

Financial Statements

The University of Texas System

Short Intermediate Term Fund

*Years Ended August 31, 2005 and 2004*

The University of Texas System Short Intermediate Term Fund

Financial Statements

Years Ended August 31, 2005 and 2004

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**THE UNIVERSITY OF TEXAS SYSTEM  
SHORT INTERMEDIATE TERM FUND**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Our discussion and analysis of The University of Texas System Short Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the fiscal year ended August 31, 2005. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is an internal UT System mutual fund for the pooled investment of UT System institutional operating funds with an investment horizon of greater than one year. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the Fund's financial statements based upon currently known facts, decisions or conditions.

**Financial Highlights**

- The Fund's fiduciary net assets were \$1,222.4 million at August 31, 2005 compared to \$1,178.0 million at August 31, 2004 and \$1,435.3 million at August 31, 2003.
- Investment income totaled \$30.0 million for the year ended August 31, 2005, compared to \$33.2 million for the year ended August 31, 2004 and \$25.9 million for the year ended August 31, 2003.
- The Fund posted a net investment return of 2.48% for the fiscal year ended August 31, 2005, compared to a net investment return of 2.49% for the prior fiscal year.

**Use of Financial Statements and Notes**

The Fund financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required by the GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

**Statements of Fiduciary Net Assets**

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the Fund as of the end of the fiscal year. These statements, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund

## THE UNIVERSITY OF TEXAS SYSTEM SHORT INTERMEDIATE TERM FUND

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investment income is recognized when earned and Fund expenses are recognized when incurred.

The Fund emphasizes moderate liquidity and safety of principal through investment in high grade fixed income and floating rate obligations. The Fund's investments are diversified among eligible asset classes and issuers (excluding the U.S. Government) as defined in the Fund's investment policy. The Fund carries an AAA<sub>f</sub> credit rating and a bond volatility risk rating of S<sub>2</sub> from Standard & Poor's Inc (S&P). AAA is the highest quality rating issued by S&P. An S<sub>2</sub> rating indicates low to moderate market risk exposure.

The Fund's investment policy mitigates interest rate risk by limiting its portfolio duration to a range of 0.5 years to 4 years. Duration estimates the impact small changes in interest rates will have on the value of the portfolio. At August 31, 2005, the option adjusted duration of the portfolio was 2.07 years. Simplistically, if there is a 1.00% increase (decrease) in yields, the value of the portfolio would (decrease) increase by 2.07%.

The following summarizes the Statements of Fiduciary Net Assets (in millions):

	2005	2004	2003
<b>Assets</b>			
Investments, at Fair Value	\$ 1,349.5	\$ 1,383.3	\$ 1,633.2
Other Assets	10.0	129.7	6.3
<b>Total Assets</b>	<u>1,359.5</u>	<u>1,513.0</u>	<u>1,639.5</u>
<b>Liabilities</b>	<u>137.1</u>	<u>335.0</u>	<u>204.2</u>
<b>Net Assets Held in Trust</b>	<u>\$ 1,222.4</u>	<u>\$ 1,178.0</u>	<u>\$ 1,435.3</u>

### Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant distributions.

The net decrease in fair value of investments of the Fund was \$1.5 million during the year compared to a increase of \$3.9 million for the year ended August 31, 2004. Expenses totaled \$0.5 million, \$0.6 million and \$0.7 million for the years ended August 31, 2005, 2004 and 2003, respectively.

The net increase in fiduciary net assets was \$44.4 million for the year ended August 31, 2005, compared to a net decrease of \$257.3 million for the year ended August 31, 2004.

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Distributions to participants totaled \$31.1 million and \$28.6 million for the years ended August 31, 2005 and 2004, respectively. Fund income is either reinvested or distributed to the participating institutions monthly at their election.

The Fund's primary investment objective is to provide both (1) income and (2) capital appreciation when consistent with income generation, reasonable preservation of capital and the maintenance of adequate Fund liquidity.

The following summarizes the Statements Changes in Fiduciary Net Assets (in millions):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Investment Income	\$ 30.0	\$ 33.2	\$ 25.9
Less Investment Expenses	(0.4)	(0.7)	(0.7)
Net Investment Income	29.6	32.5	25.2
Participant Contributions	98.8	224.7	351.5
Total Additions	128.4	257.2	376.7
Administrative Fee For UT System Oversight	0.1	-	-
Participant Withdrawals	52.8	485.9	325.0
Participant Distributions	31.1	28.6	52.3
Total Deductions	84.0	514.5	377.3
Change in Fiduciary Net Assets	44.4	(257.3)	(0.6)
Net Assets Held in Trust, Beginning of Period	1,178.0	1,435.3	1,435.9
Net Assets Held in Trust, End of Period	<u>\$1,222.4</u>	<u>\$1,178.0</u>	<u>\$1,435.3</u>

**Contacting UTIMCO**

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of The University of Texas System Short Intermediate Term Fund (the "Fund") as of and for the years ended August 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only The University of Texas System Short Intermediate Term Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2005 and 2004 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of The University of Texas System Short Intermediate Term Fund as of August 31, 2005 and 2004, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 1 through 3 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of The University of Texas System Short Intermediate Term Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules as of August 31, 2005 and 2004 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole.

*Ernst & Young LLP*

October 21, 2005

THE UNIVERSITY OF TEXAS SYSTEM  
SHORT INTERMEDIATE TERM FUND

**Statements of Fiduciary Net Assets**

August 31, 2005 and 2004

(Dollars in thousands, except per unit amounts)

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Investments, at Fair Value:		
Cash and Cash Equivalents	\$ 159,156	\$ 615,006
U.S. Treasury Securities	889,459	101,472
U.S. Agency Bonds	158,868	449,975
U.S. Agency Mortgage Backed Bonds	142,048	216,836
Total Investments	<u>1,349,531</u>	<u>1,383,289</u>
Receivables:		
Investment Securities Sold	-	126,603
Accrued Income Receivable	10,020	3,073
Total Receivables	<u>10,020</u>	<u>129,676</u>
<b>Total Assets</b>	<u>1,359,551</u>	<u>1,512,965</u>
<b>Liabilities</b>		
Investment Securities Purchased	133,594	332,929
Income Distributions Payable to Participants	3,520	2,029
Other Payables and Accrued Expenses	6	6
<b>Total Liabilities</b>	<u>137,120</u>	<u>334,964</u>
<b>Net Assets Held in Trust (123,305,429 and 118,671,708 units, respectively)</b>	<u>\$ 1,222,431</u>	<u>\$ 1,178,001</u>
<b>Net Asset Value Held in Trust Per Unit</b>	<u>\$ 9.914</u>	<u>\$ 9.927</u>

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

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**Statements of Changes in Fiduciary Net Assets**  
*Years Ended August 31, 2005 and 2004*  
*(in thousands)*

	<u>2005</u>	<u>2004</u>
<b>Additions</b>		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	\$ (1,531)	\$ 3,938
Interest	30,839	28,576
Commitment Fees	701	655
Total Investment Income	<u>30,009</u>	<u>33,169</u>
Less Investment Expenses		
UTIMCO Management Fee	296	539
Custodial Fees and Expenses	69	73
Other Expenses	34	35
Total Investment Expenses	<u>399</u>	<u>647</u>
Net Investment Income	<u>29,610</u>	<u>32,522</u>
Participant Contributions	98,841	224,677
<b>Total Additions</b>	<u>128,451</u>	<u>257,199</u>
<b>Deductions</b>		
Administrative Fee for UT System Oversight Fee	59	-
Participant Withdrawals	52,880	485,941
Participant Distributions	31,082	28,584
<b>Total Deductions</b>	<u>84,021</u>	<u>514,525</u>
<b>Change in Fiduciary Net Assets</b>	44,430	(257,326)
Net Assets Held in Trust, Beginning of Period	<u>1,178,001</u>	<u>1,435,327</u>
<b>Net Assets Held in Trust, End of Period</b>	<u>\$ 1,222,431</u>	<u>\$ 1,178,001</u>

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

THE UNIVERSITY OF TEXAS SYSTEM  
SHORT INTERMEDIATE TERM FUND

*Notes to Financial Statements*

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**Note 1 – Organization and Basis of Presentation**

The University of Texas System Short Intermediate Term Fund (Fund) is a short intermediate term pooled investment fund established by The University of Texas System Board of Regents (Board of Regents) for the collective investment of operating funds and other short and intermediate term funds held by The University of Texas System Administration and the fifteen institutions of The University of Texas System. The Fund carries an AAA<sub>f</sub> credit quality rating and a bond fund volatility rating of S<sub>2</sub> from Standard & Poor's, Inc. (S&P). AAA is the highest credit quality rating issued by S&P. An S<sub>2</sub> rating indicates low to moderate market risk exposure. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the Board of Regents.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The Fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

**Note 2 – Significant Accounting Policies**

- (A) Investment Policy – The Fund invests in high grade fixed income obligations as provided for in the Fund's Investment Policy statement. Limiting the duration of the Fund to a range of one-half to four years controls interest rate risk. The effective duration of any eligible investment should not exceed ten years.
- (B) Security Valuation – Investments are valued on the basis of market valuations provided by Merrill Lynch Securities Pricing Services and various other independent pricing services.
- (C) Investment Income – Interest income is accrued as earned. Premium and discounts on bonds are not amortized.
- (D) Security Transactions – Security transactions are accounted for on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is impairment in the value of the security that is determined to be other than temporary.

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*Notes to Financial Statements (cont.)*

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- (E) Federal Income Taxes – The Fund is not subject to federal income tax.
- (F) Fund Valuation – Valuation of the Fund’s units occurs weekly and at month-end. Unit values are determined by dividing the value of the Fund’s net assets by the number of units outstanding on the valuation date.
- (G) Distributions to Participants – Accrued net investment income is allocated to participants each valuation period. Income is distributed to participants at the beginning of each month.
- (H) Purchases and Redemption of Units – The value of participating units, upon admission to or withdrawal from the Fund, is based upon the market value of net assets held as of the valuation date. There are no transaction costs incurred by participants to purchase or redeem units.
- (I) Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.
- (J) Cash and Cash Equivalents – Cash and cash equivalents consist of money market funds, and are an integral part of the Fund’s investment strategy and activities.

**Note 3 – Note Purchase Commitment**

The Fund has entered into a note purchase commitment with the Board of Regents of The University of Texas System Revenue Financing System that commits the Fund to acquire up to \$750 million of revenue financing system notes in the event of a failed remarketing of these notes. If the net asset value of the Fund declines below \$800 million and is expected to remain below this amount for thirty days, the Fund’s commitment will be \$300 million.

During 2001, the Fund entered into an additional commitment in connection with the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001A. As of August 31, 2005, the Fund is committed to a maximum bond purchase commitment of \$36.7 million in the event of a failed remarketing of the Series 2001A bonds. The commitment amount as of August 31, 2004, was \$45.6 million. The amount of commitment is expected to decrease annually based on amortization of the Series 2001A bonds.

THE UNIVERSITY OF TEXAS SYSTEM  
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*Notes to Financial Statements (cont.)*

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During 2004, the Fund entered into an additional commitment in connection with the Board of Regents of The University of Texas System Revenue Financing System Taxable Commercial Paper Notes, Series B that commits the Fund to purchase up to \$50 million in the event of a failed remarketing of these notes. As of August 31, 2005, there are \$10.3 million of commercial paper notes outstanding.

The commitment fees earned by the Fund were \$700,852 and \$654,798, respectively, for the years ended August 31, 2005 and 2004.

**Note 4 – Investment Risk**

**(A) Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the “PUF”) in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Fund.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund’s investment policy limits investments in unaffiliated money market funds to those rated AAA<sub>f</sub> by S&P. Commercial paper, negotiable certificates of deposit, and banker’s acceptances must be rated at least A-1 by S&P and P-1 by Moody’s Investor’s Service, Inc, and fixed income holdings are limited to securities that are issued by or fully guaranteed by the U.S. Treasury, U.S. Government-Sponsored Enterprises, or U.S. Government Agencies, including U.S. Government Agency Mortgage Backed Securities. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* unless there is information to the contrary, 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. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of August 31, 2005.

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*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>Fair Value</b>	<b>Rating</b>
Cash and Cash Equivalents	<u>\$ 159,156,365</u>	AAA
U.S. Treasury Securities	<u>889,459,012</u>	Exempt from Disclosure
U.S. Agency Bonds	108,977,590	AAA
U.S. Agency Bonds	<u>49,890,000</u>	AAA
Total U.S. Agency Bonds	<u>158,867,590</u>	
U.S. Agency Mortgage Backed Bonds	<u>142,047,636</u>	AAA
Total Investments	<u>\$ 1,349,530,603</u>	

**(B) Concentrations of Credit Risk**

The Fund's investment policy statement contains the limitation that not more than 5% of the total value of the securities in the Fund shall be placed with any one issuer other than the U.S. Treasury, U.S. Agency, or U.S. Government sponsored entities. As of August 31, 2005, the Fund holds investments in U.S. Government sponsored entities totaling 12.0% of its total investments in Federal National Mortgage Association securities, and 10.3% of its total investments in Federal Home Loan Mortgage Corporation securities.

**(C) Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2005, the Fund does not have any deposits or investments that are exposed to custodial credit risk.

**(D) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the option-adjusted duration of the

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*Notes to Financial Statements (cont.)*

overall investment portfolio. Option-adjusted duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund's investment policy limits the option-adjusted duration of the Fund to between one-half year and four years unless approved in advance by the UTIMCO Board of Directors. The table below summarizes the Fund's option adjusted duration by asset type as of August 31, 2005.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Option-Adjusted Duration</b>
Cash and Cash Equivalents	\$ 159,156,365	0.08
U.S. Treasury Securities	889,459,012	1.92
U.S. Agency Bonds	158,867,590	1.10
U.S. Agency Mortgage Backed Securities	142,047,636	4.51
Total Investments	\$ 1,349,530,603	2.07

***(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes***

In accordance with the Fund's investment policy statement, the Fund may invest in floating rate securities. As of August 31, 2005, the Fund had no investments that would be categorized as being highly sensitive to interest rate changes.

**Note 5 – Fees and Expenses**

The Fund is assessed an investment management fee by The University of Texas Investment Management Company. For the year ended August 31, 2005 the fee was \$296,439, net of a rebate of \$193,403 of prior year reserves from UTIMCO to the Fund. For the year ended August 31, 2004, the fee was \$539,348.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the market value of the Fund and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement.

Beginning in fiscal year 2005, the Fund is assessed a fee to cover costs associated with UT System personnel and UT System consultants hired to provide assistance to the Board of Regents and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the year ended August 31, 2005, the fee amounted to \$58,491.

The Fund incurs other fees related to its operations consisting of audit fees, printing and graphic expenses, consultation fees and rating fees.

**Note 6 – Subsequent Event**

At its meeting on July 8, 2005 the Board of Regents approved a proposal to restructure the investment of the operating funds and short and intermediate term funds held by The

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*Notes to Financial Statements (cont.)*

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University of Texas System Administration and the fifteen institutions of The University of Texas System. Under the new structure participants in the Fund will liquidate their unit holdings as of January 31, 2006, and begin participation in new pooled investment funds established to allow The University of Texas System to pursue a more efficient and effective investment strategy for these funds. Upon the liquidation of participant units the Fund will cease operations.

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SHORT INTERMEDIATE TERM FUND

Supplemental Schedules

**Schedule of Investments**

August 31, 2005

(In thousands)

Description	Coupon	Maturity	Par Value	Value		Cost	
				\$	%	\$	%
<b>Cash and Cash Equivalents</b>							
Dreyfus Institutional Pfd Money Market			\$ 159,156	\$ 159,156	11.79%	\$ 159,156	11.80%
<b>U.S. Treasury Securities</b>							
U.S. Treasury Notes	3.000%	12/31/2006	251,650	249,033	18.44%	250,373	18.58%
U.S. Treasury Notes	3.500%	2/15/2010	45,000	44,356	3.29%	44,258	3.28%
U.S. Treasury Notes	3.500%	5/31/2007	70,000	69,629	5.16%	69,752	5.17%
U.S. Treasury Notes	3.625%	4/30/2007	255,000	254,153	18.83%	254,473	18.87%
U.S. Treasury Notes	3.625%	6/15/2010	55,000	54,423	4.03%	54,648	4.05%
U.S. Treasury Notes	3.625%	6/30/2007	188,350	187,691	13.91%	187,094	13.87%
U.S. Treasury Notes	4.000%	4/15/2010	30,000	30,174	2.24%	29,684	2.20%
<b>Total U.S. Treasury Securities</b>			<b>895,000</b>	<b>889,459</b>	<b>65.90%</b>	<b>890,282</b>	<b>66.02%</b>
<b>U.S. Agency Bonds</b>							
Federal Nat'l Mtg Association Med Term Notes	2.200%	12/4/2006	26,740	26,148	1.94%	26,058	1.93%
Federal Nat'l Mtg Association Med Term Notes	3.000%	12/15/2006	31,000	30,606	2.27%	30,611	2.27%
Federal Home Loan Mortgage Corp Med Term Notes	2.750%	10/6/2006	10,000	9,864	0.73%	9,852	0.73%
Federal Home Loan Mortgage Corp Med Term Notes	3.625%	9/15/2006	42,498	42,360	3.14%	42,432	3.15%
Federal Home Loan Bank Consolidated Debs	3.750%	9/29/2006	50,000	49,890	3.70%	49,991	3.71%
<b>Total U.S. Agency Bonds</b>			<b>160,238</b>	<b>158,868</b>	<b>11.78%</b>	<b>158,944</b>	<b>11.79%</b>
<b>U.S. Agency Mortgage Backed Bonds</b>							
Fannie Mae Pool	7.000%	9/1/2014	6,423	6,719	0.50%	6,807	0.50%
Commitment to Purchase FHLMC Gold	4.500%	9/1/2018	37,000	36,699	2.72%	36,162	2.68%
Commitment to Purchase FNMA SFM	4.500%	9/1/2035	101,681	98,630	7.31%	97,184	7.21%
<b>Total U.S. Agency Mortgage Backed Bonds</b>			<b>145,104</b>	<b>142,048</b>	<b>10.53%</b>	<b>140,153</b>	<b>10.39%</b>
<b>Total Investment in Securities</b>			<b>\$ 1,359,498</b>	<b>\$ 1,349,531</b>	<b>100.00%</b>	<b>\$ 1,348,535</b>	<b>100.00%</b>

**Ratios and Supplemental Data**

	2005	2004
Ratio of Expenses to Average Net Assets	0.04%	0.05%
Ratio of Net Investment Income Distributed to Average Net Assets	2.59%	2.30%