21,507,129. 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, the book value of the remaining bonds represents 20% of par.

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. On April 18, 2012, the Board received bankruptcy principal payments of \$300,344 each on the two remaining variable rate Lehman Brothers Holdings, Inc. securities held in the TFIP and AOF portfolios. These two securities carry a book value of \$699,666 each as of June 30, 2012.

{This area intentionally left blank}

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

A-27

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, 2012 and 2011, classified by type, are as follows:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
		<u>Fair Value Amount</u>	<u>Notional</u>	<u>Fair Value Amount</u>	<u>Notional</u>
Currency forward contracts	Long term debt/equity	\$ (315,672)	\$34,972,064	\$ (382,368)	\$ 38,566,675
Index futures long	Futures	-	6,650	-	5,400
Rights	Equity	-	-	-	-
Warrants	Equity	-	400	-	99
Total derivatives		<u>\$ (315,672)</u>		<u>\$ (382,368)</u>	

<u>Investment Derivatives</u>	<u>Classification</u>	<u>Changes in Fair Value</u>	
		<u>2012 Amount</u>	<u>2011 Amount</u>
Currency forward contracts	Investment revenue	\$ 1,525,023	\$ (2,289,995)
Index futures long	Investment revenue	(451,901)	1,622,640
Index futures short	Investment revenue	0	5,975
Rights	Investment revenue	97,749	454,698
Warrants	Investment revenue	9,373	22,144
Total derivatives		<u>\$ 1,180,244</u>	<u>\$ (184,538)</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>2012 Amount</u>	<u>2011 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-Counter) positions as of June 30.		\$ 497,930	\$ 53,220
Effect of collateral reducing maximum exposure.		-	-
Liabilities subject to netting arrangements reducing exposure.		-	-
Resulting net exposure		<u>\$ 497,930</u>	<u>\$ 53,220</u>

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

<u>Counterparty Name</u>	<u>2012 Percentage of Net Exposure</u>	<u>2011 Percentage of Net Exposure</u>	<u>2012/2011 S&P Rating</u>	<u>2012/2011 Fitch Rating</u>	<u>2012/2011 Moody's Rating</u>
Citi Group Global	43%	0%	A-/NA	A/NA	Baa2/NA
JP Morgan Chase Bank	25%	0%	A+/NA	A+/NA	Aa3/NA
State Street Bank	10%	43%	AA-/AA-	A+/A+	Aa2/Aa2
Credit Suisse London	8%	19%	A+/A+	A/AA-	A1/Aa1
Westpac Banking Corp	8%	9%	AA-/AA	AA-/AA	Aa2/Aa2
Morgan Stanley Capital	5%	0%	A-/NA	A/NA	Baa1/NA
Deutsche Bank London	1%	29%	A+/A+	A+/AA-	A2/Aa3

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

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, 2012, the BOI had committed, but not yet purchased, \$9,211,025 in loans from Montana lenders, compared to \$15,834,799 as of June 30, 2011. In addition to the above commitments, lenders had reserved \$6,775,000 for loans as of June 30, 2012, compared to \$8,189,839 on the same date in 2011.

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 Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2012 and 2011, 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. AOF MONTANA MORTGAGES AND LOANS

The AOF portfolio includes mortgages and loans, funded by the Permanent Coal Trust as authorized by statute. These mortgages and loans are shown below.

<u>Montana Mortgages and Loans</u>	<u>2012 Carrying Value</u>	<u>2011 Carrying Value</u>
Science and Technology Alliance ⁽¹⁾	\$ 2,149,312	\$ 3,715,534
Montana University System	8,380,993	8,469,476
Montana Facility Finance	6,175,640	8,286,258
Local Government Infrastructure	22,540,729	23,557,398
Value-added Loans	2,688,501	3,178,860
Veterans' Home Loan Mortgages ⁽²⁾	2,646,870	N/A
Commercial Loans	<u>107,215,323</u>	<u>131,294,814</u>
Total Montana Mortgages and Loans	\$ 151,797,368	\$ 178,502,340

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

(2) The Veterans' Home Loan Mortgage program was implemented in January 2012 as legislated by Senate Bill 326, 2011 Legislature.

10. LOAN GUARANTEES

As of June 30, 2012, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total \$220,454,677. Board exposure to bond issues of the Enterprise Fund is \$95,165,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$125,289,677.

As of June 30, 2011, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, 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.

11. POOL RESTRUCTURE

In September 2010, the Board completed an MDEP transition for approximately \$257 million by terminating four active managers and funding three passive managers. In June 2012, the Board restructured the MDEP portfolio by reducing four active manager's portfolio and terminating four active manager's portfolios. This action resulted in funding passive manager's Blackrock Equity Index fund \$867.7 million. A restructure of the MTIP portfolio occurred in October 2012.

12. SUBSEQUENT EVENTS

From July 1 through November 30, 2012, AFF Financing LLC payments total \$4,923,162 representing \$4,874,598 in principal and \$48,564 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$1,240,527 with \$1,010,708 and \$229,819 applied to principal and interest, respectively. On October 31, 2012, the Board received a payment of \$69,944 from the Orion Finance Escrow account.

On October 1, 2012, the Board received a bankruptcy principal payment of \$382,070 related to the Lehman Brothers Holdings, Inc.

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

Refer to Note 6 – Investment Risk Disclosures for additional information.

13. RESTATEMENT

For June 30, 2011, the Foreign Currency Exposure by Country for the Private Equity and Real Estate investments reported the carrying value of \$18,745,187 and \$16,802,465 instead of the fair value of \$9,605,017 and \$15,976,096, respectively. The currency forward contracts as of June 30, 2011 of \$(382,368) were reclassified from the Assets section the Statement of Net Asset Value/Investments Managed to the Liabilities section. This reclassification changed the Total Assets as previously reported of \$14,443,304,519 to \$14,443,686,887 and the Total Liabilities as previously reported of \$827,292,677 to \$827,675,045 as of June 30, 2011. Also, this reclassification changed the reported Assets and Liabilities in Note 2B for the Assets and Liabilities for the Retirement Funds Bond Pool from \$2,235,335,749 to \$2,235,533,119 and from \$312,468,649 to \$312,666,019, respectively, and the Assets and Liabilities for the Montana International Equity Pool from \$1,482,614,675 to \$1,482,799,673 and \$38,654,420 to \$38,839,418, respectively.

14. YEAREND PORTFOLIOS

The June 30, 2012 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 - 200 Issues	1,288,707,835	1,300,922,438	1,355,739,999	70.49%
REAMS ASSET MANAGEMENT - 140 Issues	246,859,848	247,880,656	252,670,016	13.14%
ARTIO GLOBAL MANAGEMENT - 268 Issues	152,766,441	116,624,295	118,557,089	6.16%
NEUBERGER BERMAN - 265 Issues	106,837,595	106,390,501	108,331,397	5.63%
POST ADVISORY GROUP - 144 Issues	56,398,113	56,874,442	56,051,870	2.91%
MONTANA RESIDENTIAL MORTGAGES - 1 Issue	19,604,041	19,604,041	19,408,746	1.01%
SHORT TERM INVESTMENT POOL- 1 Issue	12,740,113	12,740,113	12,740,113	0.66%
RFBP TOTAL - 1,019 Issues	1,883,913,986	1,861,036,486	1,923,499,230	100.00%

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

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 - 276 Issues	1,912,094,346	1,721,066,582	1,835,718,979	89.70%
POST TRADITIONAL HIGH YIELD FUND - 1 Issue	96,000,000	96,000,000	101,715,232	4.97%
AMERICAN CORE REALTY FUND LLC - 1 Issue	605	49,000,000	58,167,971	2.84%
TIAA CREF ASSET MANAGEMENT - 1 Issues	116,584	43,000,000	50,903,038	2.49%
TFIP Total - 279 Issues	2,008,211,535	1,909,066,582	2,046,505,220	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	3,985,946	1,519,997,893	1,726,636,906	59.79%
BLACKROCK MIDCAP EQUITY IND FD	3,574,742	73,330,659	92,760,284	3.21%
DIMENSIONAL FUND ADVISORS INC	52,280	35,190,238	70,779,549	2.45%
ISHARES S+P SMALLCAP 600 INDEX	222,300	13,135,707	16,287,921	0.56%
STATE STREET SPIF ALT INV	54,009	10,513,033	10,808,745	0.37%
WESTERN ASSET US INDX PLUS LLC	124,814	1,894,588	1,575,280	0.05%
Total Commingled Accounts - 6 Issues	8,014,091	1,654,062,118	1,918,848,685	66.45%
T ROWE PRICE - 271 Issues	7,251,674	212,072,372	248,321,845	8.60%
JP MORGAN INVESTMENTS - 249 Issues	11,519,311	221,480,804	243,200,400	8.42%
TIMESQUARE - 77 Issues	6,057,130	90,625,050	108,260,813	3.75%
ARTISAN - 60 Issues	7,263,066	101,752,999	107,480,211	3.72%
INTECH - 362 Issues	2,544,778	74,138,083	83,690,695	2.90%
ANALYTICS INVESTMENTS - 163 Issues	3,786,228	74,831,502	83,042,563	2.88%
VAUGHAN NELSON - 68 Issues	4,553,749	64,005,300	70,061,388	2.43%
ALLIANCE BERNSTEIN - 103 Issues	1,673,580	25,022,747	23,995,479	0.83%
BARROW HANLEY MEWHINNEY - 1 Issues	299,726	299,726	299,726	0.01%
QUANTITATIVE MANAGEMENT - 1 Issues	198,354	198,354	198,354	0.01%
RAINIER INVESTMENTS - 1 Issues	194,691	194,691	194,691	0.01%
COLUMBUS CIRCLE - 1 Issues	174,239	174,239	174,239	0.01%
TRANSITION ACCOUNT - Issue	80,752	80,752	80,752	0.00%
Total Manager Accounts	45,597,278	864,876,619	969,001,156	33.55%
MDEP TOTAL BY MANAGER - 1363 Issues	53,611,369	2,518,938,737	2,887,849,841	100.00%

{This area intentionally left blank}

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

A-31

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	31,189,544	518,278,995	558,368,947	45.21%
BLACKROCK GL EX US ALPHA TILT	4,994,699	100,126,272	97,908,656	7.93%
DFA INTL SMALL CO PORTFOLIO	4,090,653	61,698,379	57,923,641	4.69%
BLACKROCK MSCI EM MKT FR FD B	635,598	25,820,900	24,573,312	1.99%
BLACKROCK ACWI EX US SMALL CAP	2,534,559	20,656,720	20,221,306	1.64%
EAFE STOCK PERFORMANCE INDEX	789,029	17,314,138	17,656,091	1.43%
MONEY MARKET FD FOR EBT	204	204	204	0.00%
Total Commingled Accounts - 7 Issues	44,234,286	743,895,608	776,652,157	62.89%
BATTERYMARCH - 261 Issues	15,449,038	105,835,789	103,667,950	8.39%
MARTIN CURRIE - 66 Issues	10,230,948	93,274,853	92,985,595	7.53%
HANSBERGER - 63 Issues	17,058,706	94,489,016	92,051,604	7.45%
BERNSTEIN - 106 Issues	10,804,042	102,965,146	88,683,463	7.18%
ACADIAN - 406 Issues	29,708,297	80,490,731	80,923,488	6.56%
ARTIO GLOBAL - 1 Issues	35	35	35	0.00%
Total Manager Accounts	83,251,066	477,055,570	458,312,136	37.11%
MTIP TOTAL - 974 Issues	127,485,352	1,220,951,178	1,234,964,293	100.00%

{This area intentionally left blank}

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	161,727,368	161,727,368	160,544,945	15.77%
LEXINGTON	59,771,936	59,771,936	73,749,366	7.25%
PORTFOLIO ADVISORS	47,671,204	47,671,204	58,337,373	5.73%
CARLYLE	36,118,953	36,118,953	52,921,430	5.20%
WELSH CARSON	40,544,572	40,544,572	44,337,726	4.36%
FIRST RESERVE	40,493,541	40,493,541	43,625,198	4.29%
HARBOUR VEST	31,718,794	32,389,367	39,619,882	3.89%
MADISON DEARBORN	38,997,917	38,997,917	39,511,981	3.88%
OAK HILL	31,907,702	31,907,702	36,819,086	3.62%
OAKTREE	9,657,828	9,657,828	32,377,239	3.18%
SIGULER GUFF	26,904,258	26,904,258	31,439,233	3.09%
CENTERBRIDGE	23,415,520	23,415,520	28,542,616	2.80%
CCMP	18,974,916	18,974,916	27,073,714	2.66%
ODYSSEY INVESTMENTS	18,522,136	18,522,136	26,243,453	2.58%
HELLMAN FRIEDMAN	18,832,821	18,832,821	22,328,376	2.19%
NB COINVEST	17,624,481	17,624,481	22,211,816	2.18%
MHR INSTITUTIONAL	17,196,708	17,196,708	20,452,423	2.01%
ARCLIGHT	17,678,492	17,678,492	19,462,509	1.91%
JLL PARTNERS	15,605,908	15,605,908	18,872,941	1.85%
MATLIN PATTERSON	23,327,420	23,327,420	15,345,827	1.51%
HCI EQUITY	7,684,136	7,684,136	14,358,039	1.41%
VERITAS	13,291,876	13,291,876	13,997,196	1.38%
TERRA FIRMA	16,200,759	22,296,997	12,897,267	1.27%
PERFORMANCE EQUITY	10,532,253	10,532,253	12,175,316	1.20%
STATE STREET	59,800	11,873,619	11,967,590	1.18%
QUINTANA ENERGY	8,407,621	8,407,621	11,836,829	1.16%
HIGHWAY 12 VENTURES	7,836,732	7,836,732	10,377,636	1.02%
AFFINITY	5,782,275	5,782,275	10,335,198	1.02%
AXIOM	8,482,208	8,482,208	9,722,290	0.96%
MONTLAKE	8,567,649	8,567,649	9,627,459	0.95%
TRILANTIC CAPITAL PARTNERS	7,523,773	7,523,773	9,399,774	0.92%
BLACK DIAMOND CAPITAL	8,683,534	8,683,534	9,039,759	0.89%
GTCR PARTNERS	8,968,173	8,968,173	8,634,198	0.85%
CIVC	6,589,109	6,589,109	8,501,163	0.84%
NORTHGATE	8,040,000	8,040,000	8,305,191	0.82%
INDUSTRY VENTURES	5,975,426	5,975,426	6,603,061	0.65%
J.C. FLOWERS	18,699,008	18,699,008	5,923,341	0.58%
AMERICAN SECURITIES PARTNERS	5,700,341	5,700,341	5,761,717	0.57%
GRIDIRON CAPITAL	5,402,638	5,402,638	5,350,081	0.53%
EIF	4,563,786	4,563,786	4,576,533	0.45%
KKR	4,684,652	4,684,652	4,561,220	0.45%
TA ASSOCIATES	3,836,543	3,836,543	3,966,893	0.39%
AVENUE CAPITAL	1	1	2,457,599	0.24%
OPUS	1,736,222	1,736,222	1,662,425	0.16%
CARTESIAN CAPITAL	1,089,409	1,089,409	1,089,409	0.11%
SUMMIT PARTNERS	900,000	900,000	900,000	0.09%
MPEP Total	875,930,399	894,511,029	1,017,844,318	100.00%

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

A-33

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>
JP MORGAN	60,445	92,733,975	103,958,041	16.61%
UBS REALTY INVESTORS LLC	7,373	50,000,000	60,445,894	9.66%
MOLPUS WOODLANDS GROUP	41,350,000	41,350,000	40,998,070	6.55%
ANGELO GORDON	42,127,823	42,127,823	39,421,657	6.30%
INVESCO REAL ESTATE	309	45,000,000	36,186,316	5.78%
TA ASSOCIATES REALTY	38,932,004	38,932,004	34,132,336	5.45%
CLARION LION PROPERTIES	36,005	48,702,275	34,034,219	5.44%
DRA ADVISORS	29,491,000	29,491,000	29,865,523	4.77%
CIM FUND	20,212,386	20,212,386	25,372,244	4.05%
ABR CHESAPEAKE	23,618,168	23,618,168	23,887,385	3.82%
ALMANAC REALTY	21,528,019	21,528,019	22,693,373	3.63%
HUDSON REALTY CAPITAL	25,000,000	25,000,000	20,229,005	3.23%
CARLYLE	14,205,762	20,125,236	19,638,483	3.14%
MACQUARIE GBL PROP	17,628,919	17,628,919	19,038,263	3.04%
STRATEGIC PARTNERS	17,319,224	17,319,224	16,140,772	2.58%
LIQUID REALTY	13,455,259	13,455,259	11,914,093	1.90%
AREA PROPERTY PARTNERS	16,235	16,234,908	11,390,189	1.82%
BEACON CAPITAL PARTNERS	20,202,970	20,202,970	10,196,540	1.63%
LANDMARK REAL ESTATE	6,443,085	6,443,085	9,980,706	1.60%
OCNNOR NTH AMER	13,044,548	13,044,548	8,441,505	1.35%
RMS TIMBERLAND	5,519,016	5,519,016	7,002,599	1.12%
GEM REALTY CAPITAL	5,962,500	5,962,500	6,666,826	1.07%
MORGAN STANLEY REAL ESTATE	27,536,302	27,536,302	6,389,937	1.02%
JER REAL ESTATE PARTNERS	6,236,748	6,236,748	3,505,346	0.56%
FUND MANAGER	389,934,100	648,404,365	601,529,322	96.13%
MT COLONIAL DRIVE	8,351,000	8,351,000	8,354,697	1.34%
NORTH PARK AVENUE	7,004,608	7,004,608	7,000,402	1.12%
BOZEMAN PROPERTY	2,205,036	2,205,036	2,205,036	0.35%
NINTH AVENUE	594,514	594,514	594,514	0.09%
CALIFORNIA STREET PROP	222,692	222,692	222,692	0.04%
DIRECT REAL ESTATE	18,377,850	18,377,850	18,377,341	2.93%
SHORT TERM INVESTMENT POOL	5,887,302	5,887,302	5,887,302	0.94%
MTRP TOTAL	414,199,252	672,669,517	625,793,965	100.00%

{This area intentionally left blank}

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	0.4300	07/02/12	23,000,000	22,999,725	0.96%
ANGLESEA FDG PLC & ANG	0.4800	07/03/12	25,000,000	24,999,333	1.04%
BUNGE ASSET FDG. COR	0.3700	07/02/12	4,000,000	3,999,959	0.17%
CAFCO LLC	0.4200	07/12/12	6,000,000	5,999,230	0.25%
CAFCO LLC	0.4800	08/10/12	9,000,000	8,995,200	0.38%
CAFCO LLC	0.4500	07/12/12	11,000,000	10,998,488	0.46%
CAFCO LLC	0.4700	07/23/12	23,000,000	22,993,394	0.96%
CHART A LLC	0.4900	07/27/12	7,000,000	6,997,523	0.29%
CHART A LLC	0.4600	07/17/12	13,000,000	12,997,342	0.54%
CHART A LLC	0.4900	07/18/12	27,000,000	26,993,753	1.13%
CIESCO LLC	0.4100	07/31/12	12,000,000	11,995,900	0.50%
CIESCO LLC	0.5200	08/09/12	15,000,000	14,991,550	0.63%
CIESCO LLC	0.4700	07/30/12	21,000,000	20,992,049	0.88%
CONCORD MIN CPTL CO	0.3800	08/08/12	23,000,000	22,990,774	0.96%
CONCORD MIN CPTL CO	0.3000	07/20/12	24,000,000	23,996,200	1.00%
CRC FUNDING LLC	0.4700	07/24/12	12,000,000	11,996,397	0.50%
CRC FUNDING LLC	0.4700	07/25/12	12,000,000	11,996,240	0.50%
CRC FUNDING LLC	0.5500	08/16/12	12,000,000	11,991,567	0.50%
CRC FUNDING LLC	0.5500	08/17/12	12,000,000	11,991,383	0.50%
CROWN POINT CAP CO.	0.3800	08/06/12	15,000,000	14,994,300	0.63%
CROWN POINT CAP CO.	0.3000	07/19/12	20,000,000	19,997,000	0.83%
GOLDEN FUNDING CORP	0.2500	07/20/12	4,000,000	3,999,472	0.17%
GOLDEN FUNDING CORP	0.3100	07/31/12	10,986,000	10,983,162	0.46%
GOLDEN FUNDING CORP	0.3000	07/30/12	16,433,000	16,429,029	0.69%
GOVCO LLC	0.4600	07/16/12	8,000,000	7,998,467	0.33%
GOVCO LLC	0.4700	07/25/12	9,000,000	8,997,180	0.38%
GOVCO LLC	0.4500	07/17/12	11,000,000	10,997,800	0.46%
GOVCO LLC	0.5500	08/15/12	21,000,000	20,985,563	0.88%
INSTITUTIONAL SECURED	0.5928	08/24/12	45,000,000	44,959,989	1.88%
LEGACY CAPITAL COMPANY	0.3800	08/02/12	13,000,000	12,995,609	0.54%
LEGACY CAPITAL COMPANY	0.2800	07/13/12	15,000,000	14,998,600	0.63%
LEGACY CAPITAL COMPANY	0.3800	08/07/12	20,000,000	19,992,189	0.83%
LEXINGTN PKR CAP CO LL	0.4000	07/10/12	6,000,000	5,999,400	0.25%
LEXINGTN PKR CAP CO LL	0.2800	07/11/12	6,000,000	5,999,533	0.25%
LEXINGTN PKR CAP CO LL	0.3800	08/03/12	6,000,000	5,997,910	0.25%
LEXINGTN PKR CAP CO LL	0.4000	07/05/12	8,000,000	7,999,644	0.33%
LEXINGTN PKR CAP CO LL	0.4000	07/06/12	10,000,000	9,999,444	0.42%
LEXINGTN PKR CAP CO LL	0.4000	07/11/12	12,000,000	11,998,667	0.50%
NIEUW AMSTERDAM REC V	0.2500	08/14/12	32,000,000	31,990,222	1.34%
Asset Backed Commerical Paper	39 Issue(s)		579,419,000	579,229,187	24.18%
AFF FINANCING	-	07/03/12	37,566,658	37,566,658	1.57%
Structured Investment Vehicles	1 Issue(s)		37,566,658	37,566,658	1.57%
ORION FINANCE	1.0000	N/A	21,507,129	21,507,129	0.89%
Other Asset Backed	1 Issue(s)		21,507,129	21,507,129	0.89%
BANK TOKYO MIT UFJ NY	0.3500	07/26/12	10,250,000	10,247,509	0.43%
MITSUBISHI INT'L CO	0.2500	08/01/12	10,000,000	9,997,847	0.42%
RECKITT BENCKISER TREAS	0.9500	02/04/13	23,000,000	22,867,686	0.95%
RECKITT BENCKISER TREAS	0.7500	09/27/12	25,000,000	24,954,167	1.04%
Corporate Commercial Paper	4 Issue(s)		68,250,000	68,067,209	2.84%
CREDIT SUISSE NEW YORK	3.4500	07/02/12	7,000,000	7,000,473	0.29%
WACHOVIA CORP	5.5000	05/01/13	16,000,000	16,609,092	0.69%

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

A-35

Corporate Fixed Rate	2 Issue(s)		23,000,000	23,609,565	0.99%
AUST + NZ BANKING GROUP	1.1376	09/24/13	48,000,000	48,109,775	2.01%
COMMONWEALTH BANK AUST	1.0682	04/03/14	45,000,000	45,000,000	1.88%
GENERAL ELEC CAP CORP	1.3192	01/07/14	17,000,000	17,056,358	0.71%
GENERAL ELEC CAP CORP	1.1659	04/24/14	30,000,000	30,000,000	1.25%
JPMORGAN CHASE + CO	1.2657	01/24/14	48,360,000	48,089,236	2.01%
MET LIFE GLOB FUNDING I	0.8679	12/12/13	45,000,000	45,000,000	1.88%
NATIONAL CITY BANK CLE	0.5669	03/01/13	22,000,000	21,940,112	0.92%
PROCTER + GAMBLE CO/THE	0.5069	11/14/12	20,000,000	20,000,000	0.83%
RABOBANK NEDERLAND	0.6657	07/25/13	33,250,000	33,228,569	1.39%
TOYOTA MOTOR CREDIT CORP	0.6169	11/15/12	25,000,000	25,000,000	1.04%
US BANK NA	0.6859	10/26/12	5,000,000	5,000,000	0.21%
WACHOVIA CORP	0.6559	08/01/13	32,000,000	32,018,524	1.34%
WESTPAC BANKING CORP	1.7159	01/30/14	24,000,000	24,037,460	1.00%
WESTPAC SECURITIES NZ LT	0.6608	02/11/13	25,000,000	25,000,000	1.04%
Corporate Variable Rate	14 Issue(s)		419,610,000	419,480,034	17.51%
ROYAL BANK OF CANADA NY	2.2500	03/15/13	5,000,000	5,064,768	0.21%
SVENSKA HANDLSBNKN A	0.6000	07/26/12	25,000,000	25,000,172	1.04%
Certificates of Deposit Fixed	2 Issue(s)		30,000,000	30,064,940	1.26%
BANK OF MONTREAL-	0.7157	07/19/13	45,000,000	45,000,000	1.88%
BANK OF NOVA SCOTIA	1.0159	01/30/14	8,000,000	8,000,000	0.33%
BANK OF NOVA SCOTIA	0.9659	02/10/14	40,000,000	40,000,000	1.67%
BNP PARIBAS NY BANCH	1.0606	03/28/13	20,000,000	20,000,000	0.83%
CANADIAN IMPERIAL BK	0.7669	06/03/13	20,000,000	20,000,000	0.83%
CANADIAN IMPERIAL BK	0.6682	10/01/12	25,000,000	24,998,856	1.04%
CREDIT AGRICOLE	1.0669	05/24/13	25,000,000	25,000,000	1.04%
CREDIT SUISSE NY	1.7469	02/13/14	43,000,000	43,000,000	1.80%
NATL AUSTRALIA BK LT	1.6659	01/30/14	45,000,000	45,000,000	1.88%
NORDEA BANK FLD PLC	0.8492	10/05/12	25,000,000	25,000,000	1.04%
NORDEA BANK FLD PLC	1.6659	02/03/14	25,000,000	25,000,000	1.04%
ROYAL BK OF CANADA	0.4792	07/09/12	30,000,000	30,000,000	1.25%
SOCIETE GENERALE	1.2059	04/29/13	40,000,000	40,000,000	1.67%
SVENSKA HANDLSBNKN A	1.0176	09/25/13	20,000,000	20,000,000	0.83%
SVENSKA HANDLSBNKN A	0.9179	03/18/13	5,235,000	5,234,037	0.22%
Certificates of Deposit Variable Rate	15 Issue(s)		416,235,000	416,232,894	17.38%
FEDERAL HOME LOAN BANK	0.3000	06/10/13	25,000,000	25,000,000	1.04%
FEDERAL HOME LOAN BANK	0.3000	06/07/13	25,000,000	25,000,000	1.04%
FEDERAL HOME LOAN BANK	0.3000	05/28/13	25,000,000	25,000,000	1.04%
FEDERAL HOME LOAN BANK	0.3000	07/03/13	25,000,000	25,000,000	1.04%
FEDERAL HOME LOAN BANK	0.2500	07/01/13	25,000,000	24,991,596	1.04%
U.S. Government Agency Fixed Rate	5 Issue(s)		125,000,000	124,991,596	5.22%
FANNIE MAE	0.2238	06/20/14	25,000,000	24,990,039	1.04%
FANNIE MAE	0.2353	07/26/12	25,000,000	24,999,845	1.04%
FANNIE MAE	0.2728	09/17/12	25,000,000	25,001,629	1.04%
FANNIE MAE	0.2728	10/18/12	25,000,000	24,998,489	1.04%
FANNIE MAE	0.2653	11/23/12	25,000,000	24,996,993	1.04%
FANNIE MAE	0.2738	12/20/12	25,000,000	24,997,618	1.04%
FANNIE MAE	0.2653	08/23/12	50,000,000	49,997,803	2.09%
FANNIE MAE	0.2308	08/12/13	82,725,000	82,696,078	3.45%
FEDERAL FARM CREDIT BANK	0.2953	04/26/13	20,075,000	20,083,311	0.84%
FEDERAL FARM CREDIT BANK	0.2453	11/27/12	25,000,000	25,000,006	1.04%
FEDERAL FARM CREDIT BANK	0.2608	01/10/13	25,000,000	24,998,663	1.04%
FEDERAL FARM CREDIT BANK	0.3767	04/15/13	25,000,000	25,000,000	1.04%
FREDDIE MAC	0.2088	11/04/13	25,000,000	24,989,811	1.04%
FREDDIE MAC	0.2038	03/21/13	50,000,000	49,981,770	2.09%
FREDDIE MAC	0.1928	06/17/13	50,000,000	49,975,706	2.09%
U.S. Government Agency Variable Rate	15 Issue(s)		502,800,000	502,707,759	20.99%
BLACKROCK MONEY MARKET	0.1469	N/A	1,000,000	1,000,000	0.04%
STATE STR INSTL LIQUID RESVS	0.1936	N/A	23,000,000	23,000,000	0.96%
Money Market Funds (Rated)	2 Issue(s)		24,000,000	24,000,000	1.00%
BGI INSTITUTIONAL MMF	0.2200	N/A	60,000,000	60,000,000	2.50%
FIDELITY INSTL MONEY MARKET	0.2100	N/A	77,000,000	77,000,000	3.21%
STATE STREET BANK + TRUST CO	0.1558	N/A	10,931,122	10,931,122	0.46%
Money Market Funds (Unrated)	3 Issue(s)		147,931,122	147,931,122	6.17%
STIP Total	103 Issue(s)		2,395,318,909	2,395,388,093	100.00%

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

ALL OTHER FUNDS

Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	%
USBANK SWEEP REPO	NA	NA	7,740,691	7,740,691	7,740,691	0.48%
Cash Equivalents			7,740,691	7,740,691	7,740,691	0.48%
AFLAC INC	3.450	08/15/15	4,250,000	4,248,043	4,461,353	0.27%
AFLAC INC	4.000	02/15/22	3,000,000	2,994,810	3,118,764	0.19%
AT+T INC	5.800	02/15/19	5,000,000	4,989,730	6,031,195	0.37%
AT+T INC	2.500	08/15/15	5,000,000	4,990,531	5,205,724	0.32%
ALLSTATE LF GLB FN TRST	5.375	04/30/13	5,000,000	4,999,170	5,183,898	0.32%
ALLY MASTER OWNER TRUST	1.540	09/15/16	8,418,000	8,475,404	8,477,661	0.52%
ALTRIA GROUP INC	9.700	11/10/18	5,000,000	5,009,197	6,897,776	0.42%
AMERICAN ELECTRIC POWER	5.250	06/01/15	5,000,000	5,212,771	5,503,308	0.34%
AMERICAN EXPRESS CO	5.500	09/12/16	5,000,000	4,989,313	5,716,193	0.35%
AMERICAN EXPRESS CO	7.000	03/19/18	3,000,000	2,993,434	3,673,609	0.23%
AMER EXPRESS CREDIT CO	7.300	08/20/13	5,000,000	5,000,750	5,348,783	0.33%
AMERICAN HONDA FINANCE	3.800	09/20/21	5,000,000	4,987,830	5,399,225	0.33%
AMERICAN INTL GROUP	5.850	01/16/18	3,000,000	3,258,978	3,307,814	0.20%
ANHEUSER BUSCH INBEV WOR	3.625	04/15/15	3,000,000	2,996,636	3,207,086	0.20%
ARIA CDO LTD	0.025	10/10/12	10,000,000	10,000,000	9,500,000	0.58%
AUST + NZ BANKING GROUP	2.125	01/10/14	5,000,000	4,998,825	5,071,201	0.31%
BANC OF AMERICA COMMERCIAL MOR	5.381	01/15/49	953,050	945,703	961,193	0.06%
BANC OF AMERICA COMMERCIAL MOR	5.434	02/10/51	7,543,242	7,546,933	7,605,142	0.47%
BANK OF AMERICA CORP	5.375	06/15/14	5,000,000	4,991,053	5,222,590	0.32%
BANK OF AMERICA CORP	4.500	04/01/15	5,000,000	5,005,358	5,149,062	0.32%
BANK OF AMERICA CORP	5.875	01/05/21	2,000,000	1,987,519	2,161,650	0.13%
BANK OF AMERICA CORP	3.750	07/12/16	2,000,000	1,996,874	2,008,905	0.12%
BANK OF NOVA SCOTIA	3.400	01/22/15	5,000,000	4,996,723	5,256,317	0.32%
BARCLAYSBANK PLC	2.375	01/13/14	3,000,000	2,998,633	3,007,283	0.19%
BAXTER INTERNATIONAL INC	1.850	01/15/17	3,000,000	2,998,416	3,048,544	0.19%
BEMIS COMPANY INC	4.500	10/15/21	2,500,000	2,485,021	2,700,072	0.17%
BERKSHIRE HATHAWAY INC	2.125	02/11/13	10,000,000	9,999,281	10,095,220	0.62%
BERKSHIRE HATHAWAY INC	3.400	01/31/22	4,000,000	3,989,381	4,145,420	0.26%
BLACK HILLS CORP	5.875	07/15/20	5,000,000	5,124,746	5,642,109	0.35%
BLACKROCK INC	2.250	12/10/12	5,000,000	5,001,110	5,040,647	0.31%
BOEING CAPITAL CORP	2.900	08/15/18	2,000,000	2,120,596	2,145,511	0.13%
BOEING CO	1.875	11/20/12	1,000,000	999,224	1,005,695	0.06%
BUNGE LIMITED FINANCE CO	4.100	03/15/16	5,000,000	4,999,667	5,209,192	0.32%
BUNGE LIMITED FINANCE CO	3.200	06/15/17	5,000,000	4,990,484	5,020,471	0.31%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000,000	4,997,300	5,601,939	0.34%
BURLINGTON NORTH SANTA FE	3.050	03/15/22	5,000,000	4,978,234	5,052,821	0.31%
BURLINGTON NO SF 99 1 TR	7.160	01/02/20	2,798,614	2,798,614	3,354,307	0.21%
BURLINGTON NORTH SANTA FE	7.000	02/01/14	3,000,000	2,999,843	3,283,878	0.20%
CNA FINANCIAL CORP	5.875	08/15/20	5,000,000	4,995,970	5,487,659	0.34%
CSX CORP	5.750	03/15/13	5,000,000	4,998,349	5,173,718	0.32%
CVSCAREMARK CORP	5.750	06/01/17	5,000,000	4,903,192	5,866,072	0.36%
CANTOR FITZGERALD LP	6.375	06/26/15	5,000,000	4,989,917	5,079,739	0.31%
CAPITAL ONE FINANCIAL CO	6.750	09/15/17	5,000,000	4,985,932	5,915,659	0.36%
CATERPILLAR INC	7.000	12/15/13	2,000,000	1,999,861	2,175,927	0.13%
CHURCH + DWIGHT CO INC	3.350	12/15/15	3,000,000	2,997,263	3,144,364	0.19%
CINTAS CORPORATION NO. 2	2.850	06/01/16	5,000,000	4,999,805	5,134,542	0.32%
CITIGROUP INC	5.500	08/27/12	5,000,000	5,000,337	5,035,686	0.31%
CITIGROUP INC	6.375	08/12/14	5,000,000	4,985,689	5,352,209	0.33%
CITIGROUP INC	2.650	03/02/15	5,000,000	4,992,231	4,986,563	0.31%

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

A-37

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>
COCA COLA CO/THE	0.750	11/15/13	1,000,000	999,785	1,004,745	0.06%
COMMONWEALTH BANK AUST	2.250	03/16/17	2,500,000	2,498,329	2,535,180	0.16%
CONOCOPHILLIPS	5.750	02/01/19	5,000,000	4,997,351	6,112,698	0.38%
CONOCOPHILLIPSCANADA	5.625	10/15/16	6,000,000	5,999,794	7,084,474	0.44%
RABOBANK NEDERLAND	2.125	10/13/15	9,000,000	8,985,531	9,034,239	0.56%
CREDIT SUISSE NEW YORK	3.450	07/02/12	5,000,000	4,999,994	5,000,000	0.31%
DANAHER CORP	2.300	06/23/16	4,000,000	3,994,910	4,149,836	0.26%
DANSKE BANK A/S	3.750	04/01/15	5,000,000	4,991,770	4,982,659	0.31%
JOHN DEERE CAPITAL CORP	2.250	06/07/16	5,000,000	4,992,253	5,165,962	0.32%
DETROIT EDISON COMPANY	5.200	10/15/12	5,000,000	4,997,989	5,063,541	0.31%
DOMINION RESOURCESINC	1.800	03/15/14	1,000,000	999,684	1,017,538	0.06%
E.I. DU PONT DE NEMOURS	5.875	01/15/14	1,190,000	1,188,311	1,284,851	0.08%
E.I. DU PONT DE NEMOURS	2.750	04/01/16	5,000,000	4,993,389	5,268,224	0.32%
ENTERPRISE FLEET FINANCINGLLC	1.500	11/20/17	5,000,000	4,998,571	5,012,407	0.31%
EXELON CORP	4.900	06/15/15	5,000,000	5,160,029	5,398,479	0.33%
NEXTERA ENERGY CAPITAL	2.550	11/15/13	10,000,000	9,997,405	10,180,000	0.63%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000,000	4,992,109	5,465,071	0.34%
FIRST HORIZON NATIONAL	5.375	12/15/15	3,000,000	2,993,118	3,161,116	0.19%
FIRSTENERGY SOLUTIONSCO	4.800	02/15/15	5,000,000	5,098,713	5,348,616	0.33%
FLUOR CORP (NEW)	3.375	09/15/21	4,000,000	4,083,431	4,165,188	0.26%
BEAM INC	5.375	01/15/16	544,000	542,715	609,788	0.04%
FRANKLIN RESOURCESINC	4.625	05/20/20	5,000,000	4,995,626	5,667,588	0.35%
GATX CORP	8.750	05/15/14	5,000,000	4,999,535	5,556,869	0.34%
GATX CORP	4.850	06/01/21	5,000,000	4,992,654	5,277,098	0.32%
GENERAL ELECTRIC CO	5.250	12/06/17	5,000,000	5,006,582	5,823,824	0.36%
GENERAL ELEC CAP CORP	3.750	11/14/14	1,600,000	1,663,892	1,688,738	0.10%
GENERAL ELEC CAP CORP	2.100	01/07/14	300,000	299,995	304,441	0.02%
GENERAL ELEC CAP CORP	4.650	10/17/21	5,000,000	4,990,056	5,531,571	0.34%
GENERAL ELEC CAP CORP	2.900	01/09/17	7,000,000	6,990,943	7,231,185	0.45%
GENERAL ELEC CAP CORP	2.300	04/27/17	5,000,000	4,993,683	5,038,690	0.31%
GENERAL MILLSINC	1.550	05/16/14	5,000,000	4,999,813	5,068,433	0.31%
GLAXOSMITHKLINE CAP INC	4.375	04/15/14	250,000	261,171	266,474	0.02%
GOLDMAN SACHSGROUP INC	5.350	01/15/16	5,000,000	4,979,697	5,240,776	0.32%
GOLDMAN SACHSGROUP INC	5.750	01/24/22	5,000,000	4,993,544	5,258,382	0.32%
GOLDMAN SACHSGROUP INC	3.625	02/07/16	2,500,000	2,446,097	2,499,517	0.15%
GOLDMAN SACHSGROUP INC	5.450	11/01/12	5,000,000	5,032,880	5,070,400	0.31%
HARTFORD FINL SVCSGRP	5.375	03/15/17	5,000,000	4,993,685	5,296,316	0.33%
HARTFORD FINL SVCSGRP	6.300	03/15/18	5,000,000	5,003,016	5,453,294	0.34%
HEWLETT PACKARD CO	2.200	12/01/15	5,000,000	4,996,957	5,048,649	0.31%
JPMORGAN CHASE + CO	4.750	05/01/13	5,000,000	4,997,366	5,137,745	0.32%
JPMORGAN CHASE + CO	4.950	03/25/20	5,000,000	5,012,872	5,447,905	0.34%
JPMORGAN CHASE + CO	3.150	07/05/16	3,000,000	2,994,245	3,082,072	0.19%
JPMORGAN CHASE + CO	4.500	01/24/22	5,000,000	4,974,517	5,377,550	0.33%
JEFFERIESGROUP INC	5.125	04/13/18	5,000,000	4,985,628	4,850,000	0.30%
JERSEY CENTRAL PWR + LT	5.650	06/01/17	3,000,000	2,994,853	3,445,064	0.21%
KCT INTERMODAL TRANS	6.884	08/01/18	2,133,867	2,133,867	2,490,950	0.15%
KEY BANK NA	5.500	09/17/12	5,000,000	4,999,970	5,051,528	0.31%
LIBERTY MUTUAL GROUP INC	4.950	05/01/22	5,000,000	5,007,959	4,947,692	0.30%
ELI LILLY + CO	4.200	03/06/14	2,000,000	1,999,698	2,112,825	0.13%
LINCOLN NATIONAL CORP	4.300	06/15/15	3,000,000	2,997,638	3,170,087	0.20%
LINCOLN NATIONAL CORP	4.850	06/24/21	5,000,000	5,015,146	5,198,814	0.32%
LLOYDSTSB BANK PLC	4.875	01/21/16	5,000,000	4,997,190	5,256,922	0.32%

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

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>
MMAF EQUIPMENT FINANCE LLC	1.660	10/10/18	3,000,000	2,999,980	2,999,989	0.18%
MARATHON OIL CORP	5.900	03/15/18	4,546,000	4,537,488	5,341,781	0.33%
MASSMUTUAL GLOBAL FUNDIN	3.625	07/16/12	2,000,000	1,999,979	2,002,130	0.12%
MCKESSON CORP	5.250	03/01/13	3,000,000	2,998,601	3,084,735	0.19%
MERCK + CO INC	5.000	06/30/19	2,000,000	1,991,183	2,402,810	0.15%
MERRILL LYNCH + CO	6.400	08/28/17	5,000,000	4,996,235	5,377,863	0.33%
METLIFE INC	5.000	11/24/13	5,000,000	4,993,279	5,276,561	0.32%
METLIFE INC	4.750	02/08/21	2,000,000	1,999,591	2,218,572	0.14%
MORGAN STANLEY	4.000	07/24/15	5,000,000	5,096,062	4,942,528	0.30%
MORGAN STANLEY	2.875	01/24/14	2,000,000	1,998,485	1,971,754	0.12%
MORGAN STANLEY	5.625	09/23/19	5,000,000	4,985,000	4,974,283	0.31%
MORGAN STANLEY	3.450	11/02/15	5,000,000	4,405,666	4,845,708	0.30%
NATIONAL CITY BANK	5.250	12/15/16	5,000,000	4,997,929	5,569,588	0.34%
NIAGARA MOHAWK POWER	4.881	08/15/19	8,000,000	9,078,033	9,386,591	0.58%
NOBLE HOLDING INTL LTD	4.625	03/01/21	5,000,000	4,975,131	5,297,700	0.33%
NORFOLK SOUTHERN CORP	5.750	01/15/16	2,000,000	1,995,518	2,293,372	0.14%
NORFOLK SOUTHERN CORP	3.000	04/01/22	5,000,000	4,948,415	5,036,548	0.31%
NORTHERN TRUST CORP	5.500	08/15/13	150,000	156,593	158,202	0.01%
NORTHWESTERN CORP	6.340	04/01/19	5,000,000	4,997,766	5,909,023	0.36%
NOVARTIS SECS INVEST LTD	5.125	02/10/19	5,000,000	4,994,115	5,941,785	0.37%
PNC FUNDING CORP	3.000	05/19/14	3,000,000	2,997,475	3,105,204	0.19%
PNC FUNDING CORP	2.700	09/19/16	3,000,000	2,996,938	3,111,599	0.19%
PP+L MONTANA LLC	8.903	07/02/20	2,211,627	2,211,627	2,427,596	0.15%
PPL ENERGY SUPPLY LLC	6.500	05/01/18	3,000,000	2,994,145	3,389,900	0.21%
PSEG POWER LLC	4.150	09/15/21	5,000,000	4,981,747	5,185,135	0.32%
PFIZER INC	4.500	02/15/14	1,900,000	1,990,198	2,015,838	0.12%
PHILLIPS66	4.300	04/01/22	5,000,000	4,988,508	5,280,602	0.33%
PRINCIPAL LIFE GLOBAL	5.125	10/15/13	5,000,000	4,999,052	5,230,650	0.32%
PROTECTIVE LIFE SEC D TR	5.450	09/28/12	7,000,000	6,999,218	7,079,329	0.44%
PRUDENTIAL FINANCIAL INC	5.500	03/15/16	5,000,000	4,962,015	5,518,187	0.34%
QUESTAR CORP	2.750	02/01/16	5,025,000	5,013,342	5,184,595	0.32%
TRAVELERS COS INC	6.250	06/20/16	5,000,000	4,993,014	5,852,858	0.36%
SANOFI	1.200	09/30/14	2,000,000	1,998,157	2,021,678	0.12%
MERCK + CO INC	6.000	09/15/17	5,000,000	4,987,263	6,086,114	0.37%
SEARIVER MARITIME FINANC	0.000	09/01/12	1,450,000	1,443,468	1,445,260	0.09%
SOUTHERN CAL EDISON	4.650	04/01/15	500,000	533,230	548,597	0.03%
STAT OIL ASA	3.125	08/17/17	7,000,000	6,988,822	7,555,730	0.47%
STAT OIL ASA	2.900	10/15/14	2,000,000	1,998,608	2,095,857	0.13%
SUNTRUST BANKS INC	3.600	04/15/16	2,000,000	1,999,416	2,073,131	0.13%
TIME WARNER CABLE INC	4.000	09/01/21	5,000,000	5,000,000	5,250,009	0.32%
TORONTO DOMINION BANK	1.625	09/14/16	2,000,000	1,998,873	2,035,586	0.13%
TOYOTA MOTOR CREDIT CORP	1.250	11/17/14	3,000,000	2,994,767	3,028,689	0.19%
TRANSALTA CORP	6.750	07/15/12	5,000,000	5,009,143	5,007,353	0.31%
TRANSALTA CORP	4.750	01/15/15	5,000,000	5,181,436	5,201,828	0.32%
TRANSCANADA PIPELINES	7.125	01/15/19	5,000,000	5,037,185	6,390,011	0.39%
UNION BANK NA	5.950	05/11/16	5,000,000	5,001,649	5,595,749	0.34%
UNION PACIFIC CORP	4.875	01/15/15	7,000,000	6,905,558	7,651,621	0.47%
UNITED PARCEL SERVICE	5.500	01/15/18	5,000,000	4,994,515	5,976,904	0.37%
USBANCORP	3.150	03/04/15	2,000,000	1,998,140	2,104,821	0.13%
VERIZON COMMUNICATIONS	5.550	02/15/16	5,000,000	4,985,480	5,734,114	0.35%
VERIZON COMMUNICATIONS	1.950	03/28/14	5,000,000	4,996,147	5,106,860	0.31%
WACHOVIA CORP	5.625	10/15/16	5,000,000	4,991,765	5,581,883	0.34%
WAL MART STORES INC	4.500	07/01/15	5,000,000	5,409,116	5,554,515	0.34%
WAL MART STORES INC	4.250	04/15/13	1,000,000	1,010,225	1,029,462	0.06%
WAL MART STORES INC	3.625	07/08/20	8,000,000	8,750,682	8,826,975	0.54%

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

A-39

ALL OTHER FUNDS

Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	%
WELLPOINT INC	5.875	06/15/17	5,000,000	4,961,384	5,889,037	0.36%
WELLSFARGO + COMPANY	4.625	04/15/14	5,000,000	4,961,511	5,237,237	0.32%
WEST PAC BANKING CORP	3.000	12/09/15	10,000,000	9,992,709	10,413,891	0.64%
WILMINGTON TRUST CORP	8.500	04/02/18	2,000,000	2,000,000	2,389,509	0.15%
ZIONS Bancorp	5.650	05/15/14	3,000,000	2,999,272	3,101,250	0.19%
Corporate Bonds (Rated)			687,263,400	689,601,486	733,456,388	45.15%
LEHMAN BROTHERS HOLDINGS	1.000	05/25/10	5,000,000	699,666	1,125,000	0.07%
Corporate Bonds (Unrated)			5,000,000	699,666	1,125,000	0.07%
BLACKROCK EQUITY INDEX FD B	NA	NA	598,515	86,062,697	127,308,260	7.84%
BLACKROCK ACWI EX USSUPERFD B	NA	NA	734,727	14,000,530	14,531,437	0.89%
Equity Index Funds			1,333,242	100,063,227	141,839,697	8.73%
PERMANENT COAL TRUST LOANS	NA	NA	149,150,498	149,150,498	149,150,498	9.18%
MONTANA RESIDENTIAL MORTGAGES	0.000	12/31/99	2,646,870	2,646,870	2,646,870	0.16%
MT Mortgages and Loans			151,797,368	151,797,368	151,797,368	9.34%
FED HM LN PC POOL G12310	5.500	08/01/21	1,370,238	1,371,138	1,489,313	0.09%
FED HM LN PC POOL G13081	5.000	04/01/23	2,339,298	2,339,298	2,518,325	0.16%
FED HM LN PC POOL G18244	4.500	02/01/23	2,378,913	2,345,712	2,537,111	0.16%
FED HM LN PC POOL J08160	5.000	12/01/22	2,412,221	2,409,996	2,597,634	0.16%
FREDDIE MAC	5.050	01/26/15	10,000,000	9,991,821	11,139,062	0.69%
FED HM LN PC POOL E00659	6.000	04/01/14	99,737	99,693	102,879	0.01%
FEDERAL FARM CREDIT BANK	3.875	01/12/21	5,000,000	5,020,016	5,824,712	0.36%
FEDERAL FARM CREDIT BANK	2.260	09/29/20	5,000,000	4,932,303	5,186,245	0.32%
FEDERAL FARM CREDIT BANK	1.875	03/29/19	5,000,000	4,995,504	5,154,285	0.32%
FEDERAL FARM CREDIT BANK	1.850	09/19/18	5,000,000	4,995,559	5,164,440	0.32%
FEDERAL FARM CREDIT BANK	4.450	09/23/13	7,000,000	6,958,966	7,358,300	0.45%
FEDERAL FARM CREDIT BANK	5.500	08/16/21	4,500,000	5,591,839	5,803,062	0.36%
FEDERAL FARM CREDIT BANK	5.100	04/12/17	20,000,000	19,865,295	23,843,622	1.47%
FEDERAL FARM CREDIT BANK	3.400	02/07/13	19,000,000	19,000,000	19,355,032	1.19%
FEDERAL HOME LOAN BANK	1.000	12/27/13	2,000,000	1,999,714	2,019,683	0.12%
FEDERAL HOME LOAN BANK	2.780	11/04/21	5,000,000	4,959,638	5,350,053	0.33%
FEDERAL HOME LOAN BANK	2.625	12/10/21	5,000,000	4,993,360	5,275,511	0.32%
FEDERAL HOME LOAN BANK	0.375	01/29/14	5,000,000	5,004,744	5,002,909	0.31%
FEDERAL HOME LOAN BANK	4.750	09/11/15	10,000,000	9,901,403	11,288,917	0.69%
FEDERAL HOME LOAN BANK	5.375	06/14/13	10,000,000	10,440,449	10,485,632	0.65%
FEDERAL HOME LOAN BANK	4.750	12/16/16	15,000,000	14,933,410	17,587,421	1.08%
FEDERAL HOME LOAN BANK	5.125	03/10/17	10,000,000	10,045,143	11,831,368	0.73%
FEDERAL HOME LOAN BANK	4.875	10/30/17	4,000,000	4,155,979	4,740,028	0.29%
FEDERAL HOME LOAN BANK	2.500	02/19/13	5,000,000	5,000,000	5,069,714	0.31%
FEDERAL HOME LOAN BANK	3.250	09/12/14	10,000,000	10,070,591	10,600,471	0.65%
FEDERAL HOME LOAN BANK	1.625	09/26/12	1,500,000	1,499,956	1,505,216	0.09%
FEDERAL HOME LOAN BANK	2.375	03/14/14	3,500,000	3,507,255	3,617,073	0.22%
FEDERAL HOME LOAN BANK	1.875	06/21/13	10,000,000	10,071,829	10,155,914	0.63%
FREDDIE MAC	1.100	12/27/12	10,000,000	10,021,295	10,045,687	0.62%
FREDDIE MAC	1.150	10/19/15	4,500,000	4,492,577	4,509,225	0.28%
FREDDIE MAC	0.625	12/23/13	10,000,000	10,017,234	10,039,321	0.62%
FREDDIE MAC	0.550	01/09/14	4,150,000	4,150,000	4,152,101	0.26%
FREDDIE MAC	0.625	08/21/15	3,000,000	2,998,654	2,998,475	0.18%
FANNIEMAE STRIPS	0.000	11/15/12	271,000	268,378	270,573	0.02%
FANNIEMAE STRIPS	0.000	11/15/13	1,000,000	966,290	991,684	0.06%
FANNIE MAE	0.000	06/01/17	18,900,000	14,539,279	17,756,423	1.09%
FANNIE MAE	4.375	07/17/13	20,000,000	19,918,074	20,852,678	1.28%
FANNIE MAE	4.125	04/15/14	10,000,000	9,884,393	10,669,841	0.66%
FANNIE MAE	4.625	10/15/14	10,000,000	10,034,545	10,953,292	0.67%

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

ALL OTHER FUNDS

Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	%
FANNIEMAE STRIPS	0.000	01/15/13	1,000,000	988,899	997,326	0.06%
FANNIEMAE STRIPS	0.000	07/15/14	1,000,000	948,688	986,741	0.06%
FANNIE MAE	1.250	02/27/14	10,000,000	9,997,570	10,148,238	0.62%
FANNIE MAE	1.250	01/30/17	10,000,000	10,016,886	10,171,644	0.63%
FANNIE MAE	1.125	04/27/17	15,000,000	14,840,543	15,143,648	0.93%
FANNIE MAE	1.125	09/28/16	2,000,000	1,997,173	2,004,203	0.12%
FANNIE MAE	1.000	08/24/16	800,000	800,000	800,400	0.05%
FNMA POOL 254140	5.500	01/01/17	1,198,293	1,196,563	1,299,875	0.08%
FNMA POOL 254233	5.000	03/01/17	304,873	301,396	328,546	0.02%
FREDDIE MAC	5.000	02/16/17	10,000,000	9,945,623	11,848,372	0.73%
FREDDIE MAC	2.375	01/13/22	20,000,000	19,738,293	20,548,576	1.26%
FREDDIE MAC	1.250	05/12/17	5,000,000	5,026,616	5,070,568	0.31%
FNMA POOL 572220	6.000	03/01/16	51,063	51,021	54,888	0.00%
FNMA POOL 592327	5.500	06/01/16	91,815	91,182	99,598	0.01%
FANNIE MAE	1.750	02/22/13	2,500,000	2,500,274	2,524,801	0.16%
FANNIE MAE	3.875	07/12/13	10,000,000	9,967,925	10,369,910	0.64%
FNMA POOL 844915	4.500	11/01/20	1,632,993	1,626,548	1,748,912	0.11%
FNMA POOL 888932	4.500	11/01/22	1,208,215	1,208,215	1,293,982	0.08%
FNMA POOL 962078	4.500	03/01/23	3,050,969	3,038,074	3,266,012	0.20%
TENN VALLEY AUTHORITY	4.375	06/15/15	1,000,000	1,059,535	1,111,914	0.07%
U.S. Government Agency			372,759,627	369,132,354	395,661,382	24.36%
ENSCO OFFSHORE CO	6.360	12/01/15	1,166,869	1,166,869	1,271,525	0.08%
GLOBAL INDSLTD	7.710	02/15/25	2,600,000	2,600,000	2,953,158	0.18%
USTREASURY N/B	4.000	02/15/15	20,000,000	19,623,371	21,875,200	1.35%
USTREASURY N/B	4.250	11/15/17	15,000,000	15,098,138	17,693,100	1.09%
USTREASURY N/B	3.875	05/15/18	15,000,000	15,026,963	17,559,000	1.08%
USTREASURY N/B	4.000	08/15/18	10,000,000	10,046,593	11,833,500	0.73%
USTREASURY N/B	2.750	02/15/19	10,000,000	9,928,910	11,099,299	0.68%
USTREASURY N/B	2.625	04/30/16	10,000,000	9,901,570	10,781,600	0.66%
USTREASURY N/B	2.625	02/29/16	5,000,000	5,005,146	5,381,100	0.33%
USTREASURY N/B	3.250	05/31/16	5,000,000	4,936,374	5,517,150	0.34%
USTREASURY N/B	2.625	07/31/14	5,000,000	4,991,221	5,235,850	0.32%
USTREASURY N/B	3.625	08/15/19	10,000,000	9,954,269	11,727,901	0.72%
USTREASURY N/B	3.625	02/15/20	5,000,000	4,918,401	5,882,000	0.36%
USTREASURY N/B	2.625	08/15/20	5,000,000	4,939,236	5,501,950	0.34%
USTREASURY N/B	2.625	11/15/20	25,000,000	23,950,398	27,476,999	1.69%
USTREASURY N/B	0.375	10/31/12	4,000,000	3,998,179	4,002,800	0.25%
USTREASURY N/B	0.500	11/15/13	3,000,000	2,987,933	3,008,700	0.19%
USTREASURY N/B	2.125	08/15/21	10,000,000	9,910,585	10,511,700	0.65%
USTREASURY N/B	0.125	09/30/13	3,500,000	3,493,871	3,493,455	0.22%
USTREASURY N/B	0.875	12/31/16	2,500,000	2,520,308	2,522,325	0.16%
STRIPS	0.000	08/15/17	1,590,000	1,393,644	1,522,584	0.09%
STRIPS	0.000	11/15/17	6,300,000	4,995,416	6,013,035	0.37%
U.S. Government Direct Obligations			174,656,868	171,387,393	192,863,930	11.87%
AOF Total			1,400,551,196	1,490,422,185	1,624,484,456	100.00%

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

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' (board) Enterprise Fund as of June 30, 2012, and 2011, 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, changes in financial position, and cash flows 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, 2012 or June 30, 2011, or the changes in its financial position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments' Enterprise Fund as of June 30, 2012, and 2011, 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

November 30, 2012

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATEMENT OF NET ASSETS AS OF JUNE 30, 2012 AND 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents (Note 1)	\$ 15,078,254	\$ 22,407,841
Interest receivable	242,759	351,860
Notes/loans receivable (Note 1)	11,577,825	7,428,889
Interfund notes/loans and interest receivable (Note 1)	2,938,031	2,898,388
Component Unit notes/loans and interest receivable (Note 1)	2,198,607	1,764,416
Short-term investments at fair value (Notes 1 and 2)	4,086,344	375,000
Short-term deposits at fair value (Notes 1 and 2)	685,270	608,473
Prepaid expense	32	0
Security lending cash collateral (Note 3)	1,008	4,736
Total current assets	\$ 36,808,130	\$ 35,839,603
Noncurrent assets:		
Restricted deposits at fair value (Notes 1 and 2)	629,539	1,294,427
Long-term investments at fair value (Notes 1 and 2)	7,908	6,043
Notes/loans receivable (Note 1)	34,077,263	36,321,069
Interfund notes/loans and interest receivable (Note 1)	15,904,340	17,979,639
Component Unit notes/loans receivable (Note 1)	13,809,830	9,949,466
Capitalized cost of issue (Note 1)	1,293,489	1,394,247
Equipment	1,240	4,230
Accumulated depreciation	(893)	(3,600)
Total noncurrent assets	65,722,716	66,945,521
Total assets	\$ 102,530,846	\$ 102,785,124
Liabilities		
Current liabilities:		
Accrued expenses	18,213	8,677
Accrued interest payable	76,265	163,436
Security lending obligations (Note 3)	1,008	4,736
Arbitrage rebate tax payable	0	11,034
Compensated absences	31,497	20,689
Current bonds/notes payable (Note 4)	95,095,000	95,590,000
Total current liabilities	\$ 95,221,983	\$ 95,798,572
Noncurrent liabilities		
Bonds/notes payable (Note 4)	70,000	135,000
Compensated absences	91,971	3,673
Arbitrage rebate tax payable	9,365	0
OPEB implicit rate subsidy (Note 9)	57,035	48,704
Total noncurrent liabilities	228,371	187,377
Total liabilities	\$ 95,450,354	\$ 95,985,949
Net Assets		
Invested in capital assets, net of related debt	\$ 347	\$ 630
Restricted (Note 1)	3,194,699	2,973,502
Unrestricted	3,885,446	3,825,043
Total net assets (Note 7)	\$ 7,080,492	\$ 6,799,175
Total liabilities and net assets	\$ 102,530,846	\$ 102,785,124

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, 2012 AND 2011

B-3

Operating revenue	<u>2012</u>	<u>2011</u>
Reimbursements	\$ 17,419	\$ 17,956
Investment income	67,797	90,953
Security lending income	184	233
Financing income	<u>1,345,892</u>	<u>1,549,993</u>
Total operating revenue	<u>1,431,292</u>	<u>1,659,135</u>
Operating expenses		
Personal services	275,326	167,630
Contracted services	31,420	29,997
Supplies and materials	8,955	4,723
Communications	8,948	8,872
Travel	3,833	1,238
Rent	44,468	44,032
Repair and maintenance	266	291
Indirect and other costs	27,668	23,917
OPEB (Note 9)	8,331	8,333
Depreciation expense	223	223
Loss on equipment sale	60	0
Arbitrage rebate tax expense (Note 8)	(1,669)	(1,084)
Security lending expense	36	49
Debt service		
Interest expense	384,079	488,926
Trustee fee expense	64,628	64,962
Bond issuance cost amortization expense	100,758	100,758
Other debt service expense	<u>192,645</u>	<u>182,348</u>
Total operating expenses	<u>1,149,975</u>	<u>1,125,215</u>
Operating income (loss)	<u>281,317</u>	<u>533,920</u>
Change in net assets	281,317	533,920
Beginning net assets	<u>6,799,175</u>	<u>6,265,255</u>
Ending net assets (Note 7)	\$ <u>7,080,492</u>	\$ <u>6,799,175</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts for sales and services	\$ 17,419	\$ 17,956
Payments to suppliers for goods and services	(124,605)	(112,736)
Payments to employees	(167,670)	(166,620)
Net cash (used for) operating activities	<u>(274,856)</u>	<u>(261,400)</u>
Cash flows from non-capital financing activities:		
Payment of principal and interest on bonds and notes	(1,288,523)	(1,472,463)
Payment of bond issue costs	<u>0</u>	<u>600</u>
Net cash (used for) provided by non-capital financing activities	<u>(1,288,523)</u>	<u>(1,471,863)</u>
Cash flows from investing activities:		
Collections for principal and interest on loans	23,960,532	24,160,730
Cash payments for loans	(26,676,966)	(18,238,587)
Purchase of deposits/investments	(6,158,494)	(1,504,857)
Proceeds from security lending	184	233
Security lending costs	(36)	(49)
Proceeds from sales or maturities of deposits/investments	3,032,470	2,757,336
Interest on deposits/investments	<u>76,102</u>	<u>125,170</u>
Net cash (used for) provided by investing activities	<u>(5,766,208)</u>	<u>7,299,976</u>
Net (decrease) increase in cash and cash equivalents	<u>(7,329,587)</u>	<u>5,566,713</u>
Cash and cash equivalents, July 1	<u>22,407,841</u>	<u>16,841,128</u>
Cash and cash equivalents, June 30	<u>15,078,254</u>	<u>22,407,841</u>
Reconciliation of net income to net cash (used for) operating activities:		
Net operating income	281,317	533,920
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	223	223
Loss on equipment sale	60	0
Interest on investments	(67,797)	(90,953)
Financing income	(1,345,892)	(1,549,993)
Interest expense	742,110	836,994
Security lending income	(184)	(233)
Security lending expense	36	49
Arbitrage rebate tax expense (Note 8)	(1,669)	(1,084)
Change in assets and liabilities:		
(Increase) decrease in other assets	(33)	0
Increase (decrease) in other payables	9,536	2,421
Increase (decrease) in compensated absences payable	99,106	(1,077)
Increase (decrease) in OPEB payables (Note 9)	<u>8,331</u>	<u>8,333</u>
Total adjustments	<u>(556,173)</u>	<u>(795,320)</u>
Net cash (used for) operating activities	\$ <u>(274,856)</u>	\$ <u>(261,400)</u>
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	\$ <u>813</u>	\$ <u>15,902</u>
Total noncash transactions	\$ <u>813</u>	\$ <u>15,902</u>

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

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

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 Montana Trust Funds Investment Pool currently funds the Conservation Reserve Enhancement Program.

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 (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not 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 \$80,357,576 as of June 30, 2012 and \$76,162,527 as of June 30, 2011, 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 \$148,319 and \$179,339 as of June 30, 2012 and 2011, respectively.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of \$1,293,489 and \$1,394,247 as of June 30, 2012 and June 30, 2011, 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, 2012</u>	<u>June 30, 2011</u>
Cash in treasury	\$	4,564	\$ 9,420
Cash with fiscal agent		53,144	21,669
Short Term Investment Pool (STIP)		479,776	349,864
First American Treasury Obligation Fund		-	165
First American Government Obligation Fund		11,381,970	0
First American Prime Obligation Fund		3,158,800	22,026,723
U.S. Government Direct Obligation		<u>0</u>	<u>0</u>
Total Cash and Cash Equivalents	\$	<u>15,078,254</u>	\$ <u>22,407,841</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, 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, 2012 and 2011, the Enterprise Fund had \$1,314,809 and \$1,902,901, respectively, in Certificates of Deposits (CDs), of which \$250,000 are covered by FDIC insurance. The remaining balances of \$1,064,809 and \$1,752,901, 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, 2012 and 2011, 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, 2012 and 2011 these CDs, as deposits, represent 6.0% and 7.7%, respectively, of the Permitted Investments, at fair value, 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, 2012 and June 30, 2011. 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). NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations.

{This area intentionally left blank}

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

Credit Quality Rating and Effective Duration as of June 30, 2012

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Government Obligation Fund	\$ 11,381,970	AAA	0.14
First American Prime Obligation Fund	3,158,800	AAA	0.13
Short Term Investment Pool (STIP)	487,684	NR	0.14
U.S. Government Direct Obligations	<u>4,086,344</u>	<u>A-</u>	<u>0.34</u>
Total Investments	\$ <u>19,114,798</u>	<u>AAA</u>	<u>0.18</u>
Securities Lending Collateral Investment Pool	\$ <u>1,008</u>	NR	*

*As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of .07 and an average weighted final maturity of .17 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.66 for U.S. dollar collateral.

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.

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 2012 and 2011, 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 on a collateralized basis 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 2012 and 2011, 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 2012 and 2011. 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 2012 and 2011 resulting from a borrower default.

During fiscal years 2012 and 2011, 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, 2012, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 73 days for U.S. dollar collateral. The duration pool had an average duration of 40 days and an average weighted final maturity of 1329 days for U.S. dollar collateral. 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, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 days for U.S. dollar collateral. 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. 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 2012 and 2011, the Board had no credit risk exposure to borrowers.

4. BONDS PAYABLE

Long-Term Bonds Payable

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

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

Bonds Payable as of June 30, 2012

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2013</u>	<u>@ Maturity</u>	<u>Balance June 30, 2012</u>
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 65	70 (2014)	\$ 135
Total Bonds Payable		<u>\$ 4,976</u>		<u>\$ 65</u>		<u>\$ 135</u>
Less Current Portion (FY2013 Principal Payments)						(65)
Total Long-Term Bonds Payable						<u>\$ 70</u>

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>

(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.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

*{This area intentionally left blank}***Future debt service as of June 30, 2012 is listed below (in thousands):**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Principal	\$ 65	\$ 70	\$ -	\$ -	\$ -	\$ -	\$ 135
Interest	\$ 8	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 10
Total	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145</u>

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>

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, 2012 and June 30, 2011, are listed below (in thousands):

<u>Series</u>	<u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Range</u>	<u>Maturity</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Balance</u> <u>June 30, 2011</u>
1997	10,000	Variable	2017	\$ 9,210	\$ 9,280
1998	12,500	Variable	2018	11,875	11,930
2000	15,000	Variable	2025	14,470	14,565
2003	15,000	Variable	2028	14,525	14,605
2004	18,500	Variable	2029	18,200	18,290
2007	15,000	Variable	2032	14,775	14,860
2010	<u>12,000</u>	Variable	2035	<u>11,975</u>	<u>12,000</u>
Total INTERCAP Debt	<u>\$ 98,000</u>			<u>95,030</u>	<u>95,530</u>
Current Portion of Long-Term Bonds Payable				<u>65</u>	<u>60</u>
Current Bonds Payable				<u>\$ 95,095</u>	<u>\$ 95,590</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):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2012</u>	<u>Balance June 30, 2011</u>
Colstrip	October 1989	12/30/15	\$ 60,800	\$ 32,100	\$ 35,700
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	89,345	95,345
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>\$ 151,445</u>	<u>\$ 161,045</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, 2012</u>	<u>Balance June 30, 2011</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, 2012</u>	<u>Balance June 30, 2011</u>
Great Falls High Schools	April 2011	12/15/25	\$ 1,855	\$ 1,768	\$ 1,855
Great Falls Elementary	April 2011	12/15/25	<u>6,510</u>	<u>6,205</u>	<u>6,510</u>
Total QSCB conduit debt			<u>\$ 8,365</u>	<u>\$ 7,973</u>	<u>\$ 8,365</u>

6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2012 and 2011 respectively, the Board committed to make loans to eligible Montana governments totaling \$44,759,000 and \$33,546,107.

7. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2012 and June 30, 2011 include \$675 and \$1,488, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

8. ARBITRAGE

The fiscal years 2012 and 2011 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

9. 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, State Accounting Division's website at <http://afsd.mt.gov/cafr/cafr.asp>.

BOARD OF
INVESTMENTS

BOARD RESPONSE

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 6, 2012

RECEIVED

DEC 06 2012

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-Compliance Audit for the two fiscal years ended June 30, 2012. 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,

David Ewer
Executive Director