



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Board of Investments

*For the Fiscal Year Ended
June 30, 2013*

DECEMBER 2013

LEGISLATIVE AUDIT
DIVISION

12-04B

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FINANCIAL AUDITS

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

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report of the Montana Board of Investments (board) for the fiscal year ended June 30, 2013. The financial statements included in this report contain comparative information for fiscal year 2012. We performed this audit of the board in compliance with Article VIII, Section 13 of the Montana Constitution, and §17-6-321, §17-5-1529 and §17-5-1649, MCA. During the course of the audit we analyzed the financial statements, examined the underlying transactions, and tested the board's compliance with state laws and regulations, having a material impact on the reported financial data.

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

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u> <u>January 1</u>
Montana Board of Investments	Mark Noennig, Chairman	Billings	2017
	Karl Englund, Vice Chair	Missoula	2015
	Kathy Bessette	Havre	2017
	Gary Buchanan	Billings	2015
	Quinton Nyman	Helena	2015
	Jack Prothero	Great Falls	2017
	Marilyn Ryan	Missoula	2017
	Jon Satre	Helena	2015
	Sheena Wilson	Helena	2017
	Dave Lewis	Senate Liaison	
	Kelly McCarthy	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:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Board of Investments

For the Two Fiscal Years Ended June 30, 2013

DECEMBER 2013

12-04B

REPORT SUMMARY

The Board of Investments manages the Unified Investment Program, a constitutionally required program for the investment of public funds, public retirement system funds, and state compensation insurance fund assets. In addition, the board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts. The Unified Investment Program had total net asset value/investments of \$14.8 billion at June 30, 2013, and \$13.8 billion at June 30, 2012.

Context

To manage the Unified Investment Program, the Board of Investments (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. The board also manages the investments for state and local governments. Local government entities may only invest in the Short Term Investment Pool.

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 (Intermediate Term Capital Program) bonds which are used to provide

loans to eligible Montana governments to finance capital expenditures for up to 15 years. Economic Development Bond Act programs provide access to economic development programs through issuance of conduit debt. The Conservation Reserve Enhancement Program (CRP), allow farmers to receive a lump sum payment by assigning their federal CRP contract to the board.

Results

This report does not contain any recommendations.

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 (12-04B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial audit of the Board of Investments (board) for the fiscal year ended June 30, 2013. 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 fiscal year ended June 30, 2013, with comparative financial amounts for the fiscal year ended June 30, 2012.
3. Determine whether the board's Enterprise Fund financial statements present fairly the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2013, with comparative financial amounts for the fiscal year ended June 30, 2012.
4. Determine the board's compliance with selected applicable laws and regulations.

During the course of the audit we analyzed the financial statements, examined the underlying transactions, and tested the board's compliance with state laws and regulations having a material impact on reported financial data.

Background

The board is allocated 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. The board invests for state and local governments. Local government entities may only invest in the Short Term Investment Pool.

The board manages and 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 (Intermediate Term Capital Program) bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. Economic Development Bond Act programs provide access to economic development programs through issuance of conduit debt. Through the Conservation Reserve Enhancement Program (CRP), allow farmers to receive a lump sum payment by assigning their federal CRP contract to the board.

Independent Auditor's Report 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:

Introduction

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments' (board) Consolidated Unified Investment Program as of June 30, 2013, and 2012, and the related Statement of Changes in Net Asset Value/Investments Managed, and the Statement of Investment Income and Distribution for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and 2012, and the changes in Net Asset Value/Investments Managed, and the Investment Income and Distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 15, 2013

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

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STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED JUNE 30, 2013 AND 2012

Assets	<u>2013</u>	<u>2012</u>
Investment portfolios at fair value (Note 2B) (Carrying value of \$10,848,117,400 in 2013 and \$10,567,595,714 in 2012)	\$ 12,152,207,258	\$ 11,360,941,323
STIP investment portfolio at amortized cost (Note 2B)	2,646,260,626	2,395,388,093
Cash (Foreign cash cost in USD of \$1,384,074 for 2013 and \$1,911,676 for 2012)	3,051,107	8,591,635
Security lending cash collateral (Note 5)	718,718,600	644,520,400
Broker receivable for securities sold but not settled (Note 2A)	94,951,085	65,660,269
Dividend and interest receivable (Note 2E)	51,164,279	47,431,335
Currency forward contracts (Note 6)	<u>484,065</u>	<u>-</u>
Total assets (Note 2B)	<u>\$ 15,666,837,020</u>	<u>\$ 14,522,533,055</u>
Liabilities		
Income due participants (Note 2E)	\$ 16,834,207	18,856,771
Broker payable for securities purchased but not settled (Note 2A)	129,150,637	61,254,797
Security lending obligations (Note 5)	718,718,600	644,520,400
Security lending expense payable	48,498	121,162
Other payables	8,150,963	148,203
Administrative fee payable	3,083,330	3,575,523
Currency forward contracts (Note 6)	-	315,672
STIP reserve (Note 7)	<u>18,232,935</u>	<u>10,931,122</u>
Total liabilities (Note 2B)	<u>894,219,170</u>	<u>739,723,650</u>
Net asset value/investments managed (Note 2B, 2C)	<u>\$ 14,772,617,850</u>	<u>\$ 13,782,809,405</u>
Pool Units Outstanding (Note 2B, 2C)	2,706,153,761	2,462,247,980

**STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED
FOR FISCAL YEARS ENDING JUNE 30, 2013 AND 2012**

Net asset value/investments, beginning of year	\$ 13,782,809,405	\$ 13,616,011,842
Value of pool units/investments purchased (Note 2D)	9,822,451,390	9,883,033,810
Value of pool units/investments sold/matured (Note 2D)	(9,470,709,308)	(9,794,321,471)
Increase (decrease) in AOF interest receivable	(1,818,109)	424,013
(Increase) decrease in AOF security lending expense payable	11,416	(4,873)
Changes in current value of investments managed (Note 2D)	<u>639,873,056</u>	<u>77,666,084</u>
Net asset value/investments managed, end of year	<u>\$ 14,772,617,850</u>	<u>\$ 13,782,809,405</u>

**STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

Net realized gain (loss) (Note 2E)	\$ 200,644,066	\$ 80,416,031
Dividend/interest income (Note 2E)	303,909,819	310,545,657
Amortization/accretion (Note 2E)	3,487,941	6,853,111
Security lending income (Note 5)	4,546,789	6,429,803
Security lending expense (Note 5)	(1,167,030)	(1,408,793)
Administrative expenses (Note 2F)	(43,918,973)	(46,188,537)
Other expenses	(1,174,270)	(564,745)
STIP reserve expense (Note 7)	(6,205,000)	(4,290,292)
Income due participants, beginning of year	<u>18,856,771</u>	<u>19,725,740</u>
Income available for distribution (Note 2E)	478,980,113	371,517,974
Distribution (Note 2E)	<u>462,145,906</u>	<u>352,661,203</u>
Income due participants, end of year (Note 2E)	<u>\$ 16,834,207</u>	<u>\$ 18,856,771</u>

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

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers’ valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for STIP, all investment portfolios presented in the Statement of Net Asset Value are at “fair” value.

Accounting for stock and bond securities is based on the “trade date”, which means the sale or purchase of a security is recorded on the trade date, rather than the “settlement” date. This generally accepted practice results in a purchased

security included in the investment portfolio on the trade date even though payment will not occur until the settlement date. Conversely, a sold security will be eliminated from the investment portfolio on the trade date even though the sale 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, 2013 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)	\$ 1,910,123,830	\$ 1,918,473,906	\$ 1,889,308,702
Trust Funds Investment Pool (TFIP)	1,986,587,921	2,070,339,812	2,076,409,525
Montana Domestic Equity Pool (MDEP)	2,467,782,775	3,263,586,660	3,267,088,891
Montana International Equity Pool (MTIP)	1,256,898,873	1,415,808,871	1,416,165,562
Montana Private Equity Pool (MPEP)	927,348,728	1,066,828,893	1,066,675,620
Montana Real Estate Pool (MTRP)	787,747,762	782,116,752	781,334,836
Short Term Investment Pool (STIP)*	2,646,260,626	2,646,260,626	2,629,103,323
All Other Funds (AOF) Investments Managed	1,511,627,511	1,635,052,364	1,646,531,391
Total	\$ 13,494,378,026	\$ 14,798,467,884	\$ 14,772,617,850

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

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

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

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

2013 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)	\$ 2,184,276,386	\$ 294,967,684	\$ 1,889,308,702
Trust Funds Investment Pool (TFIP)	2,210,287,831	133,878,306	2,076,409,525
Montana Domestic Equity Pool (MDEP)	3,470,241,963	203,153,072	3,267,088,891
Montana International Equity Pool (MTIP)	1,448,800,758	32,635,196	1,416,165,562
Montana Private Equity Pool (MPEP)	1,066,828,893	153,273	1,066,675,620
Montana Real Estate Pool (MTRP)	782,548,744	1,213,908	781,334,836
Short Term Investment Pool (STIP)	2,654,932,422	25,829,099	2,629,103,323
All Other Funds (AOF) Investments Managed	<u>1,848,920,023</u>	<u>202,388,632</u>	<u>1,646,531,391</u>
Total	<u>\$ 15,666,837,020</u>	<u>\$ 894,219,170</u>	<u>\$ 14,772,617,850</u>

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>

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STATE OF MONTANA BOARD OF INVESTMENTS
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C. Pool Participant Units – Pool units are purchased and sold similar to individuals investing in mutual funds. The STIP participants purchase and sell units, at \$1 per unit, at their discretion. All non-STIP Pool units and AOF direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations approved by the Board. For non-STIP Pool participants to purchase and sell units, the units must be “priced.” Once the Pool NAV is calculated, the unit value is priced by dividing the NAV by the number of outstanding units. The unit value is then used when units are purchased or sold. Like securities, Pool units also have a “book” value, which is the price of the unit when it was purchased. The book value does not change unless the participant 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.

2013 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)	\$ 1,889,308,702	16,989,550	\$ 111.20
Trust Funds Investment Pool (TFIP)	2,076,409,525	19,762,546	105.07
Montana Domestic Equity Pool (MDEP)	3,267,088,891	17,188,381	190.08
Montana International Equity Pool (MTIP)	1,416,165,562	9,454,867	149.78
Montana Private Equity Pool (MPEP)	1,066,675,620	4,411,604	241.79
Montana Real Estate Pool (MTRP)	781,334,836	9,243,490	84.53
Short Term Investment Pool (STIP)	2,629,103,323	2,629,103,323	1.00
All Other Funds (AOF) Investments Managed	1,646,531,391	NA	NA
Total	\$ 14,772,617,850	2,706,153,761	NA

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

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

2013 Pool Unit/AOF Investment Activity and Change in Value of Investments

<u>Pool</u>	<u>Value of Pool Units/Investments Purchased</u>	<u>Value of Pool Units/Investments Sold/Matured</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 33,740,000	\$ (37,809,342)	\$ (41,031,880)
Trust Funds Investment Pool (TFIP)	90,805,000	(20,230,068)	(51,918,027)
Montana Domestic Equity Pool (MDEP)	14,625,000	(96,261,841)	458,652,489
Montana International Equity Pool (MTIP)	26,640,000	(8,272,418)	163,247,430
Montana Private Equity Pool (MPEP)	16,580,000	(42,218,602)	75,039,384
Montana Real Estate Pool (MTRP)	109,880,000	(81,374)	46,214,279
Short Term Investment Pool (STIP)	6,834,893,673	(6,591,446,473)	-
All Other Funds (AOF) Investments Managed	<u>2,695,287,717</u>	<u>(2,674,389,190)</u>	<u>(10,330,619)</u>
Total	<u>\$ 9,822,451,390</u>	<u>\$ (9,470,709,308)</u>	<u>\$ 639,873,056</u>

2012 Pool Unit/AOF Investment Activity and Change in Value of Investments

<u>Pool</u>	<u>Value of Pool Units/Investments Purchased</u>	<u>Value of Pool Units/Investments Sold/Matured</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>

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E. Distributable Income – Bond Pool and AOF distributable income reported in the Statement of Investment Income and Distribution includes accrued interest, miscellaneous income, amortization/accretion of discount/premium, and realized gains (losses) on pool participant and security sales. STIP income is comprised of accrued interest and amortization of discount. Public equity, private equity, and private real estate Pools' distributable income consists primarily of dividends. Net realized capital gains in the MPEP and MTRP are retained in the pool unless pool expenses cause the Income Due Participants balance to be negative. When this occurs, a portion of the pool's accumulated net realized capital gain is transferred to the Income Due Participants account to create a positive balance available for distribution. The MPEP, 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.

2013 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)	\$ -	\$ 69,364,780	\$ -
Trust Funds Investment Pool (TFIP)	-	85,768,039	743,596
Montana Domestic Equity Pool (MDEP)	-	21,546,965	-
Montana International Equity Pool (MTIP)	100,000	13,011,559	-
Montana Private Equity Pool (MPEP)	5,000,000	29,933,512	-
Montana Real Estate Pool (MTRP)	-	21,010,910	-
Short Term Investment Pool (STIP)	-	10,578,829	2,437,547
Pool Participant Sales	184,476,356	-	-
All Other Funds (AOF) Investments Managed	11,067,710	52,695,225	306,798
Total	\$ 200,644,066	\$ 303,909,819	\$ 3,487,941

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

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

2013 Distributable and Undistributed Income

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 74,436,968	\$ 69,031,581	\$ 5,405,387
Trust Funds Investment Pool (TFIP)	92,710,636	86,141,061	6,569,575
Montana Domestic Equity Pool (MDEP)	16,347,899	14,900,376	1,447,523
Montana International Equity Pool (MTIP)	11,169,654	9,528,918	1,640,736
Montana Private Equity Pool (MPEP)	17,419,507	17,266,234	153,273
Montana Real Estate Pool (MTRP)	11,718,601	10,514,080	1,204,521
Short Term Investment Pool (STIP)	6,758,604	6,345,412	413,192
All Other Funds (AOF) Investments Managed	<u>248,418,244</u>	<u>248,418,244</u>	<u>-</u>
Total	<u>\$ 478,980,113</u>	<u>\$ 462,145,906</u>	<u>\$ 16,834,207</u>

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	<u>127,879,462</u>	<u>127,879,462</u>	<u>-</u>
Total	<u>\$ 371,517,974</u>	<u>\$ 352,661,203</u>	<u>\$ 18,856,771</u>

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F. Investment Management Fees – The Legislature sets the maximum management fee the Board may charge the accounts it manages. The maximum fee is set at the aggregate level at the beginning of each fiscal year. The Board allocates the aggregate fees across the Pools and AOF investments managed outside the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The Board allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the 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 2013 Management Fees

<u>Pool</u>	<u>Board</u>	<u>Custodial Bank</u>	<u>External Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 558,450	\$ 226,812	\$ 1,533,111	\$ 2,318,373
Trust Funds Investment Pool (TFIP)	367,360	158,076	1,617,475	2,142,911
Montana Domestic Equity Pool (MDEP)	489,400	534,924	6,622,194	7,646,518
Montana International Equity Pool (MTIP)	438,790	125,523	2,975,855	3,540,168
Montana Private Equity Pool (MPEP)	665,110	128,514	16,152,981	16,946,605
Montana Real Estate Pool (MTRP)	407,900	79,468	9,265,854	9,753,222
Short Term Investment Pool (STIP)	461,430	211,104	-	672,534
All Other Funds (AOF) Investments Managed	<u>678,060</u>	<u>151,934</u>	<u>68,648</u>	<u>898,642</u>
Total	<u>\$ 4,066,500</u>	<u>\$ 1,616,355</u>	<u>\$ 38,236,118</u>	<u>\$ 43,918,973</u>

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>

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3. INVESTMENT COMMITMENTS

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

MPEP Commitments as of June 30, 2013

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Adams Street	\$ 175,650,422	\$ 16,264,581	\$ 129,429,928	\$ 111,659,772
Affinity Equity Partners	35,000,000	22,313,682	7,234,064	15,596,425
American Securities Partners	35,000,000	26,705,039	7,734,820	7,827,328
ArcLight	70,000,000	20,380,152	19,315,257	21,144,858
Audax	25,000,000	20,902,259	4,097,741	4,018,286
Axiom Asia Private Capital	50,000,000	35,070,896	13,465,294	14,689,317
Black Diamond Capital Management	25,000,000	14,062,381	10,529,491	12,175,671
Carlyle Partners	60,000,000	4,505,129	27,758,245	35,296,550
Cartesian Capital	20,000,000	15,133,908	4,400,183	4,444,251
Catalyst Capital	15,000,000	11,250,000	3,750,000	4,005,206
CCMP Capital Advisors	55,000,000	26,485,474	22,579,396	27,867,400
Centerbridge Capital	57,500,000	30,112,295	20,907,445	29,822,454
CIVC Partners	25,000,000	12,444,718	9,430,021	9,554,620
EIF	25,000,000	19,169,829	4,703,437	4,227,708
First Reserve Corporation	55,485,789	4,985,687	43,504,234	45,013,597
Gridiron Capital	15,000,000	7,352,094	7,222,150	7,270,372
GTCR Partners	25,000,000	8,950,349	15,564,826	17,387,950
HarbourVest Partners	86,823,772	41,239,639	35,073,053	45,122,901
HCI Equity Partners	20,000,000	6,902,229	10,680,786	17,394,664
Hellman & Friedman	40,000,000	11,668,958	16,080,851	18,750,886
Highway 12 Investors	10,000,000	250,234	7,621,367	10,563,283
Industry Ventures	10,000,000	445,358	5,475,980	4,371,475
J.C. Flowers & Co	25,000,000	306,310	11,288,367	6,834,734
JLL Partners	25,000,000	1,470,738	13,342,188	22,184,510
Lexington Capital Partners	155,000,000	21,610,872	63,672,507	74,220,575
Madison Dearborn	75,000,000	18,532,044	36,948,300	40,023,852
MatlinPatterson Global Advisers	30,000,000	4,934,424	22,503,184	20,583,100
MHR Institutional Investors	25,000,000	10,981,341	12,919,020	19,564,034
Montlake	15,000,000	1,575,000	9,260,408	11,802,900
NB Co-investment Partners	55,000,000	18,965,877	18,554,127	21,323,083
Northgate Capital	45,000,000	30,900,000	13,830,000	13,679,554
Oak Hill Capital Partners	45,000,000	5,719,005	27,102,504	29,596,680
Oaktree	35,000,000	3,500,000	1	13,710,262
Odyssey	45,000,000	7,631,830	23,264,340	36,576,508
Opus Capital	10,000,000	7,048,425	2,451,575	2,344,659
Performance Equity Management	25,000,000	9,439,526	14,254,285	15,762,788
Portfolio Advisors	70,000,000	15,926,180	45,983,943	58,841,016
Quintana Energy Partners	15,000,000	668,565	7,200,634	10,112,117
Siguler Guff	50,000,000	22,494,082	25,523,219	29,272,195
Southern Capital Partners	15,000,000	15,000,000	0	0
Sterling Capital Partners	20,000,000	16,939,896	3,065,377	4,004,526
Summit Partners	20,000,000	17,200,000	2,800,000	2,667,204
TA Associates	10,000,000	4,950,000	4,502,668	5,394,340
Tenaya Capital	20,000,000	14,444,296	5,265,927	5,138,486
Tenex Capital Management	20,000,000	13,418,766	6,282,691	6,658,761
Terra Firma Capital Partners	25,432,997	1,465,450	22,524,732	14,167,967
Trilantic Capital Partners	31,098,351	21,658,099	5,099,664	8,239,129
Veritas Capital	25,000,000	11,371,267	13,443,952	18,325,007
Welsh Carson	75,000,000	2,500,000	37,139,303	44,014,811
White Deer Energy	<u>20,000,000</u>	<u>19,841,391</u>	<u>9,568</u>	<u>99,143</u>
Total MPEP Commitments	<u>\$ 1,961,991,331</u>	<u>\$ 677,088,275</u>	<u>\$ 874,791,053</u>	<u>\$1,003,346,915</u>

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

MTRP Commitments as of June 30, 2013

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
ABR Chesapeake	\$ 30,000,000	\$ 18,000,000	\$ 11,157,863	\$ 11,917,412
Angelo Gordon	95,000,000	36,291,178	48,845,678	48,155,509
Area Property Partners	10,000,000	1,664,000	4,349,354	3,531,664
Almanac Realty	30,000,000	1,755,244	26,671,110	29,215,347
Beacon Capital Partners	25,000,000	3,500,000	18,535,891	8,638,096
Carlyle	30,994,690	5,205,568	23,618,402	22,194,101
CBRE Strategic Partners	20,000,000	10,262,986	9,737,014	10,028,569
CIM Fund	25,000,000	2,311,123	22,688,877	32,978,532
DRA Advisors	54,696,000	12,137,000	42,559,000	43,707,386
GEM Realty Capital	20,000,000	4,500,000	9,166,015	10,572,925
JER Real Estate Partners	20,000,000	3,472,026	4,937,678	2,482,082
Landmark Real Estate Partners	20,000,000	10,030,739	6,473,072	11,003,569
Liquid Realty	22,013,732	3,195,529	13,455,258	12,466,728
Macquarie Global Properties	30,000,000	10,582,415	18,196,093	21,777,848
Molpus Woodlands	50,000,000	11,235,689	38,619,686	38,823,675
Oconnor North American	15,000,000	2,717,257	10,835,729	7,247,867
ORM Timber LLC	30,000,000	22,365,000	7,635,000	7,550,992
Resource Management Service	25,000,000	8,451,567	15,977,469	17,503,173
Stockbridge LP	25,000,000	10,387,993	14,493,765	16,362,852
TA Associates Realty	20,000,000	16,000,000	4,000,000	4,011,428
Total MTRP Commitments	<u>\$ 597,704,422</u>	<u>\$ 194,065,314</u>	<u>\$ 351,952,954</u>	<u>\$ 360,169,755</u>

4. TYPES OF INVESTMENTS

Bond Pools and AOF Investments – The RFBP, TFIP, and AOF fixed income portfolios include corporate, sovereign, 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. Sovereign debt refers to U.S. dollar denominated debt obligations of developed country foreign governments. 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 February 2013, the Board approved a staff recommendation to diversify income sources within the AOF providing investment in two 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

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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 similar to money market funds that are governed by 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, two real estate funds, 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, 2013 and 2012. 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 30, 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.

During fiscal years 2013 and 2012, 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 2013 and 2012. 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 2013 and 2012 resulting from a borrower default.

During fiscal years 2013 and 2012, 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, 2013, the Quality D Short Term Investment Fund liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for U.S. dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for U.S. dollar collateral. 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 1,329 days for U.S. dollar collateral. As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 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. 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 2013 and 2012, 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.

<u>Pool/AOF</u>	June 30, 2013			
	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 300,840,796	\$ 172,255,560	\$ 134,156,010	\$ 306,411,570
Trust Funds Investment Pool (TFIP)	262,737,510	127,239,321	140,474,150	267,713,471
Montana Domestic Equity Pool (MDEP)	226,249,065	180,175,510	50,978,581	231,154,091
Montana International Equity Pool (MTIP)	39,873,542	29,493,241	12,515,811	42,009,052
Short Term Investment Pool (STIP)	7,031,052	7,182,928	-	7,182,928
AOF Investments Managed	313,607,282	202,372,040	117,687,714	320,059,754
Total	<u>\$ 1,150,339,247</u>	<u>\$ 718,718,600</u>	<u>\$ 455,812,266</u>	<u>\$ 1,174,530,866</u>

<u>Pool/AOF</u>	June 30, 2012			
	<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>

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Securities lending income and expenses are shown below.

<u>Pool/AOF</u>	<u>Fiscal Year 2013</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,305,950	\$ 313,818	\$ 992,132
Trust Funds Investment Pool (TFIP)	1,093,600	284,223	809,377
Montana Domestic Equity Pool (MDEP)	747,803	213,503	534,300
Montana International Equity Pool (MTIP)	317,931	61,047	256,884
Short Term Investment Pool (STIP)	23,980	7,711	16,269
AOF Investments Managed	<u>1,057,525</u>	<u>286,728</u>	<u>770,797</u>
Total	\$ <u>4,546,789</u>	\$ <u>1,167,030</u>	\$ <u>3,379,759</u>

<u>Pool/AOF</u>	<u>Fiscal Year 2012</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>

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 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 two nationally recognized securities rating organizations (NRSRO) at time of purchase with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the U.S. government". 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 two NRSROs at the time of purchase with the exception of non-rated securities or guaranteed by agencies or instrumentalities of the U.S. government."
- 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) **Aberdeen Asset Management Inc. formerly 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 Permissible Securities on the Approved List
- 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 custodial bank’s Short Term Investment Fund (STIF) or the MTRP STIP investment. As of June 30, 2013 and 2012, the MTIP STIF balances were \$2,400,069 and \$5,069,482 respectively, while the MDEP STIF balances were \$27,134,694 and \$19,955,898, respectively. The June 30, 2013 and 2012, MTRP STIP investment totaled \$10,006,106 and \$5,887,302, respectively. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a \$226,954 cash equivalent investment as of June 30, 2013 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 2013, 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 rating 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, 2013 and 2012, the Board recorded cash deposits of \$3,051,107 and \$8,591,635, respectively. Of these balances, \$1,365,163 and \$1,918,995, respectively, represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed based on 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. As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are insured by the FDIC with coverage of \$250,000 per depositor. 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, 2013 and 2012, 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

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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 Portfolios 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. 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 non-government issuer except up to 3% may be invested per issuer as long as not more than 2% is invested in securities maturing in more than 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 these five funds. Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2013 and 2012.

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, 2013 and 2012 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), sovereign debt and commingled index funds.

MTIP and RFBP Currency Forward Contracts by Foreign Currency

<u>Currency</u>	<u>2013</u>			<u>2012</u>		
	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>
Australian Dollar	\$ -	\$ 185,563	\$ 185,563	\$ 39,218	\$ (199,429)	\$ (160,211)
Brazilian Real	(93,177)	330,853	237,676	-	-	-
Canadian Dollar	(4,436)	76,772	72,336	-	(30,846)	(30,846)
Euro	(1,108)	58,743	57,635	-	-	-
Japanese Yen	(223,262)	130,731	(92,531)	(19,207)	1,726	(17,481)
Mexican Peso	7,453	-	7,453	167,312	(280,259)	(112,947)
New Zealand Dollar	-	-	-	22,899	(17,086)	5,813
UK Pound Sterling	-	15,933	15,933	-	-	-
Total	<u>\$(314,530)</u>	<u>\$ 798,595</u>	<u>\$ 484,065</u>	<u>\$ 210,222</u>	<u>\$ (525,894)</u>	<u>\$ (315,672)</u>

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Foreign Currency Exposure by Country
Investment Type in U.S. Dollar Equivalent
June 30, 2013

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	\$ 208,310	\$ 4,952,288	\$ 18,052,050	\$ -	\$ -
Brazilian Real	14,231	5,975,159	2,143,262		
Canadian Dollar	58,367	547,469	10,547,910		
Danish Krone	19,224		3,247,048		
EMU-Euro	138,291	3,835,309	80,035,369	19,219,453	22,194,100
Hong Kong Dollar	121,863		32,222,300		
Hungarian Forint	699				
Indonesian Rupiah	1,061		1,293,552		
Israeli Shekel	11,437		306,733		
Japanese Yen	383,417		70,725,892		
Korean Fortnit			9,000,877		
Malaysian Ringgit			3,903,217		
Mexican Peso	105	4,889,795	3,440,443		
New Zealand Dollar	96		57,224		
Norwegian Krone	42,468		5,765,335		
Philippine Peso	555		32,498		
Polish Zloty	100		466,098		
Singapore Dollar	53,982		7,565,975		
South Africian Rand	7		2,568,736		
South Korean Won	35,093				
Swedish Krona	15,812		7,971,891		
Swiss Franc	15,935		28,973,060		
New Taiwan Dollar	1		1,600,333		
Thailand Baht	-		4,581,931		
Turkish Lira	1,525		1,511,678		
UK Pound Sterling	242,584	601,548	53,255,213		
Total	\$ 1,365,163	\$ 20,801,568	\$ 349,268,625	\$ 19,219,453	\$ 22,194,100

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Foreign Currency Exposure by Country

Investment Type in U.S. Dollar Equivalent

June 30, 2012

<u>Foreign Currency Denomination</u>	<u>Currency</u>	<u>Fixed Income</u>	<u>Equities</u>	<u>Private Equity</u>	<u>Real Estate</u>
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

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 to 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. Four 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 STIF of \$27,134,694 and \$2,400,069, respectively. The STIF fund has an effective duration of .11 and .09 for fiscal years 2013 and 2012,

respectively. One MDEP investment manager invested \$226,954 and \$226,737 as of June 30, 2013 and 2012 in the T. Rowe Price Reserve Investment Fund with durations of .10 and .11, respectively. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

The fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2013 and 2012, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

As of June 30, 2012, the AOF portfolio held a \$10 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Aria II with an October 10, 2012 maturity. Although the June 30, 2012 interest rate was zero, the variable rate was 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, 2013 and June 30, 2012. 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.

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RFBP Credit Quality Rating and Effective Duration as of June 30, 2013

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 1,036,844,670	A-	4.73
Corporate Bonds (Unrated)	2,097,080	NR	7.33
International Government Bonds	20,801,568	BBB+	4.35
Municipal Government Bonds	3,576,469	AA	12.09
Sovereign Bonds	20,930,964	AA-	5.77
U.S. Government Direct Obligations	337,140,972	AA+	7.68
U.S. Government Agency	380,238,590	AA	4.89
State Street Short Term Investment Fund (STIF)	79,589,990	NR	0.11
Short Term Investment Pool (STIP)	<u>\$ 23,003,791</u>	<u>NR</u>	<u>0.12</u>
Total Fixed Income Investments	<u>\$ 1,904,224,094</u>	<u>A+</u>	<u>5.12</u>
<u>Direct Investments</u>			
Montana Mortgages	14,052,784	NR	NA
Common Stock**	<u>\$ 197,028</u>		
Total Direct Investments	<u>\$ 14,249,812</u>		
Total Investments	<u>\$ 1,918,473,906</u>		
Securities Lending Collateral Investment Pool	<u>\$ 172,255,560</u>	NR	*

*As of June 30, 2013, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .08 and an average weighted final maturity of .23 for U.S. dollar collateral. The duration pool had an average duration of .12 and an average weighted final maturity of 5.40 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. In July 2012, due to debt reorganization of Horizon Lines Inc. the RFBP received common stock. As of June 30, 2013, the RFBP held 140,450 shares of common stock.

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 Bonds	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.

TFIP Credit Quality Rating and Effective Duration as of June 30, 2013

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 127,077,299	NR	NA
Corporate Bonds (Rated)	898,488,180	A+	5.19
Corporate Bonds (Unrated)	1,212,500	NR	NA
High Yield Bond Fund	104,538,157	B	3.30
Municipal Government Bonds (Rated)	844,049	AA	0.18
U.S. Government Direct Obligations	388,219,052	AA+	6.99
U.S. Government Agency	493,734,752	AA+	4.61
Short Term Investment Pool (STIP)	<u>56,225,823</u>	<u>NR</u>	<u>0.12</u>
Total Investments	<u>\$ 2,070,339,812</u>	<u>AA-</u>	<u>5.15</u>
Securities Lending Collateral Investment Pool	<u>\$ 127,239,321</u>	NR	*

*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for U.S. dollar collateral.

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.

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AOF Credit Quality Rating and Effective Duration as of June 30, 2013

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 707,379,154	A	3.47
Corporate Bonds (Unrated)	1,212,500	NR	NA
Sovereign Bonds	15,441,187	AA-	5.48
U.S. Government Direct Obligations	197,317,103	AA+	4.67
U.S. Government Agency	376,617,925	AA+	3.29
US Bank Sweep Repurchase Agreement*	<u>8,790,049</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,306,757,918</u>	<u>AA-</u>	<u>3.60</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 138,103,728		
Equity Index Fund-International	<u>16,524,550</u>		
Total Equity Index Funds	154,628,278		
Core Real Estate	36,095,610		
MT Mortgages and Loans	<u>137,570,558</u>		
Total Direct Investments	<u>\$ 328,294,446</u>		
TOTAL INVESTMENTS	<u>\$ 1,635,052,364</u>		
Securities Lending Collateral Investment Pool	<u>\$ 202,372,040</u>	<u>NR</u>	**

* At June 30, 2013, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$8,965,888 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. These securities carry AA+ credit quality ratings.

**As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for U.S. dollar collateral.

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.

STIP investments are categorized below to disclose credit risk as of June 30, 2013 and June 30, 2012. 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. , The 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.

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STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2013

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 907,892,295	A1	44
Corporate Commercial Paper	150,768,775	A1	105
Corporate Variable Rate	663,143,336	A3	41
Certificates of Deposit Fixed Rate	50,000,000	A1	222
Certificates of Deposit Variable Rate	435,974,196	A2	35
Other Asset Backed	47,548,744	NR	NA
U.S. Government Agency Fixed	25,000,000	A1	3
U.S. Government Agency Variable Rate	182,700,345	A1	17
Money Market Funds (Unrated)	168,232,935	NR	1
Money Market Funds (Rated)	15,000,000	A1+	1
Total Investments	<u>\$ 2,646,260,626</u>	<u>A2</u>	<u>43</u>
Securities Lending Collateral Investment Pool	<u>\$ 7,182,928</u>	NR	*

*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral.

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	59,073,787	NR	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
Total Investments	<u>\$ 2,395,388,093</u>	<u>A2</u>	<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.

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 2013 payments from AFF Financing LLC totaled \$8,107,749 consisting of \$8,005,209 in principal and \$102,540 in interest. The Board, with the majority of other holders, elected on June 2, 2013 to extend the AFF Financing LLC promissory note maturity date to July 2, 2014. 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, 2013, the AFF Financing LLC, classified as an Other Asset Backed security, has an outstanding amortized cost balance of \$29,561,449. 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 2013, the Board received principal and interest payments of \$11,079,063 and \$1,768,728, 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, 2013, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$17,987,295. 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.

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. For the two remaining \$5 million variable rate positions in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, the Board received two bankruptcy principal payments for \$191,035 and \$249,071 each on October 1, 2012 and April 4, 2013 respectively. On April 18, 2012, the Board received bankruptcy principal payments of \$300,344 each on these securities. These two securities carry a book value of \$259,561 each as of June 30, 2013.

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Effective June 30, 2010, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2013 and 2012, classified by type, are as follows:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>June 30, 2013</u>		<u>June 30, 2012</u>	
		<u>Fair Value Amount</u>	<u>Notional</u>	<u>Fair Value Amount</u>	<u>Notional</u>
Currency forward contracts	Long term debt/equity	\$ 484,065	\$46,481,410	\$ (315,672)	\$ 34,972,064
Index futures long	Futures	-	2,950	-	6,650
Rights	Equity	-	2,161	-	-
Warrants	Equity	-	400	-	400
Total derivatives		<u>\$ 484,065</u>		<u>\$ (315,672)</u>	

<u>Investment Derivatives</u>	<u>Classification</u>	<u>Changes in Fair Value</u>	
		<u>2013 Amount</u>	<u>2012 Amount</u>
Currency forward contracts	Investment revenue	\$ 1,450,204	\$ 1,525,023
Index futures long	Investment revenue	974,955	(451,901)
Index futures short	Investment revenue	-	-
Rights	Investment revenue	65,808	97,749
Warrants	Investment revenue	-	9,373
Total derivatives		<u>\$ 2,490,967</u>	<u>\$ 1,180,244</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 are 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>2013 Amount</u>	<u>2012 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.	\$ 818,240	\$ 497,930
Effect of collateral reducing maximum exposure.	-	-
Liabilities subject to netting arrangements reducing exposure.	-	-
Resulting net exposure	<u>\$ 818,240</u>	<u>\$ 497,930</u>

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

<u>Counterparty Name</u>	<u>2013 Percentage of Net Exposure</u>	<u>2012 Percentage of Net Exposure</u>	<u>2013/2012 S&P Rating</u>	<u>2013/2012 Fitch Rating</u>	<u>2013/2012 Moody's Rating</u>
Deutsche Bank London	26%	1%	A+/A+	A+/A+	A2/A2
JP Morgan Chase Bank	15%	25%	A+/A+	A+/A+	Aa3/Aa3
Royal Bank of Scotland	15%	0%	A/NA	A/NA	A3/NA
Credit Suisse London	14%	8%	A+/A+	A/A	A1/A1
Westpac Banking Corp	11%	8%	AA-/AA-	AA-/AA-	Aa2/Aa2
State Street Bank	10%	10%	AA-/AA-	A+/A+	Aa2/Aa2
Royal Bank of Canada	4%	0%	AA-/NA	AA/NA	Aa3/NA
Citi Group Global	0%	43%	NA/A-	NA/A	NA/Baa2

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 commercial loans and Veterans' Home Loan Mortgages (VHLM) 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, 2013, the BOI had committed, but not yet purchased, \$2,414,217 in loans from Montana lenders, compared to \$9,211,025 as of June 30, 2012. In addition to the above commitments, lenders had reserved \$25,063,704 for loans as of June 30, 2013, compared to \$6,775,000 on the same date in 2012. As of June 30, 2013, \$4,017,701 represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments. Due to the January 2013 VHLM program implementation; there were no reservations or commitments as of June 30, 2012.

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, 2013 and 2012, 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>2013 Carrying Value</u>	<u>2012 Carrying Value</u>
Science and Technology Alliance ⁽¹⁾	\$ 2,028,906	\$ 2,149,312
Montana University System	8,290,299	8,380,993
Montana Facility Finance	5,072,194	6,175,640
Local Government Infrastructure	18,680,293	22,540,729
Value-added Loans	1,773,751	2,688,501
Veterans' Home Loan Mortgages ⁽²⁾	11,781,448	2,646,870
Commercial Loans	<u>89,943,667</u>	<u>107,215,323</u>
Total Montana Mortgages and Loans	\$ 137,570,558	\$ 151,797,368

(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, 2013, 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 \$227,524,677. Board exposure to bond issues of the Enterprise Fund is \$106,685,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$120,839,677.

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.

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11. POOL RESTRUCTURE

In April 2013, the Board funded four new MDEP external managers approximately \$125 million by reducing six active and passive manager portfolios. 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 15, 2013, AFF Financing LLC payments total \$1,890,881 representing \$1,857,437 in principal and \$33,444 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$812,841 with \$725,256 and \$87,585 applied to principal and interest, respectively.

Because the preferred method for amortizing the bond premium/discount is the effective interest rate (scientific) method versus the straight line method, the Board agreed to make the change. Board staff coordinated with the custodial bank staff to convert to the effective interest rate method as of July 1, 2013 for all fixed income securities with the exception of the securities held in the STIP portfolio. The values as of June 30, 2013 and 2012 were determined using the straight line method of amortization. The cumulative effect of the change is \$(1,419,742) resulting in a net decrease to Book Value and the Income Due to Participants liability as of July 1, 2013.

On October 4, 2013, the Board received a bankruptcy principal payment of \$519,119 related to the Lehman Brothers Holdings, Inc.

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

13. RESTATEMENT

The STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2012 table has been restated to reflect the reclassification of the Structured Investment Vehicles (SIV) Amortized Cost of \$37,566,658, as previously reported, with the Other Asset Backed amount of \$21,507,129, as previously reported, for a combined Other Asset Backed investment type total of \$59,073,787. The Other Asset Backed credit rating as of June 30, 2012 of BBB-, as previously reported, is restated as Non-rated (NR) and the WAM remains as Not Available (NA).

14. YEAREND PORTFOLIOS

The June 30, 2013 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 - 215 Issues	1,299,876,113	1,330,390,931	1,338,855,416	69.79%
REAMS ASSET MANAGEMENT - 122 Issues	255,118,076	255,525,300	256,058,336	13.35%
ARTIO GLOBAL MANAGEMENT - 276 Issues	164,110,772	118,255,652	116,468,265	6.07%
NEUBERGER BERMAN - 287 Issues	107,016,692	108,328,725	109,599,570	5.71%
POST ADVISORY GROUP - 157 Issues	57,862,717	60,321,057	60,435,744	3.15%
SHORT TERM INVESTMENT POOL - 1 Issue	23,003,791	23,003,791	23,003,791	1.20%
MONTANA RESIDENTIAL MORTGAGES - 1 Issue	14,298,374	14,298,374	14,052,784	0.73%
RFBP TOTAL - 1059 Issues	1,921,286,535	1,910,123,830	1,918,473,906	100.00%

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TRUST FUNDS INVESTMENT POOL (TFIP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE INTERNAL BOND PORTFOLIO - 294 Issues	1,790,364,214	1,785,837,921	1,838,724,355	88.81%
POST TRADITIONAL HIGH YIELD FUND - 1 Issue	96,000,000	96,000,000	104,538,158	5.05%
AMERICAN CORE REALTY FUND LLC - Issue	3,750,605	52,750,000	64,468,334	3.11%
TIAA CREF ASSET MANAGEMENT - 1 Issue	136,240	52,000,000	62,608,965	3.02%
TFIP TOTAL - 297 Issues	1,890,251,059	1,986,587,921	2,070,339,812	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	3,555,899	1,356,004,315	1,858,376,711	56.94%
BLACKROCK MIDCAP EQUITY IND FD	2,277,381	46,717,181	74,051,105	2.27%
DIMENSIONAL FUND ADVISORS INC	43,028	28,963,044	74,787,252	2.29%
ISHARES CORE S+P SMALL CAP ETF	107,232	6,454,616	9,681,977	0.30%
STATE STREET SPIF ALT INV	23,699	5,341,405	5,688,206	0.17%
WESTERN ASSET US INDX PLUS LLC	124,814	1,894,588	1,600,867	0.05%
Total Commingled Accounts - 6 Issues	6,132,053	1,445,375,149	2,024,186,118	62.02%
JP MORGAN INVESTMENTS - 267 Issues	12,961,547	241,879,065	294,079,972	9.01%
T ROWE PRICE - 259 Issues	7,467,824	221,744,616	291,046,731	8.92%
ARTISAN - 60 Issues	9,104,814	92,809,208	115,377,005	3.54%
TIMESSQUARE - 78 Issues	6,282,418	88,036,502	115,142,333	3.53%
ANALYTICS INVESTMENTS - 190 Issues	3,742,627	89,878,689	99,013,912	3.03%
INTECH - 339 Issues	2,631,632	82,534,537	97,814,184	3.00%
VAUGHAN NELSON - 77 Issues	4,520,524	53,318,362	66,284,164	2.03%
IRIDIAN ASSET MGT - 40 Issues	2,686,106	41,005,800	42,445,647	1.30%
NICHOLAS INVESTMENT PARTNERS - 105 Iss	1,024,354	41,259,446	42,185,595	1.29%
ALLIANCE BERNSTEIN - 101 Issues	1,253,962	23,410,150	28,275,698	0.87%
ING INVESTMENT MGT - 147 Issues	1,823,479	25,936,966	26,748,619	0.82%
MET WEST CAPITAL MGT - 68 Issues	1,417,626	20,594,284	20,986,682	0.64%
Total Manager Accounts	54,916,914	1,022,407,626	1,239,400,542	37.98%
MDEP TOTAL BY MANAGER - 1737 Issues	61,048,967	2,467,782,775	3,263,586,660	100.00%

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MONTANA INTERNATIONAL EQUITY POOL (MTIP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK ACWI EX US SUPERFUND	42,790,105	747,849,718	872,671,543	61.64%
DFA INTERNATIONAL SMALL COMPAN	4,115,244	62,078,809	67,160,784	4.74%
BLACKROCK MSCI EM MKT FR FD B	871,277	36,163,202	34,616,110	2.44%
BLACKROCK ACWI EX US SMALL CAP	2,534,558	20,656,720	23,510,253	1.66%
EAFE STOCK PERFORMANCE INDEX	606,950	15,316,426	15,997,375	1.13%
MONEY MARKET FD FOR EBT	155	155	155	0.00%
Total Commingled Accounts - 6 Issues	50,918,289	882,065,030	1,013,956,220	71.62%
MARTIN CURRIE - 65 Issues	10,455,947	93,808,603	108,093,631	7.63%
HANSBERGER - 69 Issues	11,639,009	95,396,412	103,126,153	7.28%
BERNSTEIN - 133 Issues	8,083,038	100,142,989	98,714,262	6.97%
ACADIAN - 407 Issues	35,842,549	85,485,839	91,918,605	6.49%
Total Manager Accounts - 674 Issues	66,020,543	374,833,843	401,852,651	28.38%
MTIP TOTAL - 680 Issues	116,938,832	1,256,898,873	1,415,808,871	100.00%

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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	144,143,162	144,143,162	136,105,933	12.76%
LEXINGTON	63,672,507	63,672,507	74,220,575	6.96%
PORTFOLIO ADVISORS	45,983,943	45,983,943	58,841,016	5.52%
HARBOUR VEST	33,934,651	35,073,053	45,122,901	4.23%
FIRST RESERVE	43,504,234	43,504,234	45,013,597	4.22%
WELSH CARSON	37,139,303	37,139,303	44,014,811	4.13%
MADISON DEARBORN	36,948,300	36,948,300	40,023,852	3.75%
ODYSSEY INVESTMENTS	23,264,340	23,264,340	36,576,508	3.43%
CARLYLE	27,758,245	27,758,245	35,296,550	3.31%
CENTERBRIDGE	20,907,445	20,907,445	29,822,454	2.80%
OAK HILL	27,102,504	27,102,504	29,596,680	2.77%
SIGULER GUFF	25,523,219	25,523,219	29,272,195	2.74%
STATE STREET	416,631	28,367,175	28,294,099	2.65%
CCMP	22,579,396	22,579,396	27,867,400	2.61%
OAKTREE	6,267,266	6,267,266	23,377,387	2.19%
JLL PARTNERS	13,342,188	13,342,188	22,184,510	2.08%
NB COINVEST	18,554,127	18,554,127	21,323,083	2.00%
ARCLIGHT	19,315,257	19,315,257	21,144,858	1.98%
MATLIN PATTERSON	22,503,184	22,503,184	20,583,100	1.93%
MHR INSTITUTIONAL	12,919,020	12,919,020	19,564,034	1.83%
HELLMAN FRIEDMAN	16,080,851	16,080,851	18,750,886	1.76%
VERITAS	13,443,952	13,443,952	18,325,007	1.72%
HCI EQUITY	10,680,786	10,680,786	17,394,664	1.63%
GTCR PARTNERS	15,564,826	15,564,826	17,387,950	1.63%
PERFORMANCE EQUITY	14,254,285	14,254,285	15,762,788	1.48%
AFFINITY	7,234,064	7,234,064	15,596,425	1.46%
AXIOM	13,465,294	13,465,294	14,689,317	1.38%
TERRA FIRMA	16,380,034	22,524,732	14,167,967	1.33%
NORTHGATE	13,830,000	13,830,000	13,679,554	1.28%
BLACK DIAMOND CAPITAL	10,529,491	10,529,491	12,175,671	1.14%
MONTLAKE	9,260,408	9,260,408	11,802,900	1.11%
HIGHWAY 12 VENTURES	7,621,367	7,621,367	10,563,283	0.99%
QUINTANA ENERGY	7,200,634	7,200,634	10,112,117	0.95%
CIVC	9,430,021	9,430,021	9,554,620	0.90%
TRILANTIC CAPITAL PARTNERS	5,099,664	5,099,664	8,239,129	0.77%
AMERICAN SECURITIES PARTNERS	7,734,820	7,734,820	7,827,328	0.73%
GRIDIRON CAPITAL	7,222,150	7,222,150	7,270,372	0.68%
J.C. FLOWERS	11,288,367	11,288,367	6,834,734	0.64%
TENEX CAPITAL PARTNERS	6,282,691	6,282,691	6,658,761	0.62%
TA ASSOCIATES	4,502,668	4,502,668	5,394,340	0.51%
TENAYA CAPITAL	5,265,927	5,265,927	5,138,486	0.48%
CARTESIAN CAPITAL	4,400,183	4,400,183	4,444,251	0.42%
INDUSTRY VENTURES	5,475,980	5,475,980	4,371,475	0.41%
EIF	4,703,437	4,703,437	4,227,708	0.40%
AUDAX	4,097,741	4,097,741	4,018,286	0.38%
CATALYST	3,750,000	3,750,000	4,005,206	0.38%
STERLING CAPITAL PARTNERS	3,065,377	3,065,377	4,004,526	0.38%
SUMMIT PARTNERS	2,800,000	2,800,000	2,667,204	0.25%
OPUS	2,451,575	2,451,575	2,344,659	0.22%
AVENUE CAPITAL	1	1	737,577	0.07%
KKR	3,210,001	3,210,001	337,015	0.03%
WHITE DEER ENERGY	9,568	9,568	99,143	0.01%
MPEP Total	892,115,084	927,348,728	1,066,828,893	100.00%

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

<u>Fund Manager Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
JP MORGAN	60,445	92,733,975	117,313,408	14.99%
UBS REALTY INVESTORS LLC	7,373	50,000,000	63,136,105	8.07%
ANGELO GORDON	48,845,678	48,845,678	48,155,509	6.16%
DRA ADVISORS	42,559,000	42,559,000	43,707,386	5.59%
TIAA CREF	87,729	40,000,000	40,315,679	5.15%
MOLPUS WOODLANDS	38,619,686	38,619,686	38,823,675	4.96%
INVESCO REAL ESTATE	309	45,000,000	38,699,192	4.95%
TA ASSOCIATES REALTY	42,365,195	42,365,195	38,356,501	4.90%
CLARION LION PROPERTIES	36,005	48,702,275	35,942,915	4.60%
CIM FUND	22,688,877	22,688,877	32,978,532	4.22%
ABR CHESAPEAKE	28,619,855	28,619,855	29,246,466	3.74%
ALMANAC REALTY	26,671,110	26,671,110	29,215,347	3.74%
CARLYLE	16,962,717	23,618,402	22,194,100	2.84%
MACQUARIE GLOBAL PROPERTIES	18,196,093	18,196,093	21,777,848	2.78%
HUDSON REALTY CAPITAL	24,246,156	24,246,156	19,468,192	2.49%
RESOURCE MANAGEMENT SERVICE	15,977,469	15,977,469	17,503,173	2.24%
STOCKBRIDGE LP	14,493,765	14,493,765	16,362,852	2.09%
STRATEGIC PARTNERS	16,138,498	16,138,498	14,922,123	1.91%
LIQUID REALTY	13,455,259	13,455,259	12,466,728	1.59%
LANDMARK REAL ESTATE PARTNERS	6,473,072	6,473,072	11,003,569	1.41%
GEM REALTY CAPITAL	9,166,015	9,166,015	10,572,925	1.35%
CBRE STRATEGIC PARTNERS	9,737,014	9,737,014	10,028,569	1.28%
BEACON CAPITAL PARTNERS	18,535,891	18,535,891	8,638,096	1.10%
AREA PROPERTY PARTNERS	18,336	11,448,235	8,461,305	1.08%
ORM TIMBER LLC	7,635,000	7,635,000	7,550,992	0.97%
OCONNOR NORTH AMERICAN	10,835,729	10,835,729	7,247,867	0.93%
MORGAN STANLEY REAL ESTATE	26,996,112	26,996,112	6,494,401	0.83%
JER REAL ESTATE PARTNERS	4,937,678	4,937,678	2,482,082	0.32%
FUND MANAGERS	464,366,066	758,696,039	753,065,537	96.28%
MT COLONIAL DRIVE	8,357,861	8,357,861	8,361,559	1.07%
NORTH PARK AVENUE	7,353,024	7,353,024	7,348,817	0.94%
BOZEMAN PROPERTY	2,205,036	2,205,036	2,205,037	0.28%
NINTH AVENUE	607,004	607,004	607,004	0.08%
CALIFORNIA STREET PROP	222,692	222,692	222,692	0.03%
DIRECT REAL ESTATE	18,745,617	18,745,617	18,745,109	2.40%
SHORT TERM INVESTMENT POOL	10,006,106	10,006,106	10,006,106	1.28%
STATE STREET REPO	300,000	300,000	300,000	0.04%
MTRP TOTAL	493,417,789	787,747,762	782,116,752	100.00%

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SHORT TERM INVESTMENT POOL

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
ANGLESEA FDG PLC & ANG	0.2400	07/03/13	15,000,000	14,999,800	0.57%
ANGLESEA FDG PLC & ANG	0.2800	07/30/13	15,000,000	14,996,617	0.57%
ANGLESEA FDG PLC & ANG	0.2500	07/01/13	25,000,000	25,000,000	0.94%
ANGLESEA FDG PLC & ANG	0.3500	09/13/13	25,000,000	24,982,014	0.94%
BUNGE ASSET FDG. COR	0.3000	07/01/13	19,001,000	19,001,000	0.72%
CAFCO LLC	0.2800	09/19/13	17,000,000	16,989,422	0.64%
CAFCO LLC	0.2800	09/20/13	17,000,000	16,989,290	0.64%
CAFCO LLC	0.2600	09/03/13	20,000,000	19,990,756	0.76%
CHARTA LLC	0.2800	07/11/13	15,000,000	14,998,833	0.57%
CHARTA LLC	0.2900	09/05/13	18,000,000	17,990,430	0.68%
CHARTA LLC	0.2700	08/21/13	21,000,000	20,991,968	0.79%
CIESCO LLC	0.2600	09/05/13	15,000,000	14,992,850	0.57%
CIESCO LLC	0.2600	09/06/13	15,000,000	14,992,742	0.57%
CIESCO LLC	0.2700	09/17/13	25,000,000	24,985,375	0.94%
COLLATERALIZED COML PAPER CO L	0.1800	09/04/13	25,000,000	24,991,875	0.94%
COLLATERALIZED COML PAPER CO L	0.1500	07/31/13	27,000,000	26,996,625	1.02%
CONCORD MIN CPTL CO	0.1700	07/15/13	5,000,000	4,999,669	0.19%
CONCORD MIN CPTL CO	0.1700	07/22/13	10,000,000	9,999,008	0.38%
CONCORD MIN CPTL CO	0.2100	07/24/13	15,000,000	14,997,988	0.57%
CONCORD MIN CPTL CO	0.2100	07/17/13	25,000,000	24,997,667	0.94%
CRC FUNDING LLC	0.3000	09/06/13	5,000,000	4,997,208	0.19%
CRC FUNDING LLC	0.2700	08/22/13	15,000,000	14,994,150	0.57%
CRC FUNDING LLC	0.2700	08/21/13	35,000,000	34,986,613	1.32%
CROWN POINT CAP CO.	0.2600	07/08/13	11,000,000	10,999,444	0.42%
CROWN POINT CAP CO.	0.2600	07/09/13	12,000,000	11,999,307	0.45%
CROWN POINT CAP CO.	0.2600	07/11/13	15,000,000	14,998,917	0.57%
CROWN POINT CAP CO.	0.2600	07/12/13	15,000,000	14,998,808	0.57%
GOLDEN FUNDING CORP	0.2000	08/19/13	14,849,000	14,844,958	0.56%
GOLDEN FUNDING CORP	0.1800	08/07/13	25,987,000	25,982,192	0.98%
GOTHAM FDG CORP	0.1700	08/01/13	6,000,000	5,999,122	0.23%
GOTHAM FDG CORP	0.2000	09/09/13	20,000,000	19,992,222	0.76%
GOTHAM FDG CORP	0.1800	08/23/13	28,000,000	27,992,580	1.06%
GOVCO LLC	0.2800	07/19/13	10,000,000	9,998,600	0.38%
GOVCO LLC	0.2900	07/09/13	15,000,000	14,999,033	0.57%
INSTITUTIONAL SECURED	0.4800	07/23/13	45,000,000	44,986,800	1.70%
LEGACY CAPITAL COMPANY	0.2000	08/05/13	16,000,000	15,996,889	0.60%
LEGACY CAPITAL COMPANY	0.2300	09/10/13	17,000,000	16,992,289	0.64%
LEGACY CAPITAL COMPANY	0.2300	09/12/13	17,000,000	16,992,071	0.64%
LEXINGTN PKR CAP CO LL	0.2600	07/10/13	5,000,000	4,999,675	0.19%
LEXINGTN PKR CAP CO LL	0.2000	08/06/13	11,000,000	10,997,800	0.42%
LEXINGTN PKR CAP CO LL	0.2000	08/15/13	12,000,000	11,997,000	0.45%
LEXINGTN PKR CAP CO LL	0.2100	07/26/13	25,000,000	24,996,354	0.94%
MARKET ST FNDG CORP	0.1700	07/15/13	17,000,000	16,998,876	0.64%
MARKET ST FNDG CORP	0.1700	09/09/13	37,000,000	36,987,769	1.40%
NIEUW AMSTERDAM RECV	0.1800	09/06/13	10,000,000	9,996,650	0.38%
NIEUW AMSTERDAM RECV	0.1500	07/16/13	12,000,000	11,999,250	0.45%
NIEUW AMSTERDAM RECV	0.1800	09/04/13	14,000,000	13,995,450	0.53%
NIEUW AMSTERDAM RECV	0.1700	08/15/13	17,800,000	17,796,218	0.67%
VICTORY RECEIVABLES	0.1800	08/09/13	10,000,000	9,998,050	0.38%
VICTORY RECEIVABLES	0.1800	08/01/13	13,000,000	12,997,985	0.49%
VICTORY RECEIVABLES	0.1500	07/02/13	15,000,000	14,999,938	0.57%
VICTORY RECEIVABLES	0.1800	08/14/13	17,500,000	17,496,150	0.66%
Asset Backed Commerical Paper	52 Issue(s)		908,137,000	907,892,295	34.31%
BNK OF TKYO-MTBSHI L	0.7800	08/27/13	25,000,000	25,000,000.00	0.94%
UBS AG ST AMFORD BRAN	0.5000	07/17/14	25,000,000	25,000,000.00	0.94%
Certificates of Deposit Fixed Rate	2 Issue(s)		50,000,000	50,000,000	1.89%

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<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
BANK OF MONTREAL-	0.5261	07/19/13	45,000,000	45,000,000	1.70%
BANK OF NOVA SCOTIA	0.8256	01/30/14	8,000,000	8,000,000	0.30%
BANK OF NOVA SCOTIA	0.7751	02/10/14	40,000,000	40,000,000	1.51%
BNK OF TKYO-MTBSHI L	0.7536	04/02/14	23,000,000	23,000,000	0.87%
CANADIAN IMPERIAL BK	0.5256	10/30/14	25,000,000	25,000,000	0.94%
CANADIAN IMPERIAL BK	0.4633	06/05/15	25,000,000	24,994,958	0.94%
COOPERATIVE CENTRALE	0.4431	05/05/15	20,000,000	20,000,000	0.76%
CREDIT SUISSE NY	1.5551	02/13/14	43,000,000	43,000,000	1.62%
NATIONAL BK OF CANAD	0.6556	07/31/14	45,000,000	44,990,204	1.70%
NATL AUSTRALIA BK LT	1.4756	01/30/14	45,000,000	45,000,000	1.70%
NORDEA BANK FLD PLC	0.7771	10/15/14	22,000,000	21,996,835	0.83%
NORDEA BANK FLD PLC	1.4731	02/03/14	25,000,000	25,000,000	0.94%
SVENSKA HANDLSBNKN A	0.8228	09/25/13	20,000,000	20,000,000	0.76%
SVENSKA HANDLSBNKN A	0.5676	01/16/15	25,000,000	24,992,199	0.94%
UBS AG ST AMFORD BRAN	0.4125	06/13/14	25,000,000	25,000,000	0.94%
Certificates of Deposit Variable Rate	15 Issue(s)		436,000,000	435,974,196	16.48%
BARCLAYS U.S. FDG LLC	0.6200	11/15/13	50,000,000	49,882,027.8	1.89%
MITSUBISHI INT'L CO	0.1900	07/08/13	19,000,000	18,999,298.1	0.72%
MITSUBISHI INT'L CO	0.2100	07/08/13	33,000,000	32,998,652.5	1.25%
RECKITT BENCKISER TREAS	0.4200	03/18/14	24,000,000	23,927,200.0	0.90%
RECKITT BENCKISER TREAS	0.7000	09/18/13	25,000,000	24,961,597.2	0.94%
Corporate Commercial Paper	5 Issue(s)		151,000,000	150,768,775	5.70%
AMERICAN HONDA FINANCE	0.2741	05/20/14	23,000,000	23,000,000	0.87%
AMERICAN HONDA FINANCE	0.3041	12/05/13	25,000,000	25,000,000	0.94%
AUST + NZ BANKING GROUP	0.9426	09/24/13	48,000,000	48,020,735	1.81%
BOEING CO	0.2831	11/03/14	10,000,000	10,000,000	0.38%
CATERPILLAR FINANCIAL SE	0.3441	02/19/15	50,000,000	50,000,000	1.89%
COCA COLA CO/THE	0.2533	03/05/15	20,000,000	20,000,000	0.76%
COMMONWEALTH BANK AUST	0.8826	04/03/14	45,000,000	45,000,000	1.70%
GENERAL ELEC CAP CORP	1.1304	01/07/14	17,000,000	17,019,294	0.64%
GENERAL ELEC CAP CORP	0.9751	04/24/14	30,000,000	30,000,000	1.13%
JOHN DEERE CAPITAL CORP	0.4044	01/12/15	35,000,000	35,000,000	1.32%
JPMORGAN CHASE + CO	1.0751	01/24/14	48,360,000	48,262,014	1.82%
MET LIFE GLOB FUNDING I	0.6742	12/12/13	45,000,000	45,000,000	1.70%
PRINCIPAL LFE GLB FND II	0.9044	07/09/14	7,000,000	7,000,000	0.26%
RABOBANK NEDERLAND	0.4756	07/25/13	33,250,000	33,248,678	1.26%
ROYAL BANK OF CANADA	0.4748	04/29/15	50,000,000	50,000,000	1.89%
TORONTO DOMINION BANK	0.4531	05/01/15	50,000,000	50,000,000	1.89%
TOYOTA MOTOR CREDIT CORP	0.6776	01/17/14	15,565,000	15,589,331	0.59%
TOYOTA MOTOR CREDIT CORP	0.4433	12/05/14	30,000,000	30,000,000	1.13%
WACHOVIA CORP	0.4641	08/01/13	32,000,000	32,001,450	1.21%
WESTPAC BANKING CORP	1.5256	01/30/14	24,000,000	24,013,805	0.91%
WESTPAC BANKING CORP	0.5256	01/29/15	25,000,000	24,988,029	0.94%
Corporate Variable Rate	21 Issue(s)		663,175,000	663,143,336	25.06%
BLACKROCK MONEY MARKET	0.0439	N/A	1,000,000	1,000,000	0.04%
STATE STR INSTL LIQUID RESVS	0.0787	N/A	14,000,000	14,000,000	0.53%
Money Market Funds (Rated)	2 Issue(s)		15,000,000	15,000,000	0.57%
BGI INSTITUTIONAL MMF	0.1300	N/A	125,000,000	125,000,000	4.72%
FIDELITY INSTL MONEY MARKET	0.1200	N/A	25,000,000	25,000,000	0.94%
STATE STREET BANK + TRUST CO	0.0653	N/A	18,232,935	18,232,935	0.69%
Money Market Funds (Unrated)	3 Issue(s)		168,232,935	168,232,935	6.36%
ORION FINANCE	1.0000	N/A	17,987,295	17,987,295	0.68%
AFF FINANCING	-	07/02/13	29,561,449	29,561,449	1.12%
Other Asset Backed	2 Issue(s)		47,548,744	47,548,744	1.80%
FEDERAL HOME LOAN BANK	0.2500	07/01/13	25,000,000	25,000,000	0.94%
U.S. Government Agency Fixed Rate	1 Issue(s)		25,000,000	25,000,000	0.94%
FANNIE MAE	0.1716	06/20/14	25,000,000	24,995,096	0.94%
FANNIE MAE	0.1644	02/27/15	25,000,000	24,989,563	0.94%
FANNIE MAE	0.1825	08/12/13	82,725,000	82,722,015	3.13%
FEDERAL HOME LOAN BANK	0.1420	12/19/14	25,000,000	24,996,286	0.94%
FREDDIE MAC	0.1643	11/04/13	25,000,000	24,997,385	0.94%
U.S. Government Agency Variable Rate	5 Issue(s)		182,725,000	182,700,345	6.90%
STIP Total	108 Issue(s)		2,646,818,679	2,646,260,626	100.00%

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BLACKROCK EQUITY INDEX FD B	NA	NA	538,553	77,440,519	138,103,604	8.45%
BLACKROCK ACWI EX USSUPERFD B	NA	NA	734,727	14,000,530	16,524,550	1.01%
MONEY MARKET FD FOR EBT	NA	NA	123	123	123	0.00%
BLACKROCK CASH	NA	NA	1	1	1	0.00%
Equity Index Funds			1,273,403	91,441,172	154,628,278	9.46%
MONTANA ST	NA	NA	11,781,448	11,781,448	11,781,448	0.72%
PERMANENT COAL TRUST	NA	NA	125,789,110	125,789,110	125,789,110	7.69%
MT Mortgages and Loans			137,570,558	137,570,558	137,570,558	8.41%
AMERICAN CORE REALTY FUND LLC	0.000	NA	5,750,000	5,750,000	5,750,000	0.35%
TIAA CREF ASSET MANAGEMENT	0.000	NA	66,033	30,000,000	30,345,610	1.86%
Core Real Estate			5,816,033	35,750,000	36,095,610	2.21%
AFLAC INC	2.650	02/15/17	6,000,000	6,265,670	6,142,218	0.38%
AFLAC INC	4.000	02/15/22	3,000,000	2,995,348	3,047,856	0.19%
AT+T INC	5.800	02/15/19	5,000,000	4,991,279	5,826,463	0.36%
AT+T INC	2.500	08/15/15	5,000,000	4,993,563	5,156,887	0.32%
ALLY MASTER OWNER TRUST	1.540	09/15/16	8,418,000	8,461,772	8,491,174	0.52%
ALTRIA GROUP INC	9.700	11/10/18	1,689,000	1,691,619	2,238,431	0.14%
AMERICAN EXPRESS CO	5.500	09/12/16	5,000,000	4,991,856	5,573,080	0.34%
AMERICAN EXPRESS CO	7.000	03/19/18	3,000,000	2,994,582	3,601,640	0.22%
AMER EXPRESS CREDIT CO	7.300	08/20/13	5,000,000	5,000,090	5,045,153	0.31%
AMERICAN HONDA FINANCE	3.800	09/20/21	5,000,000	4,989,149	5,168,460	0.32%
AMERICAN INTL GROUP	5.850	01/16/18	3,000,000	3,212,298	3,378,304	0.21%
ANHEUSER BUSCH INBEV WOR	3.625	04/15/15	3,000,000	2,997,842	3,146,267	0.19%
AUST + NZ BANKING GROUP	2.125	01/10/14	5,000,000	4,999,591	5,035,530	0.31%
AVIS BUDGET RENTAL CAR FUNDING	2.100	03/20/19	10,000,000	9,996,153	9,907,547	0.61%
BANC OF AMERICA COMMERCIAL MOR	5.434	02/10/51	505,714	508,124	505,135	0.03%
BANK OF AMERICA CORP	5.375	06/15/14	5,000,000	4,995,627	5,205,447	0.32%
BANK OF AMERICA CORP	4.500	04/01/15	5,000,000	5,003,410	5,245,432	0.32%
BANK OF AMERICA CORP	5.875	01/05/21	2,000,000	1,988,984	2,243,836	0.14%
BANK OF AMERICA CORP	3.750	07/12/16	2,000,000	1,997,649	2,099,741	0.13%
BANK OF NOVA SCOTIA	3.400	01/22/15	5,000,000	4,998,002	5,201,565	0.32%
BARCLAYS BANK PLC	2.375	01/13/14	3,000,000	2,999,523	3,023,366	0.18%
BAXTER INTERNATIONAL INC	1.850	01/15/17	3,000,000	2,998,765	3,013,484	0.18%
BAXTER INTERNATIONAL INC	1.850	06/15/18	3,000,000	2,999,703	2,980,473	0.18%
BEMIS COMPANY INC	4.500	10/15/21	2,500,000	2,486,633	2,588,483	0.16%
BERKSHIRE HATHAWAY INC	3.400	01/31/22	4,000,000	3,990,488	3,999,628	0.24%
BLACK HILLS CORP	5.875	07/15/20	5,000,000	5,109,238	5,330,653	0.33%
BOEING CAPITAL CORP	2.900	08/15/18	2,000,000	2,100,910	2,079,185	0.13%
BOEING CO	3.750	11/20/16	5,000,000	5,464,358	5,336,788	0.33%
BUNGE LIMITED FINANCE CO	4.100	03/15/16	5,000,000	4,999,757	5,275,842	0.32%
BUNGE LIMITED FINANCE CO	3.200	06/15/17	5,000,000	4,992,403	5,080,273	0.31%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000,000	4,997,868	5,516,288	0.34%
BURLINGTN NORTH SANTA FE	3.050	03/15/22	5,000,000	4,980,476	4,890,724	0.30%
BURLINGTN NO SF 99 1 TR	7.160	01/02/20	2,517,603	2,517,603	2,859,819	0.17%
BURLINGTN NORTH SANTA FE	7.000	02/01/14	3,000,000	2,999,942	3,107,367	0.19%
CNA FINANCIAL CORP	5.875	08/15/20	5,000,000	4,996,466	5,648,152	0.35%
CNH EQUIPMENT TRUST	0.990	11/15/18	6,000,000	5,998,221	5,909,344	0.36%
CVS CAREMARK CORP	5.750	06/01/17	5,000,000	4,922,866	5,715,367	0.35%
CANTOR FITZGERALD LP	6.375	06/26/15	5,000,000	4,993,294	5,025,000	0.31%
CAPITAL ONE FINANCIAL CO	6.750	09/15/17	5,000,000	4,988,632	5,817,327	0.36%
CATERPILLAR INC	7.000	12/15/13	2,000,000	1,999,956	2,059,740	0.13%
CHURCH + DWIGHT CO INC	3.350	12/15/15	3,000,000	2,998,055	3,104,467	0.19%
CINTAS CORPORATION NO. 2	2.850	06/01/16	5,000,000	4,999,855	5,099,191	0.31%
CITIGROUP INC	6.375	08/12/14	5,000,000	4,992,455	5,274,356	0.32%
CITIGROUP INC	2.650	03/02/15	5,000,000	4,995,142	5,090,926	0.31%
COCA COLA CO/THE	0.750	11/15/13	1,000,000	999,941	1,001,467	0.06%
COMMONWEALTH BANK AUST	2.250	03/16/17	2,500,000	2,498,684	2,548,673	0.16%
CONOCOPHILLIPS	5.750	02/01/19	5,000,000	4,997,753	5,850,760	0.36%

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CONOCOPHILLIPSCANADA	5.625	10/15/16	6,000,000	5,999,842	6,771,736	0.41%
RABOBANK NEDERLAND	2.125	10/13/15	9,000,000	8,989,936	9,209,082	0.56%
DANAHER CORP	2.300	06/23/16	4,000,000	3,996,189	4,129,000	0.25%
DANSKE BANK A/S	3.750	04/01/15	5,000,000	4,994,762	5,175,051	0.32%
JOHN DEERE CAPITAL CORP	2.250	06/07/16	5,000,000	4,994,220	5,156,078	0.32%
JOHN DEERE CAPITAL CORP	2.250	04/17/19	5,000,000	5,193,575	4,976,083	0.30%
DOMINION RESOURCES INC	1.800	03/15/14	1,000,000	999,870	1,006,800	0.06%
E.I. DU PONT DE NEMOURS	5.875	01/15/14	1,190,000	1,189,406	1,224,986	0.07%
E.I. DU PONT DE NEMOURS	2.750	04/01/16	5,000,000	4,995,150	5,230,557	0.32%
ENTERPRISE FLEET FINANCING LLC	1.410	11/20/17	5,000,000	4,998,836	5,025,164	0.31%
EXELON CORP	4.900	06/15/15	5,000,000	5,105,895	5,337,213	0.33%
NEXTERA ENERGY CAPITAL	2.550	11/15/13	10,000,000	9,999,292	10,056,109	0.62%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000,000	4,993,845	5,457,786	0.33%
FIRST HORIZON NATIONAL	5.375	12/15/15	3,000,000	2,995,109	3,230,792	0.20%
FLUOR CORP (NEW)	3.375	09/15/21	4,000,000	4,074,376	4,012,412	0.25%
FORD CREDIT FLOORPLAN MASTER O	1.490	09/15/19	8,000,000	7,996,983	7,865,336	0.48%
BEAM INC	5.375	01/15/16	544,000	543,078	594,259	0.04%
FRANKLIN RESOURCES INC	4.625	05/20/20	5,000,000	4,996,181	5,363,219	0.33%
FRANKLIN RESOURCES INC	1.375	09/15/17	3,000,000	2,986,170	2,916,592	0.18%
GATX CORP	8.750	05/15/14	5,000,000	4,999,783	5,320,025	0.33%
GATX CORP	4.850	06/01/21	5,000,000	4,993,478	5,138,428	0.31%
GE CAPITAL CREDIT CARD MASTER	1.360	08/17/20	5,000,000	4,998,261	4,961,279	0.30%
GENERAL ELECTRIC CO	5.250	12/06/17	5,000,000	5,005,371	5,647,457	0.35%
GENERAL ELEC CAP CORP	3.750	11/14/14	1,600,000	1,636,963	1,663,213	0.10%
GENERAL ELEC CAP CORP	2.100	01/07/14	300,000	299,998	302,526	0.02%
GENERAL ELEC CAP CORP	4.650	10/17/21	5,000,000	4,991,125	5,306,630	0.32%
GENERAL ELEC CAP CORP	2.900	01/09/17	7,000,000	6,992,943	7,228,074	0.44%
GENERAL ELEC CAP CORP	2.300	04/27/17	5,000,000	4,994,992	5,042,268	0.31%
GENERAL MILLS INC	1.550	05/16/14	5,000,000	4,999,913	5,044,880	0.31%
GLAXOSMITHKLINE CAP INC	4.375	04/15/14	250,000	254,927	257,728	0.02%
GOLDMAN SACHS GROUP INC	5.350	01/15/16	5,000,000	4,985,428	5,406,861	0.33%
GOLDMAN SACHS GROUP INC	5.750	01/24/22	5,000,000	4,994,218	5,503,001	0.34%
GOLDMAN SACHS GROUP INC	3.625	02/07/16	2,500,000	2,461,047	2,605,992	0.16%
HARTFORD FINL SVCS GRP	5.375	03/15/17	5,000,000	4,995,027	5,492,793	0.34%
HARTFORD FINL SVCS GRP	6.300	03/15/18	5,000,000	5,002,488	5,749,963	0.35%
HERTZ VEHICLE FINANCING LLC	3.740	02/25/17	10,000,000	10,608,862	10,617,827	0.65%
HEWLETT PACKARD CO	2.200	12/01/15	5,000,000	4,997,847	5,071,792	0.31%
JPMORGAN CHASE + CO	4.950	03/25/20	5,000,000	5,011,208	5,437,245	0.33%
JPMORGAN CHASE + CO	3.150	07/05/16	3,000,000	2,995,679	3,105,284	0.19%
JPMORGAN CHASE + CO	4.500	01/24/22	5,000,000	4,977,179	5,242,143	0.32%
JPMORGAN CHASE + CO	1.625	05/15/18	7,000,000	6,985,747	6,705,507	0.41%
JERSEY CENTRAL PWR + LT	5.650	06/01/17	3,000,000	2,995,899	3,342,304	0.20%
KCT INTERMODAL TRANS	6.884	08/01/18	1,886,400	1,886,400	2,136,111	0.13%
KEY BANK NA	1.650	02/01/18	2,000,000	1,998,238	1,954,979	0.12%
LIBERTY MUTUAL GROUP INC	4.950	05/01/22	5,000,000	5,007,150	5,151,901	0.32%
ELI LILLY + CO	4.200	03/06/14	2,000,000	1,999,878	2,049,808	0.13%
LINCOLN NATIONAL CORP	4.300	06/15/15	3,000,000	2,998,437	3,185,708	0.19%
LINCOLN NATIONAL CORP	4.850	06/24/21	5,000,000	5,013,461	5,365,228	0.33%
MMAF EQUIPMENT FINANCE LLC	1.350	10/10/18	3,000,000	2,999,983	3,013,317	0.18%
MARATHON OIL CORP	5.900	03/15/18	4,546,000	4,538,980	5,208,711	0.32%
MERCK SHARP + DOHME CORP	5.000	06/30/19	2,000,000	1,992,442	2,292,636	0.14%
MERCK + CO INC	1.300	05/18/18	3,000,000	2,993,230	2,911,199	0.18%
MERRILL LYNCH + CO	6.400	08/28/17	5,000,000	4,996,964	5,625,395	0.34%
METLIFE INC	5.000	11/24/13	5,000,000	4,998,080	5,092,165	0.31%
METLIFE INC	4.750	02/08/21	2,000,000	1,999,638	2,175,159	0.13%
MORGAN STANLEY	4.000	07/24/15	5,000,000	5,064,700	5,207,163	0.32%
MORGAN STANLEY	2.875	01/24/14	2,000,000	1,999,452	2,019,193	0.12%
MORGAN STANLEY	5.625	09/23/19	5,000,000	4,987,074	5,381,301	0.33%

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MORGAN STANLEY	3.450	11/02/15	5,000,000	4,583,625	5,142,410	0.31%
NATL CITY BANK CLEV OH	5.250	12/15/16	5,000,000	4,998,394	5,621,101	0.34%
NEW YORK LIFE GLOBAL FDG	1.300	10/30/17	5,000,000	4,992,077	4,857,010	0.30%
NIAGARA MOHAWK POWER	4.881	08/15/19	8,000,000	8,926,752	8,836,350	0.54%
NOBLE HOLDING INTL LTD	4.625	03/01/21	5,000,000	4,977,999	5,154,008	0.32%
NORFOLK SOUTHERN CORP	5.750	01/15/16	2,000,000	1,996,783	2,223,448	0.14%
NORFOLK SOUTHERN CORP	3.000	04/01/22	5,000,000	4,953,702	4,827,106	0.30%
NORTHERN TRUST CORP	5.500	08/15/13	150,000	150,724	150,892	0.01%
NORTHWESTERN CORP	6.340	04/01/19	5,000,000	4,998,109	5,841,619	0.36%
NOVARTIS SECS INVEST LTD	5.125	02/10/19	5,000,000	4,995,004	5,719,736	0.35%
PNC FUNDING CORP	3.000	05/19/14	3,000,000	2,998,816	3,064,977	0.19%
PNC FUNDING CORP	2.700	09/19/16	3,000,000	2,997,663	3,110,302	0.19%
PNC BANK NA	0.596	04/29/16	7,000,000	7,000,000	6,960,996	0.43%
PP+L MONTANA LLC	8.903	07/02/20	1,849,142	1,849,142	2,080,665	0.13%
PPL ENERGY SUPPLY LLC	6.500	05/01/18	3,000,000	2,995,149	3,430,025	0.21%
PSEG POWER LLC	4.150	09/15/21	5,000,000	4,983,728	5,160,406	0.32%
PFIZER INC	4.500	02/15/14	1,900,000	1,934,773	1,946,503	0.12%
PFIZER INC	1.500	06/15/18	5,000,000	4,997,144	4,908,491	0.30%
PHILLIPS66	4.300	04/01/22	5,000,000	4,989,686	5,165,176	0.32%
PRINCIPAL LIFE GLOBAL	5.125	10/15/13	5,000,000	4,999,787	5,064,690	0.31%
PRUDENTIAL FINANCIAL INC	5.500	03/15/16	5,000,000	4,972,262	5,500,989	0.34%
QUESTAR CORP	2.750	02/01/16	5,025,000	5,016,590	5,171,365	0.32%
SBA TOWER TRUST	2.933	12/15/42	4,000,000	4,000,000	4,036,664	0.25%
SMART TRUST	1.180	02/14/19	4,000,000	3,999,854	3,941,916	0.24%
TRAVELERS COS INC	6.250	06/20/16	5,000,000	4,994,773	5,695,936	0.35%
SANOFI	1.200	09/30/14	2,000,000	1,998,976	2,015,090	0.12%
MERCK + CO INC	6.000	09/15/17	5,000,000	4,989,707	5,836,030	0.36%
SOUTHERN CAL EDISON	4.650	04/01/15	500,000	521,149	531,198	0.03%
STAT OIL ASA	3.125	08/17/17	7,000,000	6,991,000	7,362,020	0.45%
STAT OIL ASA	2.900	10/15/14	2,000,000	1,999,216	2,057,869	0.13%
SUNTRUST BANKS INC	3.600	04/15/16	2,000,000	1,999,570	2,103,074	0.13%
TEXAS INSTRUMENTS INC	1.650	08/03/19	3,000,000	2,972,153	2,870,179	0.18%
TIME WARNER CABLE INC	4.000	09/01/21	5,000,000	5,000,000	4,820,196	0.29%
TORONTO DOMINION BANK	1.625	09/14/16	2,000,000	1,999,141	2,032,786	0.12%
TOYOTA MOTOR CREDIT CORP	1.250	11/17/14	3,000,000	2,996,965	3,027,052	0.19%
TRANSALTA CORP	4.750	01/15/15	5,000,000	5,110,074	5,221,932	0.32%
TRANSCANADA PIPELINES	7.125	01/15/19	5,000,000	5,031,504	6,088,430	0.37%
UNION BANK NA	5.950	05/11/16	5,000,000	5,001,222	5,539,874	0.34%
UNION PACIFIC CORP	4.875	01/15/15	7,000,000	6,942,704	7,422,965	0.45%
UNITED PARCEL SERVICE	5.500	01/15/18	5,000,000	4,995,504	5,751,339	0.35%
USBANCORP	3.150	03/04/15	2,000,000	1,998,836	2,078,312	0.13%
VERIZON COMMUNICATIONS	5.550	02/15/16	5,000,000	4,989,483	5,546,783	0.34%
VERIZON COMMUNICATIONS	1.950	03/28/14	5,000,000	4,998,362	5,045,755	0.31%
WACHOVIA CORP	5.625	10/15/16	5,000,000	4,993,683	5,608,904	0.34%
WAL MART STORES INC	4.500	07/01/15	5,000,000	5,272,744	5,382,751	0.33%
WAL MART STORES INC	3.625	07/08/20	8,000,000	8,657,135	8,427,838	0.52%
WELLPOINT INC	5.875	06/15/17	5,000,000	4,969,171	5,688,646	0.35%
WELLS FARGO + COMPANY	4.625	04/15/14	5,000,000	4,983,025	5,161,663	0.32%
WEST PAC BANKING CORP	3.000	12/09/15	10,000,000	9,994,828	10,457,986	0.64%
WILMINGTON TRUST CORP	8.500	04/02/18	2,000,000	2,000,000	2,441,090	0.15%
WISC ELEC POWER	1.700	06/15/18	5,000,000	5,000,000	4,932,233	0.30%
ZIONS BANCORP	5.650	05/15/14	3,000,000	2,999,661	3,125,625	0.19%
Corporate Bonds (Rated)			671,370,859	674,495,144	707,379,154	43.26%
ESC LEHMAN BRTH HLDH PROD	1.000	05/25/10	5,000,000	259,561	1,212,500	0.07%
Corporate Bonds (Unrated)			5,000,000	259,561	1,212,500	0.07%
USBANK SWEEP REPO	NA	NA	8,790,049	8,790,049	8,790,049	0.54%
Cash Equivalents			8,790,049	8,790,049	8,790,049	0.54%

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>
ENSCO OFFSHORE CO	6.360	12/01/15	833,553	833,553	882,056	0.05%
USTREASURY N/B	4.000	02/15/15	20,000,000	19,766,718	21,199,802	1.30%
USTREASURY N/B	4.250	11/15/17	15,000,000	15,079,890	16,965,599	1.04%
USTREASURY N/B	3.875	05/15/18	15,000,000	15,022,373	16,801,199	1.03%
USTREASURY N/B	4.000	08/15/18	10,000,000	10,038,987	11,290,800	0.69%
USTREASURY N/B	2.750	02/15/19	10,000,000	9,939,632	10,641,700	0.65%
USTREASURY N/B	2.625	04/30/16	10,000,000	9,927,250	10,560,100	0.65%
USTREASURY N/B	2.625	02/29/16	5,000,000	5,003,742	5,273,900	0.32%
USTREASURY N/B	3.250	05/31/16	5,000,000	4,952,614	5,377,050	0.33%
USTREASURY N/B	2.625	07/31/14	5,000,000	4,995,437	5,130,650	0.31%
USTREASURY N/B	3.625	08/15/19	10,000,000	9,960,687	11,136,400	0.68%
USTREASURY N/B	3.625	02/15/20	5,000,000	4,929,095	5,577,451	0.34%
USTREASURY N/B	2.625	08/15/20	5,000,000	4,946,712	5,223,450	0.32%
USTREASURY N/B	2.625	11/15/20	25,000,000	24,075,637	26,045,502	1.59%
USTREASURY N/B	0.500	11/15/13	3,000,000	2,996,707	3,004,230	0.18%
USTREASURY N/B	2.125	08/15/21	10,000,000	9,920,380	9,956,500	0.61%
USTREASURY N/B	0.125	09/30/13	3,500,000	3,498,777	3,500,140	0.21%
USTREASURY N/B	0.875	12/31/16	2,500,000	2,515,799	2,498,425	0.15%
USTREASURY N/B	1.625	08/15/22	20,000,000	19,656,450	18,756,400	1.15%
STRIPS	0.000	08/15/17	1,590,000	1,431,950	1,518,625	0.09%
STRIPS	0.000	11/15/17	6,300,000	5,237,990	5,977,125	0.37%
U.S. Government Direct Obligations			187,723,553	184,730,379	197,317,103	12.07%
FED HM LN PC POOL G12310	5.500	08/01/21	876,083	876,596	948,032	0.06%
FED HM LN PC POOL G13081	5.000	04/01/23	1,514,182	1,514,182	1,604,451	0.10%
FED HM LN PC POOL G18244	4.500	02/01/23	1,456,644	1,438,234	1,529,196	0.09%
FED HM LN PC POOL J08160	5.000	12/01/22	1,622,127	1,620,773	1,716,745	0.10%
FREDDIE MAC	5.050	01/26/15	10,000,000	9,995,000	10,720,652	0.66%
FED HM LN PC POOL E00659	6.000	04/01/14	33,281	33,267	33,805	0.00%
FEDERAL FARM CREDIT BANK	3.875	01/12/21	5,000,000	5,017,672	5,509,439	0.34%
FEDERAL FARM CREDIT BANK	2.260	09/29/20	5,000,000	4,940,507	4,844,751	0.30%
FEDERAL FARM CREDIT BANK	1.875	03/29/19	5,000,000	4,996,171	5,014,542	0.31%
FEDERAL FARM CREDIT BANK	1.850	09/19/18	5,000,000	4,996,273	5,060,779	0.31%
FEDERAL FARM CREDIT BANK	4.450	09/23/13	7,000,000	6,992,323	7,068,481	0.43%
FEDERAL FARM CREDIT BANK	5.500	08/16/21	4,500,000	5,472,271	5,496,907	0.34%
FEDERAL FARM CREDIT BANK	5.100	04/12/17	20,000,000	19,893,455	22,987,180	1.41%
FEDERAL HOME LOAN BANK	1.000	12/27/13	2,000,000	1,999,906	2,007,631	0.12%
FEDERAL HOME LOAN BANK	2.780	11/04/21	5,000,000	4,963,955	5,072,404	0.31%
FEDERAL HOME LOAN BANK	2.625	12/10/21	5,000,000	4,994,063	5,057,022	0.31%
FEDERAL HOME LOAN BANK	0.375	01/29/14	5,000,000	5,001,743	5,003,608	0.31%
FEDERAL HOME LOAN BANK	1.000	06/21/17	5,000,000	5,047,418	4,962,087	0.30%
FEDERAL HOME LOAN BANK	1.875	06/11/21	5,000,000	4,876,913	4,767,039	0.29%
FEDERAL HOME LOAN BANK	1.375	09/13/19	5,000,000	4,986,958	4,765,762	0.29%
FEDERAL HOME LOAN BANK	0.375	06/24/16	10,000,000	9,885,536	9,889,502	0.60%
FEDERAL FARM CREDIT BANK	0.720	12/27/16	5,000,000	4,995,892	4,914,889	0.30%
FEDERAL HOME LOAN BANK	4.750	09/11/15	10,000,000	9,932,241	10,932,108	0.67%
FEDERAL HOME LOAN BANK	4.750	12/16/16	15,000,000	14,948,331	16,997,529	1.04%
FEDERAL HOME LOAN BANK	5.125	03/10/17	10,000,000	10,035,524	11,457,104	0.70%
FEDERAL HOME LOAN BANK	5.375	09/30/22	3,080,000	3,892,868	3,675,874	0.22%
FEDERAL HOME LOAN BANK	4.875	10/30/17	4,000,000	4,126,738	4,590,973	0.28%
FEDERAL HOME LOAN BANK	3.250	09/12/14	10,000,000	10,038,504	10,356,669	0.63%
FEDERAL HOME LOAN BANK	2.375	03/14/14	3,500,000	3,502,991	3,552,490	0.22%
FREDDIE MAC	0.625	12/23/13	10,000,000	10,005,585	10,019,414	0.61%
FREDDIE MAC	0.625	08/21/15	3,000,000	2,999,083	2,998,673	0.18%
FREDDIE MAC	1.000	11/28/17	10,000,000	10,000,000	9,857,620	0.60%
FANNIEMAE STRIPS	0.000	11/15/13	1,000,000	990,800	998,900	0.06%
FANNIE MAE	0.000	06/01/17	20,150,000	16,553,524	19,106,613	1.17%
FANNIE MAE	4.125	04/15/14	10,000,000	9,949,013	10,305,476	0.63%
FANNIE MAE	4.625	10/15/14	10,000,000	10,019,463	10,558,062	0.65%

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

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ALL OTHER FUNDS

Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	%
FANNIEMAE STRIPS	0.000	07/15/14	1,000,000	973,861	996,157	0.06%
FANNIE MAE	1.250	02/27/14	10,000,000	9,999,033	10,064,915	0.62%
FANNIE MAE	1.250	01/30/17	10,000,000	10,013,204	10,060,110	0.62%
FANNIE MAE	1.125	04/27/17	15,000,000	14,873,593	14,977,842	0.92%
FANNIE MAE	0.500	09/28/15	5,000,000	5,006,464	4,998,972	0.31%
FANNIE MAE	0.500	03/30/16	5,500,000	5,502,361	5,468,761	0.33%
FANNIE MAE	1.050	05/25/18	10,000,000	9,995,088	9,769,161	0.60%
FANNIE MAE	0.500	03/25/16	4,200,000	4,200,000	4,176,347	0.26%
FNMA POOL 254140	5.500	01/01/17	729,771	728,936	780,263	0.05%
FNMA POOL 254233	5.000	03/01/17	177,888	176,294	189,364	0.01%
FREDDIE MAC	5.000	02/16/17	10,000,000	9,957,360	11,404,422	0.70%
FREDDIE MAC	2.375	01/13/22	20,000,000	19,765,719	19,423,204	1.19%
FREDDIE MAC	0.500	04/17/15	5,000,000	5,009,755	5,012,359	0.31%
FREDDIE MAC	1.250	05/12/17	5,000,000	5,021,146	5,009,183	0.31%
FREDDIE MAC	1.000	09/29/17	15,000,000	15,026,787	14,781,915	0.90%
FNMA POOL 572220	6.000	03/01/16	33,938	33,918	36,298	0.00%
FNMA POOL 592327	5.500	06/01/16	41,090	40,878	43,933	0.00%
FANNIE MAE	3.875	07/12/13	10,000,000	9,999,062	10,014,147	0.61%
FNMA POOL 844915	4.500	11/01/20	1,056,957	1,053,285	1,119,888	0.07%
FNMA POOL 888932	4.500	11/01/22	781,129	781,129	827,638	0.05%
FNMA POOL 962078	4.500	03/01/23	1,894,269	1,887,013	2,005,951	0.12%
MANITOBA (PROVINCE OF)	1.125	06/01/18	5,000,000	4,995,239	4,858,845	0.30%
ONTARIO (PROVINCE OF)	1.200	02/14/18	7,000,000	6,993,137	6,810,806	0.42%
PROVINCE OF QUEBEC	2.625	02/13/23	4,000,000	3,984,220	3,771,536	0.23%
TENN VALLEY AUTHORITY	4.375	06/15/15	1,000,000	1,039,396	1,074,693	0.07%
U.S. Government Agency			381,147,359	378,590,648	392,059,112	23.98%
AOF Total			1,398,691,814	1,511,627,511	1,635,052,364	100.00%

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:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Investments' (board) Enterprise Fund as of June 30, 2013, and 2012, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and 2012, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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, 2013, or June 30, 2012, 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. Our opinion is not modified with respect to this matter.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 15, 2013

**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF NET POSITION AS OF JUNE 30, 2013 AND 2012**

Assets

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents (Note 1)	\$ 31,958,835	\$ 15,078,254
Interest receivable	179,099	242,759
Notes/loans receivable (Note 1)	8,596,526	11,577,825
Interfund notes/loans and interest receivable (Note 1)	1,473,953	2,938,031
Component Unit notes/loans and interest receivable (Note 1)	2,518,924	2,198,607
Short-term investments at fair value (Notes 1 and 2)	4,089,836	4,086,344
Short-term deposits at fair value (Notes 1 and 2)	629,474	685,270
Prepaid expense	0	32
Security lending cash collateral (Note 3)	<u>1,364</u>	<u>1,008</u>
Total current assets	\$ <u>49,448,011</u>	\$ <u>36,808,130</u>
Noncurrent assets:		
Restricted deposits at fair value (Notes 1 and 2)	0	629,539
Long-term investments at fair value (Notes 1 and 2)	6,485	7,908
Notes/loans receivable (Note 1)	37,850,917	34,077,263
Interfund notes/loans and interest receivable (Note 1)	8,016,360	15,904,340
Component Unit notes/loans receivable (Note 1)	17,258,173	13,809,830
Capitalized cost of issue (Note 1)	1,465,953	1,293,489
Equipment	1,240	1,240
Accumulated depreciation	<u>(1,116)</u>	<u>(893)</u>
Total noncurrent assets	<u>64,598,012</u>	<u>65,722,716</u>
Total assets	\$ <u>114,046,023</u>	\$ <u>102,530,846</u>
Liabilities		
Current liabilities:		
Accrued expenses	11,043	18,213
Accrued interest payable	80,430	76,265
Security lending obligations (Note 3)	1,364	1,008
Compensated absences (Note 11)	15,866	31,497
Current bonds/notes payable (Note 4)	<u>106,685,000</u>	<u>95,095,000</u>
Total current liabilities	\$ <u>106,793,703</u>	\$ <u>95,221,983</u>
Noncurrent liabilities		
Bonds/notes payable (Note 4)	0	70,000
Compensated absences (Note 11)	15,841	91,971
Arbitrage rebate tax payable	12,997	9,365
OPEB implicit rate subsidy (Note 9)	<u>67,876</u>	<u>57,035</u>
Total noncurrent liabilities	<u>96,714</u>	<u>228,371</u>
Total liabilities	\$ <u>106,890,417</u>	\$ <u>95,450,354</u>
Net Position		
Net investment in capital assets	\$ 124	\$ 347
Restricted (Note 1)	3,135,239	3,194,699
Unrestricted	<u>4,020,243</u>	<u>3,885,446</u>
Total net position (Note 7)	\$ <u>7,155,606</u>	\$ <u>7,080,492</u>

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

**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating revenue		
Reimbursements	\$ 12,916	\$ 17,419
Investment income	49,855	67,797
Security lending income	7	184
Financing income	<u>942,111</u>	<u>1,345,892</u>
Total operating revenue	<u>1,004,889</u>	<u>1,431,292</u>
Operating expenses		
Personal services (Note 11)	172,145	275,326
Contracted services	29,513	31,420
Supplies and materials	8,529	8,955
Communications	6,436	8,948
Travel	3,794	3,833
Rent	45,317	44,468
Repair and maintenance	159	266
Indirect and other costs	39,698	27,668
OPEB (Note 9)	10,841	8,331
Depreciation expense	223	223
Loss on equipment sale	0	60
Arbitrage rebate tax expense (Note 8)	3,631	(1,669)
Security lending expense	2	36
Debt service		
Interest expense	221,123	384,079
Trustee fee expense	66,204	64,628
Bond issuance cost amortization expense	104,450	100,758
Other debt service expense	<u>217,710</u>	<u>192,645</u>
Total operating expenses	<u>929,775</u>	<u>1,149,975</u>
Operating income	<u>75,114</u>	<u>281,317</u>
Change in net position	75,114	281,317
Total net position, July 1	<u>7,080,492</u>	<u>6,799,175</u>
Total net position, June 30 (Note 7)	\$ <u>7,155,606</u>	\$ <u>7,080,492</u>

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

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts for sales and services	\$ 12,916	\$ 17,419
Payments to suppliers for goods and services	(134,770)	(124,605)
Payments to employees	(269,719)	(167,670)
Net cash (used for) operating activities	<u>(391,573)</u>	<u>(274,856)</u>
Cash flows from non-capital financing activities:		
Payment of principal and interest on bonds and notes	(980,872)	(1,288,523)
Proceeds from issuance of bonds and notes	12,000,000	0
Payment of bond issue costs	(276,914)	0
Net cash provided by (used for) non-capital financing activities	<u>10,742,214</u>	<u>(1,288,523)</u>
Cash flows from investing activities:		
Collections for principal and interest on loans	37,286,353	23,960,532
Cash payments for loans	(31,498,333)	(26,676,966)
Purchase of deposits/investments	(4,092,816)	(6,158,494)
Proceeds from security lending	7	184
Security lending costs	(2)	(36)
Proceeds from sales or maturities of deposits/investments	4,778,144	3,032,470
Interest on deposits/investments	<u>56,587</u>	<u>76,102</u>
Net cash provided by (used for) provided by investing activities	<u>6,529,940</u>	<u>(5,766,208)</u>
Net increase (decrease) in cash and cash equivalents	16,880,581	(7,329,587)
Cash and cash equivalents, July 1	<u>15,078,254</u>	<u>22,407,841</u>
Cash and cash equivalents, June 30	<u>31,958,835</u>	<u>15,078,254</u>
Reconciliation of net income to net cash (used for) operating activities:		
Net operating income	75,114	281,317
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	223	223
Loss on equipment sale	0	60
Interest on investments	(49,855)	(67,797)
Financing income	(942,111)	(1,345,892)
Interest expense	609,487	742,110
Security lending income	(7)	(184)
Security lending expense	2	36
Arbitrage rebate tax expense (Note 8)	3,631	(1,669)
Change in assets and liabilities:		
(Decrease) increase in other assets	33	(33)
(Decrease) increase in other payables	(7,170)	9,536
(Decrease) increase in compensated absences payable	(91,761)	99,106
Increase (decrease) in OPEB payables (Note 9)	<u>10,841</u>	<u>8,331</u>
Total adjustments	<u>(466,687)</u>	<u>(556,173)</u>
Net cash (used for) operating activities	\$ <u>(391,573)</u>	\$ <u>(274,856)</u>
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	\$ 247	\$ 813
Total noncash transactions	\$ <u>247</u>	\$ <u>813</u>

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

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**

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 \$75,608,374 as of June 30, 2013 and \$80,357,576 as of June 30, 2012, 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.

The interest accruals from state agencies and university units on the Interfund notes/loans receivable total \$106,478 and \$148,319 as of June 30, 2013 and 2012, respectively.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of \$1,465,953 and \$1,293,489 as of June 30, 2013 and June 30, 2012, 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 Position, are as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Cash in treasury	\$ 2,992	\$ 4,564
Cash with fiscal agent	78,561	53,144
Short Term Investment Pool (STIP)	492,938	479,776
First American Government Obligation Fund	28,065,122	11,381,970
First American Prime Obligation Fund	3,319,222	3,158,800
Total Cash and Cash Equivalents	\$ 31,958,835	\$ 15,078,254

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. Although not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed similar to money market funds that are governed by 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 is carried at amortized cost or book value with a constant unit value of \$1.00.

g. Net Position Restricted

The Statement of Net Position for the Enterprise Fund reports a restricted net position. A net position is reported as restricted when constraints placed on the net position 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 position 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 Position 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, 2013 and 2012, the Enterprise Fund had \$629,474 and \$1,314,809, respectively, in Certificates of Deposits (CDs), of which \$250,000 are covered by FDIC insurance. The remaining balances of \$379,474 and \$1,064,809, 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, 2013 and 2012, 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, 2013 and 2012 these CDs, as deposits, represent 1.7% and 6.0%, 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, 2013 and June 30, 2012. 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.

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<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Government Obligation Fund	\$ 28,065,122	AAA	0.15
First American Prime Obligation Fund	3,319,222	AAA	0.13
Short Term Investment Pool (STIP)	499,423	NR	0.12
U.S. Government Direct Obligations	<u>4,089,836</u>	<u>AA+</u>	<u>0.15</u>
Total Investments	\$ <u>35,973,603</u>	<u>AAA</u>	<u>0.15</u>
Securities Lending Collateral Investment Pool	\$ <u>1,364</u>	NR	*

*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for U.S. dollar collateral.

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 Treasury 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.

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 2013 and 2012, 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. On any day, including June 30, 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.

During fiscal years 2013 and 2012, 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 2013 and 2012. 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 2013 and 2012 resulting

from a borrower default.

During fiscal years 2013 and 2012, 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, 2013, the Quality D Short Term Investment Fund liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for U.S. dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for U.S. dollar collateral. 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, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 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. 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 2013 and 2012, 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, 2013

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2014</u>	<u>@ Maturity</u>	<u>Balance June 30, 2013</u>
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 70	70 (2014)	\$ 70
Total Bonds Payable		<u>\$ 4,976</u>		<u>\$ 70</u>		<u>\$ 70</u>
Less Current Portion (FY2014 Principal Payments)						(70)
Total Long-Term Bonds Payable						<u>\$ -</u>

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>

(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.

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Future debt service as of June 30, 2013 is listed below (in thousands):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Principal	\$ 70	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70
Interest	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2
Total	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72</u>

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>

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, 2013 and June 30, 2012, are listed below (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>	<u>Balance June 30, 2013</u>	<u>Balance June 30, 2012</u>
1997	10,000	Variable	2017	\$ 9,125	\$ 9,210
1998	12,500	Variable	2018	11,775	11,875
2000	15,000	Variable	2025	14,335	14,470
2003	15,000	Variable	2028	14,430	14,525
2004	18,500	Variable	2029	18,200	18,200
2007	15,000	Variable	2032	14,775	14,775
2010	12,000	Variable	2035	11,975	11,975
2013	<u>12,000</u>	Variable	2038	<u>12,000</u>	<u>0</u>
Total INTERCAP Debt	<u>\$ 110,000</u>			<u>106,615</u>	<u>95,030</u>
Current Portion of Long-Term Bonds Payable				<u>70</u>	<u>65</u>
Current Bonds Payable				<u>\$ 106,685</u>	<u>\$ 95,095</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, 2013</u>	<u>Balance June 30, 2012</u>
Colstrip	October 1989	12/30/15	\$ 60,800	\$ -	\$ 32,100
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	0	89,345
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>\$ 30,000</u>	<u>\$ 151,445</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, 2013</u>	<u>Balance June 30, 2012</u>
Huntley Project K-12 Schools	December 2000	07/01/13	\$ 750	\$ 750	\$ 750
Bozeman Public Schools	November 2003	11/25/12	1,586	0	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>\$ 8,519</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, 2013</u>	<u>Balance June 30, 2012</u>
Great Falls High Schools	April 2011	12/15/25	\$ 1,855	\$ 1,674	\$ 1,768
Great Falls Elementary	April 2011	12/15/25	<u>6,510</u>	<u>5,873</u>	<u>6,205</u>
Total QSCB conduit debt			<u>\$ 8,365</u>	<u>\$ 7,547</u>	<u>\$ 7,973</u>

6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments, as of June 30, 2013 and 2012, total \$37,616,879 and \$44,759,000, respectively.

7. NET POSITION

Net Position represents the accumulated net profits of the Enterprise Fund programs. The Net Position for fiscal years ended June 30, 2013 and June 30, 2012 include \$428 and \$675, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

8. ARBITRAGE

The fiscal year 2012 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>.

10. RESTATEMENT

Effective June 30, 2012, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, were implemented. The GASB statement changed the financial statement name of the “Statement of Net Assets” as of June 30, 2012 to the “Statement of Net Position”. Also, the financial statement line entitled “Total liabilities and net assets” of \$102,530,846 as of June 30, 2012 has been eliminated. In the Statement of Net Position, the June 30, 2012 terminology was changed to report “Net Position” instead of “Net Assets”, and “Invested in capital assets, net of related debt” was replaced with “Net investment in capital assets”.

11. COMPENSATED ABSENCES AND PERSONAL SERVICES

Compensated absences liabilities represent the unpaid leave balances for employees at fiscal yearend. The liability identifies the vacation, sick leave and exempt compensatory time which state employees have earned but not taken. Annually, the compensated absences liabilities balances are adjusted between prior year and current year balances with an offset to personal services expense. In fiscal year 2012, a previous Board employee was rehired. The compensated absences liability and personal service expense pertaining to this employee were recorded in the Enterprise Fund because this employee worked primarily for the Enterprise Fund in his previous position. In fiscal year 2013, the funding for the position was corrected causing a significant portion of the decrease of the compensated absences liabilities balance and related personal services expense in the Enterprise Fund. The compensated absences current and noncurrent liabilities decreased, in total, by \$91,761 from fiscal year 2012 to fiscal year 2013. The personal service expense for fiscal year 2013 decreased by \$103,181 from fiscal year 2012. The compensated absences liabilities amounts and reported personal services expense are correct for both fiscal years.

12. SUBSEQUENT EVENT

On October 9, 2013 at a Special Conference Call Meeting to Consider QZAB Loans, the Board authorized the issuance of the following Qualified Zone Academy Bonds (QZAB). These two QZAB bond issues closed October 24, 2013.

<u>Project</u>	<u>Issue amount (in thousands)</u>
Kalispell Elementary School District	\$620
Kalispell High School District	\$1,587

The Municipal Finance Consolidation Act Bonds, Series 1988 (Irrigation Program), were paid off on August 1, 2013.

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

December 12, 2013

RECEIVED

LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol Building
PO Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen:

I would like to thank the Legislative Audit staff for their assistance and work performed on the Montana Board of Investments' Financial Audit for the fiscal year ended June 30, 2013. 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